



## MEMORANDUM

**DATE:** March 11, 2019

**TO:** USAID/Pakistan Mission Director, Jerry Bisson

**FROM:** USAID OIG Asia Regional Office Audit Director, Matthew Rathgeber /s/

**SUBJECT:** Closeout Audit of the U.S. Pakistan Center for Advanced Studies in Agriculture and Food Security Program in Pakistan Managed by the University of Agriculture, Faisalabad, Cooperative Agreement AID-391-A-15-00002, July 1, 2016, to October 21, 2017 (5-391-19-019-R)

This memorandum transmits the final audit report on the U.S. Pakistan Center for Advanced Studies in Agriculture and Food Security Program in Pakistan. The University of Agriculture, Faisalabad (UAF), contracted with the independent certified public accounting firm of Baker Tilly Mehmood Idrees Qamar 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>

Baker Tilly Mehmood Idrees Qamar 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. Baker Tilly Mehmood Idrees Qamar 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.<sup>2</sup>

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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 On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. The mission, however, asked the auditors in its contract to follow the Guidelines, and this contracted audit followed that 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.

The audit objectives were to: (1) express an opinion on whether UAF's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate UAF's internal controls; (3) determine whether UAF complied with agreement terms and applicable laws and regulations; and (4) determine whether UAF has taken corrective actions on prior audit report recommendations. To answer the audit objectives, Baker Tilly Mehmood Idrees Qamar 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 program revenues and costs of \$4,257,309 and \$4,571,037,<sup>3</sup> respectively, from July 1, 2016, to October 21, 2017.

Baker Tilly Mehmood Idrees Qamar concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. The audit firm included an emphasis of matter paragraph that discussed two matters: (1) the fund accountability statement was prepared on the modified cash basis of accounting which is in conformity with other comprehensive basis of accounting and (2) program costs totaling \$532,626 were covered by fixed amount awards and were not subjected to annual audit requirements.<sup>3</sup> The audit firm did not identify any questioned costs or material instances of noncompliance.

In the report on internal control, the audit firm identified two significant deficiencies in internal control related to (1) accounting transactions recorded in the general ledger (under the enterprise resource planning system) lacked sufficient description and classification of amounts into sub-heads (Finding 7.1) and (2) conversion of expenditures from Pakistani Rupee to U.S. Dollar were inconsistent with the conversion method required by the program's finance manual, resulting in a \$450 under reported expenditures (Finding 7.2). Since the agreement ended and USAID/Pakistan does not have existing or planned awards with UAF, we are not making any procedural recommendations on these two findings.

In its management letter (pages 42–49), the audit firm identified two other internal control matters and one nonmaterial instance of noncompliance. Based on our review of the audit firm's descriptions of the issues, we considered one issue involving incomplete personnel files (Observation 9.2) to be a significant deficiency in internal control. One of the issues, pertaining to missing documentation and information necessary for the grant of scholarship (Observation 9.1), was likewise considered to be a material instance of noncompliance. Since the agreement had ended, we are not making any procedural recommendations on these two findings.

Furthermore, Baker Tilly Mehmood Idrees Qamar reported that (1) the agreement did not require cost-sharing contributions and (2) the recipient has no USAID-authorized provisional indirect cost rate. For the seventeen prior audit findings, six findings had not been satisfactorily addressed: (1) two findings were reported again in the current audit report under Findings 9.1 and 9.2; (2) two findings were management letter issues in the prior audit that we did not consider to be significant items; and (3) two findings although considered significant items in the

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<sup>3</sup> Costs totaled \$4,571,037, of which \$532,626 were covered by fixed amount awards wherein payments were for fixed-amount milestones. In accordance with Automated Directives System 591.3.2.1g, the fixed amount awards were not subjected to annual audit requirements.

prior audit were not reported as findings in the current audit report. Since the agreement had ended, we are not making any procedural recommendations on these last two findings.

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 program 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 an excess of total costs over total revenues of \$208,585 at the end of the agreement.

In Note 14 to the fund accountability statement, the audit firm reconciled the negative ending fund balance of \$208,585 in the fund accountability statement with the cash-in-bank account of \$624,992 as of October 21, 2017. In the reconciliation, the audit firm added back to the negative ending fund balance unrepresented checks of \$474,004. Since the agreement had ended and UAF still has significant unrepresented checks, this reconciling item should be further verified. Thus, we are making a procedural recommendation for the mission to determine (1) if there were costs incurred and reimbursed by USAID that have not been paid by UAF to vendors; and (2) the allowability of unpaid costs charged to USAID, 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 March 11, 2019.

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

**Recommendation 1.** Determine (1) if there were costs incurred and reimbursed by USAID that have not been paid by UAF to vendors as discussed on page 3 of this memorandum; and (2) the allowability of 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