MEMORANDUM

DATE: July 20, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Regional Inspector General/Manila, Matthew Rathgeber /s/

SUBJECT: Financial Audit of the Cash Transfer Program in Pakistan Managed by the Higher Education Commission, Agreement 391-012-IL-05 and IL-06, July 1, 2010, to June 30, 2013 (5-391-18-024-R)

This memorandum transmits the final audit report on the Cash Transfer Program in Pakistan managed by the Higher Education Commission (HEC). The audit was conducted by the Auditor General of Pakistan (Auditor General). The "Memorandum of Understanding Between the United States Agency for International Development and the Auditor General of Pakistan" requires that the audit be conducted in accordance with generally accepted government auditing standards or the financial audit manual and the guidelines developed by the Auditor General.

The Auditor General stated that it performed its audit in accordance with international standards of supreme audit institutions issued by the International Organization of Supreme Audit Institutions (INTOSAI). The Auditor General is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the HEC's fund accountability statement; 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 grantee's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the grantee's internal controls; and (3) determine whether the grantee complied with agreement terms and applicable laws and regulations. To answer the audit objectives, the

[1] We reviewed the Auditor General'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.

Auditor General reviewed program documents and procedures; examined the fund accountability statement; reviewed the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. The audit covered program revenues and costs of $45 million and $44,112,836, respectively, from July 1, 2010, to June 30, 2013.

The Auditor General expressed separate opinions on fund accountability statements for the three periods audited. For the first period (from July 1, 2010, to June 30, 2011), the Auditor General concluded that because of the effects of the material questioned revenues and costs of $45 million and $42.5 million, respectively ($45 million unsupported and $42.5 million ineligible), the fund accountability statement does not give a true and fair view, in all material respects, of the program revenues and costs incurred under the agreement[2]. For the second period (from July 1, 2011, to June 30, 2012), the Auditor General concluded that except for the effects of the material questioned costs totaling $529,412 (ineligible), the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement. For the third period (from July 1, 2012, to June 30, 2013), the Auditor General concluded that except for the effects of the material questioned costs totaling $1,083,424 (ineligible), the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement. The total revenues of $45 million were questioned because HEC did not receive the $45 million cash transfer grant and funds were retained by the Government of Pakistan, and a separate assignment account was not opened to manage the funds for cash transfers from the special local currency account. The total costs of $44,112,836[3] for all three periods audited were questioned because they pertained to irregular and unauthorized cash transfers and releases in prior years[4], summarized as follows: (1) adjustment of prior period expenditure (for the period 2006-2010) as disbursements (cash transfers during 2010-2011)—$14,582,659 (Rupees 1,239,526,000); (2) disbursements during 2010-2011 by HEC against Public Sector Development Program releases before issuance of Implementation Letter No. 6 on June 29, 2011—$27,917,341 (Rupees 2,372,974,000); and (3) disbursements during 2011-2013 by HEC against Public Sector Development Program releases without actual cash transfer to the program—$1,612,836 (Rupees 137,091,000).[5]

The Auditor General did not identify any significant deficiencies or material weaknesses in internal control, or material instances of noncompliance. In its management letter, the Auditor General identified four issues. Based on the description of the issues, we considered all issues as material instances of noncompliance; hence, we are making a recommendation for corrective

[2] The first period's report on the fund accountability statement (from July 1, 2010, to June 30, 2011) inadvertently attached the fund accountability statement and the notes to the fund accountability statement for the third period (from July 1, 2012, to June 30, 2013). According to the mission, obtaining a formal response from the Auditor General would take a while; thus, in the interest of time, it suggested that we issue the audit report in its present form. The mission stated that we can use the revenues and costs details for the year ending June 30, 2011 in Note 5.5 to the fund accountability statement for the second period (from July 1, 2011 to June 30, 2012), which reconcile with USAID records. However, in future audits, the report on the fund accountability statement should have attached the corresponding fund accountability statement and notes to the fund accountability statement.

[3] Computed as follows: $42.5 million plus $529,412 plus $1,083,424.

[4] The questioned revenues and costs were not reported in the individual fund accountability statement. HEC was requested by the Auditor General to sign revised statements containing questioned revenues and costs. However, HEC refused to sign revised statements and responded that the already forwarded statements be considered.

[5] 1 US dollar = 85 Rupees

action. The two material instances of noncompliance pertained to material questioned revenues and costs of $45 million and $44,112,836, respectively (Observations 4.1.1 and 4.1.2). The other two material instances of noncompliance pertained to (1) quarterly utilization reports for funds amounting to $44,112,836 not obtained from the 21 universities and HEC, nor submitted to USAID (Observation 4.1.3) and (2) USAID grant of $45 million not reflected in the foreign aid section of the "Demands for Grants and Appropriations" of HEC (Observation 4.1.4).

In response to our inquiry, the mission confirmed that the grantee does not have a cost-sharing contribution requirement. Finally, this is the first audit of the program.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID:

Recommendation 1. Determine the allowability of $45 million in questioned revenues and $44,112,836 in questioned costs ($45 million unsupported and $44,112,836 ineligible) discussed on page 2 of this memorandum and detailed in Observations 4.1.1 and 4.1.2 on pages 28–32 of the report, and recover any amount that is unallowable.

Recommendation 2. Verify that the Higher Education Commission corrects the four material instances of noncompliance discussed on page 2 of this memorandum and detailed in Observation 4.1.1, 4.1.2, 4.1.3, and 4.1.4 on pages 28–35 of the report.

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