MEMORANDUM

DATE: March 6, 2019

TO: USAID/Office of Transition Initiatives Pakistan Country Representative, Charles Drilling

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

SUBJECT: Financial Audit of the Monitoring and Evaluation Services for USAID/Office of Transition Initiatives Funded Projects in Pakistan Managed by the Basic Education for Awareness, Reforms, and Empowerment, Contract AID-OAA-C-15-000128, July 1, 2016, to June 30, 2017 (5-391-19-018-R)

This memorandum transmits the final audit report on the Monitoring and Evaluation Services for USAID/Office of Transition Initiatives Funded Projects in Pakistan. The Basic Education for Awareness, Reforms, and Empowerment (BEFARe) contracted with the independent certified public accounting firm of Rafaqat Mansha Mohsin Dossani Masoom & Co. (RMDM) 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]

RMDM 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. RMDM is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on BEFARe's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.[2]

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[1] On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 followed that 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 BEFARe's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate BEFARe's internal controls; (3) determine whether BEFARe complied with award terms and applicable laws and regulations; and (4) determine whether BEFARe has taken corrective actions on prior audit report recommendations. To answer the audit objectives, RMDM examined the fund accountability statement and supporting documentation; evaluated BEFARe's 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 $1,094,437 and $1,214,049, respectively, from July 1, 2016, to June 30, 2017.

RMDM concluded that, except for the effects of the questioned costs totaling $34,619 (ineligible), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the contract for the period audited. The ineligible questioned costs pertained to (1) foreign exchange gain not credited to USAID–$336; (2) prepaid insurance claimed from USAID–$3,484; (3) prepaid rent claimed from USAID–$13,508; (4) refundable rent security deposit claimed from USAID–$14,175; and (5) overhead costs on questioned items 2, 3, and 4–$3,116.

The audit firm did not identify any significant deficiencies or material weaknesses in internal control. The audit firm identified six material instances of noncompliance, four of which are associated with the questioned costs in the fund accountability statement; the other two involving BEFARe's not withholding and depositing (1) salary tax on medical facility being provided to the employees and (2) tax on the purchase of the database software.

In its management letter, the audit firm identified two other internal control matters or nonmaterial instances of noncompliance. Based on our review of the audit firm's descriptions of the issues, we considered one issue to be a significant deficiency in internal control; hence, we are making a recommendation for corrective action. The significant deficiency pertained to the lack of segregation of duties (cash count and accounting).

Furthermore, RMDM reported that (1) the contract did not require cost-sharing contributions; (2) the recipient has no USAID-authorized provisional indirect cost rate; and (3) two of the five prior audit findings were reported again in the current audit report and are covered by Recommendation 3 below.

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 March 6, 2019.

To address the issues identified in the report, we recommend that USAID/Office of Transition Initiatives:

Recommendation 1. Determine the allowability of $34,619 in questioned costs (ineligible) identified in the fund accountability statement on page 28, and further detailed in Findings 1–4 on pages 42–46 of the audit report, and recover any amount that is unallowable.

Recommendation 2. Verify that the Basic Education for Awareness, Reforms, and Empowerment corrects the one significant deficiency in internal control discussed on page 2 of this memorandum and detailed in Observation 1 on page 1 of the management letter.

Recommendation 3. Verify that the Basic Education for Awareness, Reforms, and Empowerment corrects the six material instances of noncompliance identified in the report on compliance on pages 37–38 and detailed in Findings 1–6 on pages 42–49 of the audit report.

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