



MEMORANDUM

DATE: April 26, 2019

TO: USAID/Pakistan Mission Director, Jerry Bisson

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

SUBJECT: Financial Audit of the Costs Incurred by Echo West Under Multiple Task Orders in Pakistan, February 27, 2015, to March 2, 2016 (5-391-19-001-N)

This memorandum transmits the final audit report on the costs incurred by Echo West under multiple task orders in Pakistan. USAID contracted with the independent certified public accounting firm of EY Ford Rhodes (EY) to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards except that the audit firm did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. The audit firm also reported additional scope limitations in other parts of the reports: (1) during the course of audit, a large volume of contractor's accounting records was destroyed due to fire; and (2) subsequently, the contractor refused to cooperate with EY to provide additional information. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on Echo West'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 Echo West's fund accountability statement (FAS) for the period audited, was presented fairly, in all material

¹ On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and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. This contracted audit, however, was initiated before that date and follows the 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.

respects; (2) evaluate Echo West's internal controls; and (3) determine whether Echo West complied with award terms and applicable laws and regulations. To answer the audit objectives, the audit firm examined the FAS and supporting documentation; evaluated Echo West's internal control systems; and tested compliance with contract terms and applicable laws and regulations. The audit covered project revenues and costs of \$244,699 and \$606,912, respectively, for the period from February 27, 2015, to March 2, 2016.

EY reported that it could not express an opinion on the FAS because it was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Nonetheless, the auditors identified questioned costs of \$518,700 (\$27,047 ineligible and \$491,653 unsupported). The ineligible questioned costs pertained to: (1) costs claimed after notice of termination for convenience—\$18,368; (2) business class tickets charged to USAID in contravention of the applicable regulations—\$220; and (3) costs claimed from USAID that were not reasonable—\$8,459. The unsupported costs pertained to: (1) inability of the audit firm to obtain sufficient appropriate audit evidence due to scope limitations mentioned earlier in this memo related to destruction of records due to fire and subsequent refusal of Echo West to provide additional information – \$429,616; and (2) lack of supporting documentation – \$62,037.

EY identified one significant deficiency and two material weaknesses in internal control, as well as six material instances of noncompliance. EY also issued a management letter to the contractor identifying other weaknesses in internal controls and instances of noncompliance. However, because the contract with Echo West was terminated by USAID, we are not making any procedural recommendations.

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 April 26, 2019.

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

Recommendation 1. Determine the allowability of \$518,700 in questioned costs (\$27,047 ineligible and \$491,653 unsupported) identified on page 25, and further detailed on pages 26-27 of the audit report, and recover any amount that is 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