



MEMORANDUM

DATE: April 30, 2020

TO: USAID/Bangladesh Mission Director, Derrick Brown

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

SUBJECT: Financial Audit of the Marketing Innovations for Sustainable Health Development Activity in Bangladesh Managed by Social Marketing Company, Cooperative Agreement AID-388-A-16-00004, October 1, 2017, to September 30, 2018 (5-388-20-033-R)

This memorandum transmits the final audit report on the Marketing Innovations for Sustainable Health Development Activity in Bangladesh Managed by Social Marketing Company (SMC). SMC contracted with the independent certified public accounting firm of Masih Muhith Haque & Co. 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 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. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on SMC's fund accountability statement (FAS) and statement of program income earned and used (SPIEU); the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

The audit objectives were to (1) express an opinion on whether SMC's FAS for the period audited was presented fairly, in all material respects; (2) express an opinion on whether SMC's SPIEU for the period audited was presented fairly, in all material respects; (3) evaluate SMC's internal controls; (4) determine whether SMC complied with award terms and applicable laws and regulations (including cost-sharing contributions); and (5) determine the status of prior year

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

audit recommendations. To answer the audit objectives, the audit firm examined the program's FAS and supporting documentation; reviewed the SPIEU and the cost-sharing schedule; evaluated the control environment, accounting systems, and control procedures; reviewed compliance with agreement requirements and applicable laws and regulations; and analyzed the status of prior audit report recommendations.

The audit covered the following revenues and costs, for the period from October 1, 2017, to September 30, 2018: program revenues (from USAID funds) and costs of \$4,007,202 and 3,832,045, respectively; and program income earned³ and used amounting to \$955,695 and 729,148, respectively.

The audit firm concluded that the FAS and SPIEU presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. The audit firm did not identify any questioned costs, material weaknesses in internal control, or instances of material noncompliance. However, we noted that in Note 5.00 to the SPIEU on the reconciliation of program income fund balance with cash balance (page 23), the prior year excess of program income over expenditures of \$393,917 was not included. Accordingly, we are making a procedural recommendation for the mission to determine the status of the \$393,917 in program income funds, determine whether this fund was utilized in accordance with the approved purposes,⁴ and recover any amount determined to be unused or not used accordingly.

The audit firm also issued a management letter to SMC identifying seven other internal control matters and one immaterial instance of noncompliance for SMC and its subrecipients. In addition, the audit firm reviewed the status of all issues identified in the prior management letter including one issue which OIG considered to be a material instance of noncompliance. The audit firm noted that this noncompliance finding is now resolved.

Regarding the review of the cost-sharing contributions, the audit firm reported that SMC contributed \$40,816,293 during the period audited. The audit firm did not report any questioned cost-sharing contributions.

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

To address the issue identified on page 2 of this memorandum, we recommend that USAID/Bangladesh:

Recommendation 1. Determine the status of the \$393,917 in program income funds as discussed on page 2 of this memorandum, determine whether this fund was utilized in accordance with the approved purposes, and recover any amount determined to be unused or not used accordingly.

³ Program income earned is the revenue from the sale of USAID-donated commodities.

⁴ According to the audit report, program income will be used for program purposes and utilized upon approval of the agreement officer.

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