



## MEMORANDUM

**DATE:** July 30, 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 the Khyber Pakhtunkhwa Reconstruction Program in Pakistan Managed by the Provincial Reconstruction Rehabilitation and Settlement Authority, Provincial Disaster Management Authority, Grant No. 391-011, July 1, 2019, to June 30, 2020 (5-391-21-033-R)

This memorandum transmits the final audit report on the Khyber Pakhtunkhwa Reconstruction Program in Pakistan managed by the Provincial Reconstruction Rehabilitation and Settlement Authority, Provincial Disaster Management Authority, 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.<sup>1</sup> 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 (FAS); 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 the grantee's FAS 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

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<sup>1</sup> The international standards of supreme audit institutions were issued by the International Organization of Supreme Audit Institutions.

<sup>2</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.

audit recommendations. To answer the audit objectives, the Auditor General reviewed program documents and procedures; examined the FAS 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 report recommendations. The audit covered project revenues and costs of \$8,151,000 and \$8,894,000 respectively, from July 1, 2019, to June 30, 2020.

The Auditor General concluded that the FAS presented fairly, in all material respects, project revenues and costs incurred under the grant for the period audited. The Auditor General did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance.

In the management letter, the Auditor General identified 34 audit findings. Six findings involved monetary effects totaling \$1,058,723 that should have been identified as ineligible questioned costs in the FAS.<sup>3</sup> Accordingly, we are making a recommendation for the mission to determine the allowability of and recover, as appropriate, these questioned costs. The details of the findings and the associated questioned costs are summarized in Table I.

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

Finding Description	Ineligible Costs		Unsupported Costs		Reference Finding & Page Nos.
	Rs <sup>4</sup>	\$	Rs <sup>2</sup>	\$	
1 Expense incurred was above the approved costs by 19.20 percent	62,296,989	436,764	-	-	4.2.3 43
2 Award of a contract to a nonqualified bidder	50,509,012	354,118	-	-	4.2.4 44
3 Award of a contract to an unauthorized dealer of required imported items	21,820,961	152,987	-	-	4.2.6 46
4 Award of contracts to second-lowest bidders	9,404,000	65,931	-	-	4.2.8 48
5 Equipment delivered was not in accordance with required specifications	4,151,886	29,109	-	-	4.2.12 52
6 Equipment were paid at amounts higher than the bid price	2,826,074	19,814	-	-	4.2.14 54
<b>TOTAL QUESTIONED COSTS</b>	<b>151,008,922</b>	<b>1,058,723</b>			

<sup>3</sup> We are only questioning the costs associated to cost reimbursement accounts. We did not question the costs associated with findings that are covered by fixed amount reimbursement agreements (FARA) because payments of FARA components are not based on costs incurred but on a fixed amount upon the completion of agreed milestone.

<sup>4</sup> Rs is the Pakistani Rupees symbol. For this document, all Pakistani Rupee figures have been converted at \$1=Rs142.6331 (OIG-computed average exchange rate from the total disbursements presented in the FAS).

In addition, in the management letter, the Auditor General identified one finding that although it did not pertain to an expenditure in the FAS, it related to penalty on project delays that should have been imposed to the contractors per contract stipulation. We are making a recommendation to the mission to determine the allowability and recovery, as appropriate, of the associated amount of \$139,491 (Rs19,895,991).

Regarding the review of cost-sharing contributions, the Auditor General reported that the grantee contributed \$9,559,393 for the period audited or a cumulative total contribution of \$44,814,838. 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.

There are several issues that the mission and the Auditor General will need to address in future audit reports. We also have a suggestion to the mission. We provided these issues and suggestion in a memorandum to the mission controller dated July 30, 2021.

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

**Recommendation 1.** Determine the allowability of \$1,058,723 in questioned costs (ineligible), as detailed in Table 1 on page 2 of this memorandum and recover any amount that is unallowable.

**Recommendation 2.** Determine the allowability of \$139,491 in questioned costs (ineligible) discussed on page 3 of this memorandum and further detailed in Finding 4.3.3 on page 59 of the report and recover, as appropriate.

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