



MEMORANDUM

DATE: December 6, 2018

TO: USAID/India Mission Director, Mark A. White

FROM: Office of Inspector General/Asia Regional Office Audit Director
Matthew Rathgeber /s/

SUBJECT: Financial Audit of Room to Read India Trust Under Multiple USAID Awards in India, April 1, 2016, to March 31, 2017 (5-386-19-007-R)

This memorandum transmits the final audit report on the multiple USAID awards managed by Room to Read India Trust (the recipient). The recipient contracted the independent certified public accounting firm of Walker Chandiok & Co LLP 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

Walker Chandiok & Co LLP stated that it performed its audit in accordance with U.S. GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Walker Chandiok & Co LLP 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.²

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

The audit objectives were to (1) express an opinion on whether the recipient's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the recipient's internal controls; and (3) determine whether the recipient complied with award terms and applicable laws and regulations. To answer the audit objectives, Walker Chandiok & Co LLP examined the fund accountability statement and supporting documentation; reviewed and documented the internal control systems; and tested compliance with contract terms and applicable laws and regulations. The audit covered project revenues and costs of \$1,076,013³ each—awards are under cost reimbursement basis—from April 1, 2016, to March 31, 2017.

Walker Chandiok & Co LLP concluded that, except for the effects of the questioned costs totaling \$635 (ineligible), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the contract for the period audited. Since the questioned costs did not meet the OIG's established threshold of \$1,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the mission determine the allowability of the \$635 in questioned costs and recover any amount determined to be unallowable.

The audit firm identified a significant deficiency in internal control and a material instance of noncompliance pertaining to unallowable, not program-related expenses incurred by monitoring staff (ineligible). Both findings were associated with the same questioned costs identified in the fund accountability statement. Based on the detailed discussions of the questioned cost finding in the note to the fund accountability statement and audit finding schedules in support of the report on internal control and report on compliance, we considered the finding associated with the questioned cost as a material instance of noncompliance particularly with U.S. government regulations (2 CFR 200 Subpart E—Cost Principles). Thus, we are making a recommendation for corrective action accordingly.

Furthermore, Walker Chandiok & Co LLP reported that (1) the recipient did not use any provisional rates to charge indirect costs to USAID and (2) the recipient does not operate on a cost sharing approach. Finally, this is the first audit of the awards.

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 December 4, 2018.

³ Of the total expenditures of \$1,076,013, \$919,057 was incurred under Cooperative Agreement AID-386A-15-00021 for which Room to Read India Trust was the prime recipient and \$156,956 was incurred under a grant (CMF-RTR-EDU-20151203) for which Room to Read India Trust was a subrecipient.

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

Recommendation I. Verify that Room to Read India Trust corrects the material instance of noncompliance identified in the report on compliance on pages 26–27, discussed on page 2 of this memorandum and further detailed in Finding 6.2.1 on page 28 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.

The 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