



MEMORANDUM

DATE: March 5, 2020

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

FROM: USAID OIG Asia Regional Office Audit Director, James C. Charlifue /s/

SUBJECT: Financial Audit of USAID Resources Managed by A.A. Associates in Pakistan Under Contract AID-391-I-11-00003, For the Year Ended June 30, 2018 (5-391-20-018-R)

This memorandum transmits the final audit report of USAID resources managed by A.A. Associates in Pakistan under Contract AID-391-I-11-00003. A.A. Associates contracted with the independent certified public accounting firm of A. F. Ferguson & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards. However, it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. The audit firm is responsible for the enclosed 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 contract, laws, and regulations.¹

The audit objectives were to (1) express an opinion on whether the contractor's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the contractor's internal controls; (3) determine whether the contractor complied with contract terms, and applicable laws and regulations; and (4) determine whether the contractor has taken corrective actions on prior audit report recommendations. To answer the audit objectives, the audit firm examined the fund accountability statement and supporting documentation; evaluated the effectiveness of the design and operation of the internal control system; conducted tests of the contractor's compliance with contract terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The audit covered

¹ 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.

project revenues and costs of \$2,451,091 and \$2,573,701, respectively, for the year ended June 30, 2018.²

The audit firm concluded that except for the effects of the ineligible questioned costs totaling \$872,782, the fund accountability statement presented fairly in all material respects, project revenues and costs incurred under the contract for the period audited. The ineligible questioned costs pertained to (1) salaries and traveling costs of employees who did not meet the job position's required qualification and experience - \$835,682 and \$9,969, respectively; (2) sales tax related to purchases wherein the contractor had not submitted to USAID the tax exemption requests - \$2,190; and (3) fixed daily rates of employees on public holidays wherein employees have not worked on those days – \$24,941.

The audit firm identified five material weaknesses in internal controls and twelve material instances of noncompliance, three of which were related to questioned costs. Since the projects have ended to date and USAID/Pakistan does not have existing or planned awards with the contractor, we are not making any recommendations for these procedural findings. However, we suggest that the mission review and consider the findings in conjunction with any future award to the contractor. Further, the audit firm issued a management letter to the contractor identifying internal control matters. Finally, the audit firm also reported that two recommendations from the prior period audit were not resolved as of June 30, 2018; thus, they were reported again in the current audit report.

During our desk review, we noted issues which the audit firm will need to address in future audit reports. We presented these issues and suggestions in a memorandum to the mission's controller dated March 5, 2020.

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

Recommendation 1. Determine the allowability of \$872,782 in ineligible questioned costs identified on page 14 and further detailed on pages 17-28 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.

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

² The audit covered two task orders under Contract AID-391-I-11-00003: AID-391-TO-16-00007 (Sind Municipal Services Program) and AID-391-TO-16-00003 (Monitoring, Inspection, Milestone Certification and Design Review).