



MEMORANDUM

DATE: August 2, 2019

TO: USAID/Central Asia Regional Director, Christopher Edwards

FROM: USAID OIG Asia Regional Office Acting Audit Director, Emily Gardiner /s/

SUBJECT: Financial Audit of the Smart Waters Project in Central Asia Managed by Regional Environmental Centre for Central Asia, Cooperative Agreement AID-176-A-15-00005, January 1 to December 31, 2017 (5-176-19-050-R)

This memorandum transmits the final audit report on the Smart Waters Project in Central Asia. The Regional Environmental Centre for Central Asia (CAREC) contracted with the independent certified public accounting firm of Gelman, Rosenberg & Freedman 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.¹

Gelman, Rosenberg & Freedman stated that it performed its audit in accordance with GAGAS. Gelman, Rosenberg & Freedman is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on CAREC'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 CAREC's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate CAREC's internal controls; and (3) determine whether CAREC complied with agreement terms and applicable laws and regulations (including cost-sharing contributions).

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

To answer the audit objectives, Gelman, Rosenberg & Freedman examined the fund accountability statement and reviewed documentation that supported the financial transactions reported; performed procedures to evaluate the effectiveness of the design and operation of the internal controls; and conducted tests of CAREC's compliance with certain provisions of the agreement, laws and regulations. The audit covered project revenues and expenditures of \$1,471,532 and \$1,503,956, respectively, from January 1 to December 31, 2017.

Gelman, Rosenberg & Freedman concluded that the fund accountability statements presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. The audit firm did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance. The audit firm, however, discussed an "Other Area of Concern" in the discussion of findings and recommendations, which it also identified as other internal control matter and immaterial instance of noncompliance.

Regarding the review of cost-sharing contributions, the audit firm reported that CAREC contributed \$189,512 for the period audited. The audit firm did not report any questioned costs on these contributions.

In addition, Gelman, Rosenberg & Freedman reported that CAREC did not have a USAID-authorized provisional indirect cost rate. Also, the prior period audit report did not identify any audit finding.

During our desk review, we noted some issues that the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated August 2, 2019.

Given the above results of the audit, we are not making any recommendations. 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