MEMORANDUM

DATE: March 26, 2019

TO: USAID/Pakistan Mission Director, Jerry Bisson

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

SUBJECT: Financial Audit of U.S. Pakistan Center for Advance Studies in Energy in Pakistan Managed by the University of Engineering and Technology, Peshawar, Cooperative Agreement No. AID-391-A-14-00004, For the Year Ended June 30, 2017 (5-391-19-022-R)

This memorandum transmits the final audit report of University of Engineering and Technology, Peshawar (UETP) under the U.S. Pakistan Center for Advance Studies in Energy. UETP contracted with the independent certified public accounting firm of RSM Avais Hyder Liaquat Nauman (RSM) to conduct the audit. The contract required RSM 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]

RSM 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. RSM 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.[2]

The audit objectives were to (1) express an opinion on whether UETP's fund accountability statement for the periods audited was presented fairly, in all material respects; (2) evaluate

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[1] On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

UETP's internal controls; (3) determine whether UETP complied with contract terms and applicable laws and regulations; (4) perform an audit of the indirect cost rate(s), if the recipient has been authorized to charge indirect costs using provisional rates; and (5) determine if the recipient has taken corrective actions on prior audit report recommendations**.** To answer the audit objectives, RSM examined the fund accountability statement and supporting documentation; reviewed UETP's internal control systems; tested compliance with contract terms and applicable laws and regulations; and reviewed the actions taken on the prior audit findings and recommendations. The audit covered project revenues and costs of $2,993,575 and $1,392,355, respectively, for the year ended June 30, 2017.

RSM concluded that, except for the effects of the questioned costs totaling $131,850 (ineligible), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the contract for the periods audited**.** The questioned costs pertained to:
1) Salaries that were in excess of the approved budgets or unreasonable ($59,352);
2) Demurrage charges due to UETP's delay in obtaining release of equipment from the port ($12,141) ; 3) Purchase of a phone that was considered a luxury item ($825); 4) Payments to staff that were charged under "university overheads" but were not in accordance with Applied Research Grants Policy ($14,876); and 5) Costs charged by sub-implementer to the project that were not in accordance with the memorandum of understanding ($44,656).

RSM identified four material weaknesses in internal control**,** three of which are related to three of the questioned costs listed above. The remaining material weakness pertained to the lack of segregation of financial management duties. RSM also reported six significant deficiencies in internal control related to not 1) maintaining receiving reports for procured goods or equipment, 2) properly recording costs related to imported assets, 3) recording student exchange program liabilities during the period in which the expenses were incurred, 4) performing pre-audits of expense vouchers as required by the finance manual, 5) including in the fixed assets register some particulars required by the finance manual, and 6) procuring insurance for fixed assets.

Regarding compliance, RSM identified five material instances of noncompliance, two of which were related to two of the questioned costs listed above. The remaining three pertained to the non-induction of PhD scholars, violation of certain provisions of the research grants policy, and lack of USAID's approval of the appointment of the acting director—all of which were violations of the terms of the agreement.

In addition, in its management letter, the audit firm identified eleven other internal control matters and four nonmaterial instances of noncompliance. Based on our review of the audit firm's description of each issue, we considered three issues to be significant deficiencies in internal control; hence we are making a recommendation for corrective action. These pertained to prior period expenses recorded in the current period, error in recording exchange program expenses as international workshop expenses, and not using pre-printed or pre-numbered vouchers and requisition documents.

Furthermore, RSM reported that (1) the agreement did not require cost-sharing contributions; (2) the agreement did not authorize a provisional indirect cost rate; and (3) three of the ten prior audit findings were reported again in the current audit report and are covered by Recommendations 2 and 3 below.

During our desk review, we noted two minor 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 26, 2019.

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

Recommendation 1. Determine the allowability of $131,850 in questioned costs (ineligible) identified in the fund accountability statement on page 47, further detailed on pages 50-51, and in Findings A-2 through A-4 and B-1 through B-2 on pages 27-31 and 36-39, respectively, of the audit report; and recover any amount that is unallowable.

Recommendation 2. Verify that the UETP corrects the four material weaknesses in internal control discussed in the report on internal control on pages 53–54 and detailed in Findings A-1 through A-4 on pages 27–31 of the audit report; and the nine significant deficiencies in internal control discussed in the report on internal control on page 54 of the audit report and on page 2 of this memorandum, and further detailed in Findings A-5 through A-10 on pages 31–35 and in Items A-6, A-7, and A-11 on pages 62, 63, and 66, respectively, of the audit report.

Recommendation 3. Verify that the UETP corrects the five material instances of noncompliance identified in the report on compliance on pages 56–57 and detailed in Findings B-1 through B-5 on pages 36–42 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