



MEMORANDUM

DATE: February 6, 2019

TO: USAID/Indonesia Mission Director, Erin McKee

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

SUBJECT: Closeout Audit of the Program to Extend Scholarships and Trainings to Achieve Sustainable Impacts, Phase II, in Indonesia, Managed by the Indonesian International Education Foundation, Contract AID-497-C-12-00004, January 1 to August 7, 2017 (5-497-19-014-R)

This memorandum transmits the final audit report on the Program to Extend Scholarships and Trainings to Achieve Sustainable Impacts, Phase II (PRESTASI II), in Indonesia. The Indonesian International Education Foundation (IIEF) contracted the independent certified public accounting firm of Gani Sigiros & Handayani 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

Gani Sigiros & Handayani 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. The audit firm also disclosed that it did not audit costs of \$608,939 incurred by the Institute of International Education (IIE), a U.S.-based subcontractor which is subject to a 2 CFR Part 200 Subpart F audit.² Gani Sigiros & Handayani is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the contractor's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.³

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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Part 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) Subpart F superseded the U.S. Office of Management and Budget Circular A-133.

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.

The audit objectives were to (1) express an opinion on whether IIEF's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate IIEF's internal controls; (3) determine whether IIEF complied with contract terms and applicable laws and regulations; and (4) determine whether IIEF has taken corrective actions on prior audit report recommendations. To answer the audit objectives, Gani Sigiro & Handayani reviewed program documents and adopted procedures; examined the fund accountability statement and supporting documents; evaluated the internal controls system; tested compliance with contract terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered program revenues and costs of \$890,044 and \$828,549,⁴ respectively, from January 1 to August 7, 2017.

Gani Sigiro & Handayani concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the contract for the period audited. The audit firm did not identify any questioned costs, significant deficiencies or material weaknesses in internal control, or material instances of noncompliance.

Furthermore, the audit firm reported that IIEF did not have a USAID-authorized provisional indirect cost rate and that the prior audit recommendations had been closed. In response to our inquiry, the mission confirmed that the contract did not have a cost-sharing requirement. In accordance with the requirements for closeout audits in Section IV.B.14 of the audit contract statement of work, the audit firm presented (1) as an annex to the audit report an inventory of assets purchased with USAID funds and (2) a letter of the USAID contracting officer approving the inventory disposition proposed by IIEF. The audit firm also reported that IIEF's costs pending reimbursements by USAID as of August 7, 2017, totaling \$547,475 were reimbursed by USAID to IIEF subsequent to August 7, 2017.

In Note 4 to the fund accountability statement, the audit firm reconciled the negative ending fund balance of \$547,475 in the fund accountability statement with the cash-in-bank account of \$442,768 as of August 7, 2017. In response to our inquiry, the mission confirmed that the cash-in-bank account was exclusively maintained for PRETASI II. In the reconciliation, the audit firm added back to the negative ending fund balance the (1) total program costs of \$1,437,488 for the period audited, (2) accounts payable of \$642,275, (3) accrued expenses of \$4,503, (4) bank interest of \$17,007, and (5) correction of \$229,095; and deducted from the negative ending fund balance the (1) total program revenues for the period audited of \$890,044, and (2) accounts receivable of \$450,081. Since the PRETASI II contract had ended and the project still has significant undisbursed funds, the reconciling items should be further verified. Thus, we are making a procedural recommendation for the mission to determine (1) if there was unremitted interest income, and costs incurred and reimbursed by USAID that have not been paid by IIEF to vendors; and (2) the allowability and recovery, if appropriate, of the unremitted income and unpaid costs charged to USAID. Further, we suggest that the mission verify why total program costs and program revenues were added back and deducted from the negative

⁴ Program costs totaled \$1,437,488, of which \$828,549, incurred by IIEF (prime contractor) was audited by Gani Sigiro & Handayani. The subcontract costs that were not audited by Gani Sigiro & Handayani totaled \$608,939 as discussed on page 1 of this memorandum (paragraph 2).

ending fund balance, respectively, for the audited period as these are not typical reconciling items.

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 6, 2019.

To address the issue identified in the report, we recommend that USAID/Indonesia:

Recommendation 1. Determine (1) if there was unremitted interest income, or costs incurred and reimbursed by USAID that have not been paid by IIEF to vendors as discussed on page 2 of this memorandum; and (2) the allowability of unremitted income and unpaid costs charged to USAID, and recover any amount determined to be unallowable.

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.

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