



## OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

### MEMORANDUM

**DATE:** April 17, 2023

**TO:** USAID/Management/Office of Acquisition and Assistance/Cost, Audit and Support Division, Contract Audit Management Branch, Acting Supervisory Auditor, Sheree F. Marshall

**FROM:** Director of External Financial Audits Division (IG/A/EFA), David A. McNeil /s/

**SUBJECT:** Audit of the Fund Accountability Statement of Costs Incurred by People In Need in Connection With USAID Resources of Twelve Programs Implemented In Syria, Ukraine, Afghanistan, Myanmar and Nicaragua for the Fiscal Year Ended December 31, 2019 (3-000-23-015-R)

This memorandum transmits the final audit report on the recipient contracted audit of People In Need (PIN) in Connection with the U.S. Agency for International Development (USAID) Resources of Twelve Programs Implemented in Syria, Ukraine, Afghanistan, Myanmar, and Nicaragua for the fiscal year ended December 31, 2019. PIN contracted with the independent certified public accounting firm Ernst & Young–Middle East (EY) to conduct the audit. EY stated that it performed its audit in accordance with generally accepted government auditing standards. However, it did not have an external quality control review by an unaffiliated audit organization that fully satisfy the standards' requirements since no such program is offered by professional organizations in the West Bank and Gaza. EY is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on PIN's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate PIN's internal controls, assess control risk, and identify significant deficiencies, including material internal control weaknesses; (3) determine whether PIN complied, in all material respects, with the award terms including cost-sharing, and applicable laws and regulations that have a direct and material effect on the Fund Accountability Statement complied with award terms and applicable laws and regulations; (4) determine if PIN took adequate corrective action on prior

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<sup>1</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

audit report recommendations; and (5) analyze the indirect cost rate if the recipient to charge indirect costs to USAID using provisional rates. To answer the audit objectives, EY (1) reviewed agreements signed between USAID and PIN, contracts signed with third parties, program documents, PIN internal control procedures and USAID policies; (2) examined the fund accountability statement for the USAID programs and the related notes; (3) reviewed cost sharing contributions; (4) performed close-out audits; and (5) followed up on prior audit recommendations. The report on the fund accountability statement disclosed that USAID's audited expenditures were \$18,476,174 for the fiscal year ended December 31, 2019.

EY (1) concluded the fund accountability statement referred to above presents fairly, in all material respects, the programs' revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by USAID for the Programs from January 1, 2019, to December 31, 2019, in accordance with the terms of the agreements and in conformity with the recording of revenues when received and recording of expenditures when paid. However, EY (1) identified \$50,966 as direct questioned unsupported costs because PIN lacked documentation; (2) identified eight significant deficiencies in internal control; (3) identified two instances of non-compliance with USAID and its prime recipient agreements/sub-awards terms and regulations; (4) determined that programs were subject to de minimis rates of modified total direct costs as per cooperative agreements' terms and that PIN fairly presented the cost sharing/counterpart contributions schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost sharing/counterpart contributions schedule. Further, EY determined there were no unliquidated advances to PIN, and pending expenditures or deficit in fund balance is related to the close-out programs; and (5) identified seven prior recommendations of which, PIN implemented procedures to remedy three prior audit findings, had not implemented procedures to remedy three prior audit findings, and one prior finding was related to a program not included under the current audit. Although we are not making a recommendation for the significant deficiencies noted in the report, we suggest that USAID's Office of Acquisition and Assistance, Cost, Audit and Support Division, Contract Audit Management Branch determine if PIN addressed the issues noted. Finally, EY issued PIN with a management letter dated May 11, 2021, containing its observations and recommendations concerning the internal control structure and other matters resulting from its performance audit of the incurred costs under the Fund Accountability Statement of USAID resources managed and implemented by PIN in fiscal year 2019.

During our desk review, we noted one issue EY will need to address in future audit reports. We presented the issue in a memo to USAID's Chief Financial Officer, dated April 17, 2023.

To address the issues identified in the report, we recommend that USAID's Office of Acquisition and Assistance, Cost, Audit and Support Division:

**Recommendation 1.** Determine the allowability of \$50,966 in direct questioned costs (\$50,966 unsupported) on page 12 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that People In Need corrects the two instances of material noncompliance detailed on pages 26 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a

management decision.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential”).