



## MEMORANDUM

**DATE:** February 22, 2019

**TO:** USAID Regional Development Mission/Asia Director, Peter Malnak

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

**SUBJECT:** Financial Audit of the Freeland Foundation Under Multiple USAID Awards in Thailand, January 1 to December 31, 2016 (5-486-19-016-R)

This memorandum transmits the final audit report on the multiple USAID awards managed by the Freeland Foundation in Thailand. The Freeland Foundation contracted the independent certified public accounting firm of PricewaterhouseCoopers ABAS Ltd. (PwC ABAS Ltd.) 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.<sup>1</sup>

PwC ABAS Ltd. stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirements on having external quality control reviews. PwC ABAS Ltd. 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 awards, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether the Freeland Foundation's fund accountability statement for the periods audited was presented fairly, in all material respects; (2) evaluate the Freeland Foundation's internal controls; (3) determine whether the Freeland Foundation complied with agreement terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine whether the Freeland Foundation has taken corrective actions on prior audit report recommendations. To answer the audit objectives, PwC ABAS Ltd. reviewed program documents and procedures; examined the fund

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 On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

accountability statement and supporting documentation; reviewed and documented the recipient's internal control systems; tested compliance with agreement terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered program revenues and costs of \$1,898,671 and \$2,378,887,<sup>3</sup> respectively, from January 1 to December 31, 2016.

PwC ABAS Ltd. concluded that, except for the effects of the questioned costs totaling \$89,796 (\$4,175 ineligible and \$85,621 unsupported), the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the three awards for the periods audited. The questioned costs pertained to (1) salary and consultant fees that were charged in excess of the actual time worked per approved timesheets (\$4,175), and (2) long outstanding receivables (\$61,713) and payables (\$23,908) which were opening balances brought forward from the old to the new accounting system without any supporting detailed list. For item 2, we are not making a questioned costs recommendation since these same costs had been questioned by PwC ABAS Ltd. in its prior audit report and were disallowed by the mission.<sup>4</sup>

PwC ABAS Ltd. identified two material weaknesses in internal control, one was associated with the unsupported questioned costs identified in the fund accountability statement and the other one related to cash advances that were not recorded under the correct projects. The audit firm also identified one significant deficiency in internal control related to the difference in the life-of-project expenditures for the ARREST program as reported to USAID (\$12,947,427) versus the amount in the audit report (\$13,014,023). In its response to the finding, management stated that reported discrepancies have been partially corrected and the remainder will be adjusted once it obtains the closeout audit report of the ARREST program. However, page 6 of the audit report indicated that the budgeted life-of-project expenditures for the ARREST program totaled \$12,945,213. Since the life-of-project expenditures reported to USAID as well as those reflected in the audit report both exceeded the budgeted life-of-project expenditures for the ARREST program, we are making a procedural recommendation for the mission to establish the total amount of excess expenditures charged to USAID over the approved budgeted life-of-project expenditures; determine allowability, and recover any amount determined to be unallowable.

The audit firm also identified one material instance of noncompliance associated with the ineligible questioned costs identified in the fund accountability statement. On the review of cost-sharing contributions which is required under the ARREST program, the audit firm reported that the Freeland Foundation contributed \$14,616,369 which exceeded the life-of-project cost-sharing requirement of \$5,183,445. The audit firm did not report any questioned

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<sup>3</sup> The audit covered three awards: Closeout audit of Cooperative Agreement AID-486-A-11-00006 (Asia's Regional Response to Endangered Species Trafficking [ARREST] for the period from January 1 to September 30, 2016) and initial audits of Subagreement FREELAND-01-Y1-INT361.00 (Reducing Opportunities for Unlawful Transport of Endangered Species [ROUTES] for the period from April 1 to December 31, 2016), and Subcontract PO- 52875L (USAID Counter Wildlife Trafficking Activity [UWA] for the period from September 1 to December 31, 2016).

<sup>4</sup> In the prior audit report, PwC ABAS Ltd. questioned long outstanding receivables of \$61,274 and payables of \$23,738. The minimal questioned costs variance between the prior and current audit reports (\$609) was due to currency translation differences.

cost-sharing contributions. There were no cost-sharing requirements on the ROUTES and UWA programs.

Furthermore, the audit firm reported that (1) the Freeland Foundation did not have a USAID-authorized provisional indirect cost rate and (2) two of the four prior audit findings had not been satisfactorily addressed and were reported again in the current audit report under Findings 4.2.3 and 5.2.1, and are covered by Recommendations 4 and 5 below.

Finally, in accordance with the requirements for closeout audits in Section IV.B.12 of the audit contract statement of work, the audit firm presented as an annex to the audit report an inventory of assets purchased with USAID funds for the ARREST program, and reported that the USAID agreement officer approved the inventory disposition proposed by the Freeland Foundation. Nonetheless, since the audit firm did not report whether there was excess cash (total revenues less total costs) not refunded to USAID for the ARREST program, we are making a procedural recommendation for the mission to determine whether there was excess cash not refunded to USAID under the program, determine allowability, and recover any amount determined to be 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 February 22, 2019.

To address the issues identified in the report, we recommend that USAID Regional Development Mission/Asia:

**Recommendation 1.** Determine the allowability of \$4,175 in questioned salaries (ineligible) identified in the fund accountability statement on page 29, and detailed in Finding 5.2.1 on pages 61–62 of the audit report, and recover any amount determined to be unallowable.

**Recommendation 2.** For the Asia's Regional Response to Endangered Species Trafficking program, establish the total amount of excess expenditures charged to USAID over the approved budgeted life-of-project expenditures as discussed on page 2 of this memorandum, and in Finding 4.2.3 on pages 56–57 of the audit report, determine allowability, and recover any amount determined to be unallowable.

**Recommendation 3.** For the Asia's Regional Response to Endangered Species Trafficking program, determine whether there was excess cash (total revenues less total costs) not refunded to USAID as discussed on page 3 of this memorandum, determine allowability, and recover any amount determined to be unallowable.

**Recommendation 4.** Verify that the Freeland Foundation corrects the two material weaknesses and the one significant deficiency in internal control identified in the report on internal control on pages 52–53 and detailed in Findings 4.2.1, 4.2.2, and 4.2.3 on pages 54–57 of the audit report.

**Recommendation 5.** Verify that the Freeland Foundation corrects the one material instance of noncompliance identified in the report on compliance on pages 59–60 and detailed in Finding 5.2.1 on pages 61–62 of the audit report.

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