



MEMORANDUM

DATE: October 30, 2019

TO: USAID/Pakistan Mission Director, Julie A. Koenen

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

SUBJECT: Financial Audit of Trust for Democratic Education and Accountability under Multiple USAID Awards in Pakistan, July 1, 2017, to June 30, 2018 (5-391-20-004-R)

This memorandum transmits the final audit report on the multiple USAID awards managed by Trust for Democratic Education and Accountability (TDEA). TDEA contracted with the independent certified public accounting firm of EY Ford Rhodes to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients.¹ However, it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. EY Ford Rhodes is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the contractor's fund accountability statement; the effectiveness of its internal control; or its compliance with the awards, laws, and regulations.²

The audit objectives were to (1) express an opinion on whether TDEA's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate TDEA's internal controls (including internal controls related to required cost-sharing contributions, if applicable); (3) determine whether TDEA complied with contract terms and applicable laws and regulations; (4) perform an audit of the indirect cost rate, if the recipient has USAID-authorized provisional indirect cost rate; and (5) determine if TDEA had taken adequate corrective actions on prior audit recommendations. To answer the audit objectives,

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. USAID/Pakistan adopted the entire OIG rescinded Guidelines and referred to it as "USAID Guidelines" (applicable to USAID/Pakistan audits), which were used until the new USAID Guidance was issued in March 2019. The contract statement of work referred to these same guidelines as USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients.

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 firm examined the fund accountability statement; evaluated the internal control system and assessed all related risks; tested compliance with contract terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit firm noted that TDEA has no cost-sharing requirements and USAID-authorized provisional indirect cost rate in its two USAID contracts. The audit covered project revenues and costs of \$3,611,819 and \$2,763,853³ from July 1, 2017, to June 30, 2018.⁴

EY Ford Rhodes concluded that the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the two contracts for the period audited. The audit firm did not identify any questioned costs or material instances of noncompliance. However, the audit firm identified a material weakness in internal control pertaining to the system limitations in the accounting software used by TDEA. Further, the three prior audit findings were not satisfactorily addressed; one finding was repeated again in the current report under Finding 6.1 on page 30 and the other two findings were reported again in the management letter.

During our desk review, we noted several issues that the audit firm will need to address in future audit reports. We also made a suggestion to the mission. We presented these issues in a memorandum to the controller dated October 30, 2019.

To address the issues identified in the report, we recommend that USAID/Pakistan:

Recommendation I. Verify that Trust for Democratic Education and Accountability corrects the one material weakness in internal control identified in the report on internal control on page 28 and further detailed in Finding 6.1 on page 30 of the audit report.

We ask that you provide written notification of actions planned or taken to reach 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 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

³ Represents total project costs of \$4,413,456 less \$1,649,603 pertaining to payments against fixed amount awards that are not subject to financial audits.

⁴ The audit covered two TDEA projects: (a) Citizens' Voice Project under Contract AID-391-C-11-00001 for the period from July 1, 2017, to June 30, 2018; and (b) Ambassador's Fund Grant Program under Contract AID-391-C-17-00006 for the period from October 2, 2017, to June 30, 2018.