



MEMORANDUM

DATE: October 30, 2018

TO: USAID/Brazil Mission Director, Michael J. Eddy

FROM: Regional Inspector General/San Salvador, Assistant Director, Brad Moore /s/

SUBJECT: Audit of the Territorial and Environmental Management of Indigenous Lands in the South of the Amazonas State, Cooperative Agreement AID-512-A-17-00001, Managed by International Institute of Education of Brazil, October 24, 2016 to December 31, 2017 (I-512-19-002-R)

This memorandum transmits the final audit report of the program for the Territorial and Environmental Management of Indigenous Lands in the South of the Amazonas State. International Institute of Education of Brazil (IEB) contracted with the independent certified public accounting firm Mazars Auditores Independentes to conduct the audit. The audit firm stated that the contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

The audit firm states that it performed the audit in accordance with generally accepted government auditing standards except that the audit firm did not have a continuing education program and an external peer review that fully complies with GAGAS requirements. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on IEB's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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, follows the Guidelines.

² 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.

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 IEB's internal controls; (3) determine whether IEB complied with award terms and applicable laws and regulations; and (4) determine if cost-sharing contributions were made and accounted for by IEB in accordance with the agreement terms. To answer the audit objectives, the audit firm reported that they assessed and tested the internal controls related to the project, compliance with applicable laws, regulations, the agreement's provisions, and reviewed project expenditures. The audit covered \$981,798 in USAID funds for the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited.

The audit firm did not identify any material internal control weaknesses or instances of noncompliance with applicable laws, regulations, and agreement terms.

The audit firm determined that cost sharing contributions were made and accounted for by the recipient in accordance with the agreement terms.

Furthermore, during our review of the separate letter to management, we noted that the audit firm should have identified as questioned costs on the fund accountability statement an internal control finding regarding funds received not being placed in an interest bearing account. The auditors did not determine the amount of interest that was foregone and should be classified as ineligible costs. The imputed interest was not calculated and was not included as questioned cost in the fund accountability statement. As a result, we are recommending appropriate follow-up by the mission.

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

Recommendation 1. Ensure that IEB corrects the internal control deficiency number 1 identified in the letter to management on page 22 that resulted in questioned costs and make a management decision with regards to the allowability of related costs and recover the amounts determined to be unallowable.

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

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").