



MEMORANDUM

DATE: November 21, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Office of Inspector General/Asia Regional Office Acting Audit Director,
Emily Gardiner /s/

SUBJECT: Financial Audit of the Citizens' Voice Project in Pakistan Managed by the
Trust for Democratic Education and Accountability, Contract AID-391-C-11-
00001, July 1, 2016, to June 30, 2017 (5-391-19-004-R)

This memorandum transmits the final audit report on the Citizens' Voice Project in Pakistan. Trust for Democratic Education and Accountability (TDEA) contracted the independent certified public accounting firm of EY Ford Rhodes to conduct the audit. The contract required the audit firm to perform the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

EY Ford Rhodes stated that it performed its audit in accordance with U.S. GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. EY Ford Rhodes is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the recipient'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¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. The mission, however, asked the auditors in its contract to follow the Guidelines, and this contracted audit followed those 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 TDEA's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate TDEA's internal controls; (3) determine whether TDEA complied with contract terms and applicable laws and regulations; and (4) determine if TDEA has taken corrective actions on prior audit recommendations. To answer the audit objectives, EY Ford Rhodes examined the fund accountability statement and supporting documentation; reviewed and documented the internal control systems; tested compliance with contract terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered project revenues and costs of \$3,405,791 and \$2,076,887,³ respectively, from July 1, 2016, to June 30, 2017.

EY Ford Rhodes concluded that the FAS presented fairly, in all material respects, project revenues and costs incurred under the contract for the period audited. The audit firm did not identify any questioned costs or material instances of noncompliance. However, the audit firm identified a material weakness in internal control pertaining to the system limitations in the accounting software used by TDEA.

In its management letter, the audit firm identified two immaterial instances of noncompliance. Based on the audit firm's descriptions of the issues and their cost effects (surcharges and penalties) on the project, we consider both issues to be material instances of noncompliance; thus, we are making a recommendation for corrective action. These pertained to the noncompliance with statutory requirements on the timely remittance to the government of the (1) taxes withheld from payments to vendors and (2) employees'/employer's contributions for old age benefits.

EY Ford Rhodes reported that all prior audit findings were resolved except for two findings—accounting system limitations and noncompliance with statutory requirement on the timely remittance of taxes withheld from payments to vendors—which were reported again in the current audit report. Furthermore, EY Ford Rhodes reported that TDEA has no cost-sharing requirement or approved indirect cost rate in the contract.

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 November 21, 2018.

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

Recommendation I. Verify that Trust for Democratic Education and Accountability corrects the one material weakness in internal control identified in the report on internal control on page 21 and further detailed in Finding 7.1 on page 25 of the audit report.

³ Represents total project costs of \$3,234,883 less amounts not covered by the audit totaling \$1,157,996 (\$70,697 and \$1,087,299). Projects costs amounting to \$70,697 pertained to payments to a U.S. subcontractor that were subjected to audit per 2 CFR Part 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) Subpart F, which superseded U.S. Office of Management and Budget Circular A-133. Project costs amounting to \$1,087,299 pertained to payments against fixed amount awards that are not subject to financial audits.

Recommendation 2. Verify that Trust for Democratic Education and Accountability corrects the two issues which we considered as material instances of noncompliance as discussed on page 2 of this memorandum and further detailed in Issues 1 and 2 of the management letter.

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