MEMORANDUM

DATE: December 7, 2018

TO: USAID/Bangladesh Mission Director, Derrick Brown

FROM: Office of Inspector General/Asia Regional Office Audit Director
Matthew Rathgeber /s/

SUBJECT: Closeout Audit of the Agricultural Extension Support Activity Project in Bangladesh Managed by Dhaka Ahsania Mission, Cooperative Agreement AID-388-A-13-00001, October 1, 2016, to February 28, 2018 (5-388-19-008-R)

This memorandum transmits the final audit report on the Agricultural Extension Support Activity Project in Bangladesh. The Dhaka Ahsania Mission (DAM) contracted the independent certified public accounting firm of MABS & J Partners 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]

MABS & J Partners 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. In addition, the audit firm disclosed that it did not audit costs of $1,247,048 incurred by subrecipients as follows: (1) $989,107 by CARE Bangladesh, a U.S.-based nongovernment organization which is subject to a 2 CFR Part 200 Subpart F audit,[2] and (2) $257,941 by mPower Social Enterprises Limited, a local nongovernment organization which is subject to a separate recipient-contracted audit. MABS & J Partners 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;

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[1] On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

[2] 2 CFR Part 200 Subpart F – Audit Requirements superseded U.S. Office of Management and Budget Circular A-133.

the effectiveness of its internal control; or its compliance with the award, laws, and regulations including cost-sharing contributions.[3]

The audit objectives were to: (1) express an opinion on whether DAM's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate DAM's internal controls; (3) determine whether DAM complied with agreement terms and applicable laws and regulations; and (4) determine whether DAM has taken corrective actions on prior audit report recommendations. To answer the audit objectives, MABS & J Partners examined the fund accountability statement and supporting documentation; evaluated the recipient's internal control system; determined compliance with agreement terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered project revenues and costs of $4,836,443 and $4,520,303,[4] respectively, from October 1, 2016, to February 28, 2018.

MABS & J Partners concluded that, except for the scope limitation on costs incurred by subrecipients totaling $1,247,048 not covered by the audit,[4] the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. However, the audit firm identified in the fund accountability statement total unsupported questioned costs of $398,426 pertaining to project costs incurred by CARE Bangladesh—a U.S.-based subrecipient—from July 1, 2017, to February 28, 2018, that were not yet due for audit under 2 CFR Part 200 Subpart F due to the subrecipient's accounting period that ended on June 30, 2017. Since any findings related to the audit of CARE Bangladesh will be addressed in the 2 CFR Part 200 Subpart F audit process, we did not consider the subrecipient's costs of $398,426 as questioned costs; accordingly, we are not making a questioned costs recommendation.

The audit firm did not identify any significant deficiencies or material weaknesses in internal control, or material instances of noncompliance. The audit firm identified three other internal control matters and two immaterial instances of noncompliance. Based on the audit firm's description of each issue, we considered one issue, involving expenses that exceeded the approved budget, to be a material instance of noncompliance. However, we are not making a procedural recommendation since the agreement has ended and the mission does not have other existing agreements with DAM or plan to have other direct agreements with DAM. Nonetheless, we are making a recommendation for the mission to establish the total amount of the excess of expenditures over the approved budget for the life of the project since this is a closeout audit, determine allowability, and recover, as appropriate. Please note that the audit firm (1) presented in the finding discussion on pages 33-34 some instances only of the excess of expenditures over budget during the audited period and (2) presented on pages 23-28 a

[3] 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.
[4] Project costs totaled $4,520,303, of which $3,273,255, incurred by DAM (prime recipient) was audited by MABS & J Partners. The subrecipient costs that were not audited by MABS & J Partners totaled $1,247,048 as discussed on page 1 of this memorandum (paragraph 2).

detailed comparison of budgeted and actual expenditures during the audited period only and not for the life-of-project.

With regard to cost-sharing contributions, the audit firm reported that (1) no cost-sharing was contributed by the recipient during the period audited, (2) the agreement was modified to change the requirement to $5,413 in cost-sharing contributions and $2,344,587 as leverage to the project, (3) the recipient contributed $5,413 in year 1 of the project, (4) leverage to the project is in the form of microfinance capital released through 310 micro finance institutions and tracked as individual loans provided to small holder farmers by DAM amounting to $2,346,368, and (5) subrecipient CARE Bangladesh also provided 3 used 4-wheel drive pick-ups as cost-sharing contributions. Furthermore, DAM has no USAID-authorized provisional indirect cost rate. Nonetheless, the audit firm concluded that DAM properly applied a 7 percent fixed indirect cost rate to the total direct costs, as provided in the agreement. Finally, the audit firm reported that the recipient had satisfactorily taken corrective actions on prior audit recommendations.

Section IV.B.12 of the audit contract statement of work provides procedures for the audit firm when performing close-out audits. However we noted that the audit firm (1) did not present final inventory of assets purchased with USAID funds and (2) did not report whether or not assets procured with project funds were disposed of in accordance with the terms of the agreement. Accordingly, we suggest that the mission ensure that the recipient has disposed of the assets according to the terms of the agreement. Further, the fund accountability statement presented excess cash (total revenues less total costs) of $7,551 at the end of the agreement. Since there was no information on whether the excess cash was returned by the recipient to USAID, we are making a recommendation to determine allowability of the excess cash from the completed project and recover the amount that is unallowable.

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 December 7, 2018.

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

Recommendation 1. Establish the total amount of the excess of expenditures over the approved budget for the life of the project as discussed on page 2 of this memorandum and presented in Finding 2 on pages 33-34, and 23-28 of the audit report, determine allowability, and recover any amount that is unallowable.

Recommendation 2. Determine the allowability of $7,551 in excess cash not refunded to USAID (ineligible) as discussed on page 3 of this memorandum and presented on page 16 of the audit report, and recover any amount that is unallowable.

We ask that you provide written notification of actions planned or taken to reach management decisions. 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").

Attachment: a/s