



MEMORANDUM

DATE: August 1, 2019

TO: USAID/West Bank and Gaza/Acting Mission Director, Dana Rose

FROM: USAID/OIG Middle East and Eastern Europe (ME/EE) Regional Office, Audit Director, David Thomanek /s/

SUBJECT: Financial Audit of USAID Resources Managed by Hope Flowers School for the Building via Civil Society Cooperation for People with Disabilities project in the West Bank and Gaza, Cooperative Agreement AID-294-A-16-00009, September 26, 2016, to December 31, 2017 (8-294-19-048-N)

This memorandum transmits the final audit report on USAID resources managed by Hope Flowers School for costs incurred under cooperative agreement AID-294-A-16-00009, Peace Building via Civil Society Cooperation for People with Disabilities, USAID Project. USAID/West Bank and Gaza contracted with the independent certified public accounting firm Ernst Young, Ramallah to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID Financial Audit Guidelines for Foreign Organizations.¹

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards except for that the audit firm did not have an external peer review because no such programs are offered in the West Bank and Gaza. The audit firm is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on Hope Flowers School's fund accountability statement; the effectiveness

¹ On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and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

of its internal control; or its compliance with the award, laws, and regulations.²

The audit objective 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 Hope Flowers School's internal controls; (3) determine whether Hope Flowers School complied with applicable laws and regulations; (4) review cost sharing contributions to determine if Hope Flowers School complied with the terms of the award. To answer the audit objectives, Ernst Young (1) audited the fund accountability statement for the award including the budgeted amounts by category and major items and the revenues received from USAID for the period covering September 26, 2016, to December 31, 2017; (2) identified the award terms and pertinent laws and regulations and determined which of those, if not observed, could have a direct and material effect on the fund accountability statement; and (3) reviewed the support for the cost share contributions. Hope Flowers School reported expenditures of \$387,831 in USAID funds during the audited period.

The audit firm concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for \$112,000 in total questioned costs (\$6,000 ineligible and \$106,000 unsupported); five significant deficiencies in internal control and four instances of material noncompliance. Ernst Young determined that cost sharing contributions were made and accounted for by Hope Flowers School in accordance with the agreement terms. Ernst Young also issued a management letter dated March 1, 2018 reporting on other matters that came to their attention during the audit.

As of January 31, 2019, USAID/West Bank and Gaza terminated its foreign assistance activities, and as a result, Hope Flowers School had its activities terminated and currently has no open awards with USAID/West Bank and Gaza. OIG Middle East and Eastern Europe Regional Office is not including procedural recommendations regarding the five significant deficiencies in internal control and the four material noncompliance instances. However, if USAID/West Bank and Gaza considers future awards to Hope Flowers School, it should ensure that adequate policies and procedures are implemented to address these findings, as detailed on pages 18 to 28 of Ernst Young's report.

To address the questioned costs identified in the report, we recommend that USAID/West Bank and Gaza's agreement officer do the following:

Recommendation 1. Determine the allowability of \$112,000 in total questioned costs (\$6,000 ineligible and \$106,000 unsupported) detailed on page 29 of the audit report and recover any amount that is unallowable.

We ask that you provide your written notification of actions planned or taken to reach management decision. We appreciate the assistance extended during the engagement.

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.

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”).