



## MEMORANDUM

**DATE:** February 28, 2018

**TO:** USAID/Pakistan Mission Director, Jerry Bisson

**FROM:** Acting Regional Inspector General/Manila, Emily Gardiner /s/

**SUBJECT:** Financial Audit of the National Education Development Partners Group Secretariat and Mapping Activity Project in Pakistan Managed by the Semiotics Consultants (Private) Limited, Contract AID-391-C-15-00002, May 6, 2015, to June 30, 2016 (5-391-18-012-R)

This memorandum transmits the final audit report on the National Education Development Partners Group Secretariat and Mapping Activity Project in Pakistan. The Semiotics Consultants (Private) Limited (SCPL) contracted the independent certified public accounting firm of Nasir Javaid Maqsood Imran to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

Nasir Javaid Maqsood Imran stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Nasir Javaid Maqsood Imran is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the contractor's cost representation statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether SCPL's cost representation statement for the period audited was presented fairly, in all material respects; (2) evaluate SCPL's internal controls; and (3) determine whether SCPL complied with contract terms and applicable laws and regulations. To answer the audit objectives, Nasir Javaid Maqsood Imran reviewed project documents and procedures; examined the cost representation statement;

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, was initiated before that date and follows the Guidelines.

<sup>2</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.

reviewed and documented the internal control systems; and tested compliance with contract terms and applicable laws and regulations. The audit covered project costs of \$745,882, from May 6, 2015, to June 30, 2016.

Nasir Javaid Maqsood Imran concluded that, except for the effects of the questioned costs totaling \$120,248 (ineligible), the cost representation statement presented fairly, in all material respects, project costs incurred under the contract for the period audited. The details of the questioned costs are summarized in the table below.

**Table I**

	<b>Nature of Questioned Costs</b>	<b>Amount (\$)</b>	<b>Reference</b>
1.	Payments to an education expert who was also employed in the government (a "No Objection Certificate" was not obtained from the government)	7,201	Finding NC-1 Pages 29–30 (Finding PRTE-1 Page 38)
2.	Payments to a data expert who is a nephew of the chief executive officer of SCPL	15,310	Finding NC-2 Pages 30–31 (Finding PRTE-2 Page 39)
3.	Use of the office vehicle by the project manager for personal purposes	466	Finding NC-3 Pages 32–35 (Finding PRTE-10 Page 47)
4.	Salary of an employee who did not meet the required qualifications and experience	3,310	Finding NC-4 Pages 35–36
5.	50 percent of the salary of a data entry operator that was also an information technology coordinator for SCPL and involved in SCPL's activities	3,764	Finding PRTE-4 Pages 40–43
6.	67 percent of the salary of the project manager that also worked on other SCPL projects	37,755	Findings PRTE-5 and 13 Pages 43–44, and 49
7.	Salary of an employee for the time he did not work	2,043	Finding PRTE-6 Page 45
8.	50 percent of the salary of an employee that also worked on other SCPL projects	1,164	Finding PRTE-8 Page 46
9.	50 percent of the salary of an employee that also worked on other SCPL projects	49,235	Finding PRTE-11 Pages 48–49
	<b>TOTAL</b>	<b>120,248</b>	

The audit firm identified three significant deficiencies in internal control pertaining to (1) inadequate internal audit function (Finding IC-1), (2) weak recruitment policies resulting in subjective selection (Finding IC-2), and (3) incomplete information in timesheets (Finding IC-3). The audit firm also identified four material instances of noncompliance, all associated with the ineligible questioned costs identified in the cost representation statement.

Also, we noted that (1) the fixed fee associated with the \$120,248 in questioned costs amounting to \$7,215 and (2) the \$4,412 related to payments of sales tax (see Note 25 to the cost representation statement on page 21) should have been identified as questioned costs

(ineligible) in the cost representation statement. Accordingly, we are including these questioned costs in Recommendation 1 below. Moreover, we consider item 2 issue to be a material instance of noncompliance; hence, we are making a recommendation for corrective action.

Further, the audit firm reported that, during the course of its audit, it received emails from an unknown source in which it was asked to investigate 13 issues related to misappropriation in the project. Based on the tests performed, the audit firm concluded that nine issues were valid, which resulted in questioned costs identified in the cost representation statement (Findings PRTE-1, 2, 4, 5, 6, 8, 10, 11, and 13), while four issues were not relevant (Findings PRTE-3, 7, 9, and 12). Of the nine issues, three issues were included as material instances of noncompliance in the report on compliance (Findings PRTE-1, 2, and 10) and six issues were not included as findings either in the report on internal control or compliance (Findings PRTE-4, 5, 6, 8, 11, and 13). Since the six issues all pertained to questioned salaries, we consolidate them into one finding and consider the finding to be a material weakness in internal control; hence, we are making a recommendation for corrective action.

In addition, in its management letter, the audit firm identified four other internal control matters or nonmaterial instances of noncompliance. Based on our review of the audit firm's descriptions of the issues, we consider one issue to be a significant deficiency in internal control and one issue to be a material instance of noncompliance; hence, we are making a recommendation for corrective action. The significant deficiency in internal control pertained to attendance register not matched with timesheets (Observation 1). The material instance of noncompliance pertained to payments in cash instead of checks on certain expenditures contrary to SCPL's financial policy (Observation 2).

Finally, the audit firm reported that (1) the contract did not require cost-sharing contributions; (2) SCPL did not have a USAID-authorized provisional indirect cost rate; and (3) this is the first audit of the project.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated February 28, 2018.

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

**Recommendation No. 1: Determine the allowability of \$131,875 in questioned costs (\$120,248 plus \$7,215 and \$4,412 ineligible) on page 14 of the audit report, and further detailed on pages 2-3 of this memorandum, and recover any amount that is unallowable.**

**Recommendation No. 2: Verify that the Semiotics Consultants (Private) Limited corrects the one material weakness (consolidated Findings PRTE—4, 5, 6, 8, 11, and 13 on pages 40, 43, 45, 46, 48, and 49 of the audit report) and four significant deficiencies in internal control (Findings IC-1, IC-2, and IC-3 on pages 24–26 of the audit report and Observation 1 on page 51 of the management letter).**

**Recommendation No. 3: Verify that the Semiotics Consultants (Private) Limited corrects the six material instances of noncompliance (Findings NC-1, NC-2, NC-3, and NC-4 on pages 29–36 of the audit report, Note 25 to the cost representation statement on page 21 of the audit report, and Observation 2 on page 52 of the management letter).**

We ask that you provide written notification of actions planned or taken to reach management decisions. We appreciate the assistance extended to audit staff during the engagement.

The 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”).

Attachment: a/s

cc: Controller, USAID/Pakistan  
Office of Acquisition and Assistance, Cost Audit and Support Division  
Executive Secretariat  
Audit Performance and Compliance Division  
OIG Deputy Inspector General  
OIG Assistant Inspector General for Audit  
OIG Principal Deputy Assistant Inspector General for Audit  
OIG Cognizant Deputy Assistant Inspector General for Audit  
OIG Investigations  
OIG Audit’s Audit Support Division