



## MEMORANDUM

**DATE:** June 13, 2019

**TO:** USAID/Cambodia Mission Director, Veena Reddy

**FROM:** USAID OIG Asia Regional Office Acting Audit Director, Michael Hutchinson /s/

**SUBJECT:** Closeout Audit of the HIV/AIDS Flagship Program in Cambodia Managed by Khmer HIV/AIDS NGO Alliance, Cooperative Agreement AID-442-A-13-00001, January 1, 2017, to May 31, 2018 (5-442-19-040-R)

This memorandum transmits the final audit report on the HIV/AIDS Flagship Program in Cambodia. Khmer HIV/AIDS NGO Alliance (KHANA) contracted with the independent certified public accounting firm Morison Kak & Associates 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 the draft USAID Financial Audit Guide for Foreign Organizations (Guide).<sup>1</sup>

Morison Kak & Associates 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. The audit firm also disclosed that it did not audit costs of \$1,101,084 incurred by Family Health International 360 and Population Services International, U.S. nonprofit subrecipients which are subject to a 2 CFR Part 200 Subpart F audit.<sup>2</sup> Morison Kak & Associates 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>3</sup>

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<sup>1</sup> The Guide was in draft form (2017 edition). The mission asked the auditors in its contract to follow the Guide and this contracted audit followed that Guide. The final version of the Guide was released on March 4, 2019, which was after the audit report was issued by the audit firm.

<sup>2</sup> 2 CFR Part 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) Subpart F superseded the U.S. Office of Management and Budget Circular A-133.

<sup>3</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 KHANA's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate KHANA's internal controls; (3) determine whether KHANA complied with agreement terms and applicable laws and regulations; and (4) determine if KHANA has taken corrective actions on prior audit report recommendations. To answer the audit objectives, Morison Kak & Associates reviewed program documents and procedures; examined the fund accountability statement; evaluated KHANA's internal control systems; tested compliance with agreement terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The audit covered program revenues and costs of \$4,312,329 and \$3,218,111,<sup>4</sup> respectively, for the period audited.

Morison Kak & Associates concluded that, except for the effects of the questioned costs amounting to \$50 (unsupported), the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. 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 \$50 questioned costs and recover any amount determined to be unallowable.

The audit firm identified one significant deficiency, one material weakness in internal control, and three material instances of noncompliance. Since the program has ended and USAID/Cambodia does not have existing or planned awards with the recipient, we are not making any procedural recommendations. The audit firm also issued a management letter to KHANA identifying one other internal control matter.

Finally, the audit firm reported that (1) the agreement did not require cost-sharing contributions; (2) KHANA did not have a USAID-authorized provisional indirect cost rate; and (3) prior audit recommendations had been addressed except for two findings related to the material noncompliance that were reported again in the current year audit report.

During our desk review, we noted several 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 June 13, 2019.

Given the above results of the audit, we are not making any recommendation for inclusion in USAID's Consolidated Audit and Compliance Tracking System. 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").

<sup>4</sup> Program costs totaled \$4,319,195, of which \$3,218,111, incurred by KHANA (prime recipient) was audited by Morison Kak & Associates. The subrecipient costs that were not audited by Morison Kak & Associates totaled \$1,101,084 as discussed on page 1 of this memorandum (paragraph 2).

Attachment: a/s