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

# MEMORANDUM

**DATE:** April 17, 2023

**TO:** USAID/Peru Mission Director, Jene Thomas

**FROM:** Latin America and Caribbean (LAC) Regional Office, through Global and Strategic Audits Division (GSAD) Assistant Director, Pamela Hamilton /s/

**SUBJECT:** Financial Audit of Comisión Nacional para el Desarrollo y Vida sin Drogas in Peru, Grant Agreement 527-0426, January 1, 2021, to December 31, 2021 (9-527-23-014-R)

This memorandum transmits the final audit report on Grant Agreement 527-0426, managed by Comisión Nacional para el Desarrollo y Vida sin Drogas (DEVIDA) and prepared by the Controller General of the Republic of Peru (CGR). CGR signed a memorandum of understanding with the U.S. Agency for International Development (USAID) with the purpose of conducting audits of programs funded with USAID resources in accordance with generally accepted government auditing standards. CGR stated that it performed its audit in accordance with generally accepted government auditing standards. However, it did not have an external peer review that fully satisfy the standards' requirements. CGR is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on DEVIDA's schedule of expenditures of USAID awards; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.[1]

The audit objectives were to (1) express an opinion on whether the schedule of expenditures of USAID awards for the period audited, was presented fairly, in all material respects; (2) evaluate DEVIDA's internal controls; (3) determine whether DEVIDA complied with award terms and applicable laws and regulations; (4) determine if counterpart contributions were made and accounted for by DEVIDA in accordance with the terms of the agreement; and (5) determine if DEVIDA has taken adequate corrective action on prior audit recommendations. To answer the audit objectives, CGR reported that they assessed and tested the internal controls related to the project; assessed and tested compliance with applicable laws, regulations, the agreement's provisions; and reviewed project expenditures. The audit covered $6,182,651 of USAID expenditures for the audited period.

[1] 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.

CGR concluded the schedule of expenditures of USAID awards presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for $135,324 in ineligible questioned costs. The ineligible questioned costs were related to: (1) acquisition of minor equipment for the processing line and fruit transformation modules purchased for two producer organizations totaling $78,378 that was damaged and unused in the production process; (2) procurement of minor equipment for the cocoa line and other related goods for a producer organization totaling $36,696 that was in storage and unused; and (3) acquisition of minor equipment for the cocoa grain line and other related goods for a producer organization totaling $20,249—as of the date of the CGR's review, the equipment had not been used in the production process.

CGR stated that based on their review, except for ineligible questioned costs of $147,059, nothing came to their attention that caused them to believe that DEVIDA did not fairly present the counterpart contributions schedule, in all material respects, in accordance with the basis of accounting used to prepare the counterpart contributions schedule. The costs were questioned as ineligible because DEVIDA used its counterpart contributions to finance the implementation of the oil palm activity for $147,059, which were not provided in accordance with the terms of the agreements.

CGR identified five significant deficiencies in internal control and four instances of material noncompliance with applicable laws, regulations, and agreement terms. The instances of material noncompliance were related to the questioned costs included in the schedule of expenditures of USAID awards and counterpart contributions schedule. Although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID/Peru determine if the recipient addressed the issues noted. CGR issued a management letter which included minor internal control deficiencies.

Additionally, CGR stated that the recipient has not completed corrective actions to address all the prior audit report recommendations.

To address the issues identified in the report, we recommend that USAID/Peru:

**Recommendation 1.** Determine the allowability of $135,324 in ineligible questioned costs on the schedule of expenditures of USAID awards, page 18 of the audit report, and recover any amount that is unallowable.

**Recommendation 2.** Determine the allowability of $147,059 in ineligible questioned costs on the counterpart contribution schedule, pages 81 and 82 of the audit report, and recover any amount that is unallowable.

**Recommendation 3.** Verify that DEVIDA corrects the four instances of material noncompliance detailed on pages 51 and 52 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").