



## MEMORANDUM

**DATE:** April 25, 2019

**TO:** USAID/Philippines Mission Director, Lawrence Hardy II

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

**SUBJECT:** Financial Audit of the UPecon Foundation, Inc. Under Multiple USAID Awards in the Philippines, January 1 to December 31, 2017 (5-492-19-023-R)

This memorandum transmits the final audit report of the UPecon Foundation, Inc. (UPecon) under multiple USAID awards. UPecon contracted the independent certified public accounting firm of Isla Lipana & Co. 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>

Isla Lipana & Co. 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. Isla Lipana & Co. is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the UPecon's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate UPecon's internal controls; (3) determine whether UPecon complied with agreement terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine if UPecon has taken corrective actions on prior audit recommendations. To answer the audit objectives, the audit firm examined the documentation and performed procedures to verify financial transactions, reviewed UPecon's internal control and its implementation, performed

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 On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

testing to determine compliance with agreement terms and applicable laws and regulations, and assessed status of prior audit recommendations. The audit covered program revenues and costs of \$1,838,356 and \$1,926,614, respectively, for the period audited.<sup>3</sup>

Isla Lipana & Co. concluded that the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the agreements for the period audited. However, the audit firm also reported questioned costs in the fund accountability statement totaling \$5,426 (ineligible). The questioned costs pertained to the unallowable value-added tax (\$2,890) that UPecon charged to the program, and other direct cost (\$2,536) which cover periods beyond the fund accountability statement report date and project end date. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the mission determine the allowability of the \$5,426 in questioned costs and recover any amount determined to be unallowable.

The audit firm did not identify any significant deficiencies or material weaknesses in internal control. However, it identified one material instance of noncompliance related to the questioned costs in the fund accountability statement. The audit firm also issued a management letter to UPecon identifying two other internal control matters.

Regarding the review of cost-sharing contributions, which is required under the program, the audit firm reported that the recipient contributed total cost-sharing contributions of \$93,461 during the period audited. The audit firm did not report any questioned costs related to these contributions.

Finally, the audit firm reported that (1) UPecon did not have a USAID-authorized provisional indirect costs rate and (2) all audit report recommendations had been satisfactorily addressed.

During our desk review, we noted a few 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 25, 2019.

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

**Recommendation I.** Verify that the UPecon Foundation, Inc. corrects the material instance of noncompliance identified in the report on compliance on page 24 and further detailed in Exhibit III on page 36 of the 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.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from

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<sup>3</sup> Two agreements were subjected to a financial audit: Health Policy Development Project 2 (Cooperative Agreement AID-492-A-12-00016) and Energy Policy and Development Program (Grant Agreement AID-492-G-15-00002).

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