



## MEMORANDUM

**DATE:** April 30, 2020

**TO:** USAID/Central Asia Regional Director, Christopher Edwards

**FROM:** USAID OIG Asia Regional Office Audit Director, James C. Charlifue /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, 2018 (5-176-20-030-R)

This memorandum transmits the final audit report on the Smart Waters Project managed by Regional Environmental Centre for Central Asia (CAREC). CAREC contracted with the independent certified public accounting firm of RSM Tajikistan, LLC to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards.<sup>1</sup> However, it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. RSM Tajikistan, LLC is responsible for the enclosed 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.<sup>2</sup>

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; (3) determine whether CAREC complied with agreement terms (including cost-sharing contributions) and applicable laws and regulations; and (4) determine if CAREC has taken corrective actions on prior audit report recommendations. To answer the audit objectives, RSM Tajikistan, LLC reviewed the recipient's project documents supporting the fund accountability statement; evaluated the recipient's control environment, adequacy of accounting systems, and effectiveness of design and operation of control procedures; conducted tests of recipient's compliance with the agreement terms and applicable laws and regulations; and assessed the status of prior audit report recommendations. The audit covered project

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and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 contract, however, required the auditor to follow these guidelines.

<sup>2</sup> 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.

revenues and costs of \$2,146,653 and \$1,998,937, respectively, from January 1 to December 31, 2018.

RSM Tajikistan, LLC concluded that, the fund accountability statement presented fairly, in all material respects, project revenues and costs 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, identified one significant deficiency in internal control related to the recipient's lack of reconciliation between its SF-425 Federal Financial Report and its accounting records. Although we are not making a recommendation on the identified significant deficiency, we suggest that USAID/Central Asia determine if the recipient addressed the issue noted.

Regarding cost-sharing contributions, the audit firm reported that the recipient contributed \$421,687 during the audited period. The audit firm did not identify any questioned costs related to these contributions. Lastly, the audit firm reported that CAREC adequately addressed the prior period recommendation.

During our desk review, we noted issues that the audit firm will need to address in future audit reports. We presented these issues and a suggestion to the mission in a memorandum to the controller dated April 30, 2020.

Given the results of the audit, we are not making any recommendations for inclusion in USAID's Consolidated Audit Compliance Tracking System. 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