



## MEMORANDUM

**DATE:** February 1, 2021

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

**FROM:** USAID OIG Asia Regional Office Deputy Assistant Inspector General for Audit, Christine M. Byrne /s/

**SUBJECT:** Financial Audit of Khyber Pakhtunkhwa Reconstruction Program in Pakistan Managed by the Provincial Reconstruction Rehabilitation & Settlement Authority, Provincial Disaster Management Authority, Grant No. 391-011, July 1, 2018 to June 30, 2019 (5-391-21-011-R)

This memorandum transmits the final audit report on the Khyber Pakhtunkhwa Reconstruction Program in Pakistan managed by the Provincial Reconstruction Rehabilitation & Settlement Authority, Provincial Disaster Management Authority (PaRRSA), Government of Khyber Pakhtunkhwa. The audit was conducted by the Auditor General of Pakistan (Auditor General). The Auditor General stated that it performed its audit in accordance with international standards of supreme audit institutions issued by the International Organization of Supreme Audit Institutions. The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the grantee's fund accountability statement; the effectiveness of its internal control; or its compliance with the grant terms and applicable laws and regulations.<sup>1</sup>

The audit objectives were to (1) express an opinion on whether the grantee's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the grantee's internal controls; (3) determine whether the grantee complied with grant terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine the status of prior year audit recommendations. To answer the audit objectives,

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<sup>1</sup> We reviewed the Auditor General'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 Auditor General reviewed program documents and procedures; examined the fund accountability statement and its supporting documents; reviewed the internal control system; tested compliance with grant terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The audit covered revenues and costs of \$15,582,618 and \$18,623,822, respectively, from July 1, 2018, to June 30, 2019.

The Auditor General concluded that, except for the four matters it identified in the “Auditor’s Report to the Management,” the fund accountability statement (FAS) presented fairly, in all material respects, program revenues and costs under the grant for the period audited. The four matters that the Auditor General identified as bases of its qualified opinion are: (1) interest income earned from a deposit to a bank of \$30,343 (Rs3,638,694)<sup>2</sup> was not disclosed in the FAS; (2) funds used by Tehsil Municipal Administration were not disclosed in the FAS amounting to \$49,583 (Rs5,945,926); (3) fund releases by PaRRSA to executing agencies totaling \$18,623,822 (Rs2,233,341,046) were treated as expenditures; and (4) opening balance held by the executing agencies of \$559,629 (Rs67,109,824) were reflected as releases to executing agencies.<sup>3</sup> The Auditor General did not identify any questioned costs in the fund accountability statement and in the report on the fund accountability statement.

The Auditor General also did not identify any material weaknesses in internal control, or material instances of noncompliance. However, in the management letter, the Auditor General identified 43 issues. We noted that 22 of the 43 issues involved monetary effects totaling \$15,481,736 (\$13,622,979 ineligible; \$1,858,757 unsupported) that should have been identified as questioned costs in the FAS. Accordingly, we are making a recommendation to the mission to determine the allowability and recover, as appropriate, these questioned costs.<sup>4</sup> The details of the findings and the associated questioned costs are summarized in Table I below.

**Table I. Summary of Questioned Costs Related to Expenditures in the FAS**

Finding Description	Ineligible Costs		Unsupported Costs		Reference Finding & Page Nos.
	Rs <sup>2</sup>	\$	Rs <sup>2</sup>	\$	
1 Expenditure incurred without the required approved PC-I Form <sup>a</sup>	61,398,601	512,003	-	-	4.1.4 33
2 Provincial sales tax on services were not deducted	117,753,823	981,949	-	-	4.1.8 37

<sup>2</sup> Rs is the Pakistani Rupees symbol. For this memo, all Pakistani Rupee figures have been converted at \$1 = Rs119.9185 (OIG-computed average exchange rate from the total disbursements).

<sup>3</sup> Items (1), (2), and (3) were reported by the Auditor General as Findings 4.4.5, 4.1.14, and 4.1.6, respectively, in the management letter.

<sup>4</sup> Some questioned costs are covered by fixed amount reimbursement agreements (FARA) wherein USAID’s reimbursement to PaRRSA is fixed in advance based upon cost estimates reviewed and approved by USAID, and made upon the physical completion of an activity, a subactivity, or a quantifiable element within an activity. However, there was no information on whether the questioned costs covered by FARA had been billed to and paid by USAID. Therefore, we are making a recommendation to determine the allowability of all questioned costs.

	Finding Description	Ineligible Costs		Unsupported Costs		Reference Finding & Page Nos.
		Rs <sup>2</sup>	\$	Rs <sup>2</sup>	\$	
3	Procurement of equipment on a basis other than Cost, Insurance and Freight and payment of General Sales Tax (GST)	37,662,353	314,066	-	-	4.1.9 39
4	Funds for installation of machines distributed not in accordance with budget specifications	9,973,000	83,165	-	-	4.1.12 42
5	GST paid on procured equipment	3,237,693	26,999	-	-	4.1.16 45
6	Excess payment on purchase of equipment	58,011	484	-	-	4.1.17 46
7	Procurement of equipment that is not in accordance with bidding rules	1,064,886,020	8,880,081	-	-	4.2.1 47
8	Payments made for non-schedule items that were not supported by rate analysis	-	-	113,432,330	945,912	4.2.3 49
9	Procurement of excess quantities and in violation of bidding procedures	108,846,717	907,672	-	-	4.2.5 51
10	Contracts for supply of equipment awarded to non-participating bidders	88,814,510	740,624	-	-	4.2.7 54
11	Bidding process not followed in the procurement of medical gasses and solid waste management system	-	-	71,009,000	592,144	4.2.10 58
12	Loss to government for adopting national bidding instead of international bidding	54,688,363	456,046	-	-	4.2.11 59
13	Purchase of goods in excess of quantities provided in the bill of quantity	42,591,000	355,166	-	-	4.2.12 62
14	Loss to government because the contract was not awarded to the lowest responsive bidder	26,676,689	222,457	-	-	4.2.13 63
15	Unrecovered payment for returned equipment	910,440	7,592	-	-	4.2.16 67
16	Expense incurred in procuring stone instead of utilizing rocks excavated from the site	4,033,410	33,635	-	-	4.3.1 69
17	Purchases in excess of bill of quantity requirements	3,718,800	31,011	-	-	4.3.2 71
18	Purchases in excess of bill of quantity requirements	386,793	3,225	-	-	4.3.3 71
19	Expenditures for equipment installed without the approval of the Environment Documentation Form and Environment Mitigation and Monitoring Plan	-	-	28,485,009	237,536	4.4.1 72

Finding Description	Ineligible Costs		Unsupported Costs		Reference Finding & Page Nos.	
	Rs <sup>2</sup>	\$	Rs <sup>2</sup>	\$		
20 Payments made for projects without the required USAID verifications			9,973,000	83,165	4.4.3	75
21 Full payment to contractors prior to installation, commissioning, and testing of equipment	6,511,087	54,296		-	4.4.4	76
22 Unrefunded advance payment for a project that was neither commenced nor completed	1,500,000	12,508		-	4.4.6	78
<b>TOTAL QUESTIONED COSTS</b>	<b>1,633,647,310</b>	<b>13,622,979</b>	<b>222,899,339</b>	<b>1,858,757</b>		

<sup>a</sup> The PC-I Form certifies that the project proposal was prepared by a grantee based on the instructions provided by the Planning Commission.

In addition, in the management letter, the Auditor General identified seven findings that although they did not pertain to expenditures in the FAS, they related to liquidated damages and penalty on project delays that should have been imposed to contractors, diversion of funds without USAID approval, and interest income earned but not refunded to the grantee or USAID. We are making a recommendation to the mission to determine the allowability and recovery, as appropriate, of the amounts associated with these findings totaling \$2,962,541 (Rs355,263,526). The details of these findings and the associated amounts are summarized in Table 2 below.

**Table 2. Summary of Questioned Costs not Related to Income or Expenditures Included in the FAS**

Finding Description	Ineligible Costs		Unsupported Costs		Reference Finding & Page Nos.	
	Rs <sup>2</sup>	USD	Rs <sup>2</sup>	USD		
1 Liquidated damages not imposed to contractors on project delays (net of amount recovered)	126,940,084	1,058,553		-	4.2.2	48
2 Liquidated damages not imposed to contractors on project delays	111,957,438	933,613		-	4.2.4	50
3 Penalty not imposed to contractors on delayed completion of work	84,143,000	701,668		-	4.2.8	55
4 Liquidated damages not imposed to contractors on delayed completion of work	3,700,494	30,858		-	4.2.15	66
5 Liquidated damages not imposed to contractors on delayed completion of work	579,400	4,832		-	4.2.17	68
6 Funds on account of exchange rate appreciation diverted from reconstruction to operational activities without USAID's approval	24,304,416	202,674		-	4.4.2	73

Finding Description	Ineligible Costs		Unsupported Costs		Reference Finding & Page Nos.
	Rs <sup>2</sup>	USD	Rs <sup>2</sup>	USD	
7 Interest income earned from a bank deposit without USAID approval and not refunded to the grantee or USAID	3,638,694	30,343	-	-	4.4.5 77
<b>TOTAL</b>	<b>355,263,526</b>	<b>2,962,541</b>	<b>-</b>	<b>-</b>	
<b>TOTAL QUESTIONED COSTS</b>	<b>Rs355,263,526 or \$2,962,541</b>				

Further, in Finding 4.1.6 of the management letter, the Auditor General noted that the funds released by the grantee to implementing agencies totaling \$18,623,822 (Rs2,233,341,046) were treated as expenditures. However, to reflect the actual expenditure and closing balance in the FAS, the unspent fund balances with implementing agencies should have either been disclosed in the FAS, or not reported as expenditures in the FAS. We are making a procedural recommendation for the mission to determine the (1) unspent fund balances with implementing agencies, and (2) allowability and recovery, if appropriate, of these unspent funds.

Regarding the review of cost-sharing contributions, the Auditor General reported that the grantee contributed cash of \$4,581,286 (Rs549,381,000) and in-kind contributions for the period audited. The value of the in-kind contributions was not disclosed in the report. The Auditor General did not report any questioned cost-sharing contributions. Finally, several prior audit findings were reported again in the current audit management letter.

During our desk review, we noted issues that the Auditor General will need to address in future audit reports. We presented these issues in a memorandum to the controller dated February 1, 2021.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID/Pakistan:

**Recommendation 1.** Determine the allowability of \$15,481,736 (\$13,622,979 ineligible and \$1,858,757 unsupported) in questioned costs as detailed in Table 1 on pages 2-4 of this memorandum and recover any amount that is unallowable.

**Recommendation 2.** Determine the allowability of \$2,962,541 (ineligible) in questioned amounts as detailed in Table 2 on pages 4-5 of this memorandum, and recover, as appropriate.

**Recommendation 3.** Determine the (1) unspent fund balances with implementing agencies as discussed in Finding 4.1.6 on page 35 of the audit report, and (2) allowability and recovery, if appropriate, of these unspent funds.

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

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