



MEMORANDUM

DATE: September 25, 2018

TO: USAID/Peru Mission Director, Lawrence Rubey

FROM: Regional Inspector General/San Salvador, Assistant Director, Brad Moore /s/

SUBJECT: Audit of the Regional Government of San Martin's Management of Grant Agreements 527-0423 and 527-0426, January 1 to December 31, 2016 (I-527-18-033-R)

This memorandum transmits the final audit report on the Regional Government of San Martin's (GORESAM) Management of Grant Agreements 527-0423 and 527-0426, prepared by the Controller General of the Republic of Peru (CGR). CGR signed a memorandum of understanding with the U.S. Agency for International Development (USAID) with the purpose of conducting audits of programs funded with USAID resources in accordance with generally accepted government auditing standards and the Guidelines for Financial Audits Contracted by Foreign Recipients.¹

CGR states that it performed its audit in accordance with generally accepted government auditing standards, except that CGR did not have an external peer review. CGR is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on GORESAM's fund accountability statement; 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 the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate GORESAM's internal controls; (3) determine whether GORESAM complied with award terms

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. This contracted audit, however, was initiated before that date and follows the Guidelines.

² We reviewed CGR'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.

and applicable laws and regulations; (4) determine if cost sharing contributions were made and accounted for by GORESAM in accordance with the agreement terms; and (5) determine if GORESAM has taken adequate corrective actions on prior audit report recommendations. To answer the audit objectives, CGR reported that they assessed and tested the internal controls related to the project, compliance with applicable laws, regulations, the agreement's provisions, and reviewed project expenditures. The audit covered \$1,398,737 in USAID funds for the period ended December 31, 2016.

CGR concluded the fund accountability statement (FAS) did not presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited. CGR stated that the fund accountability statement was not presented fairly because the outstanding balance was overstated by \$78,330. We will include a recommendation to the mission regarding this issue. Additionally, CGR included \$28,848 in total questioned costs (\$7,698 ineligible and \$21,150 unsupported) in the fund accountability statement.

CGR concluded that the results of the cost sharing schedule's review disclosed unsupported material questioned costs totaling \$49,846. Additionally, CGR reported that GORESAM had taken corrective actions on two prior audit recommendations but had not fully implemented 9 prior audit recommendations.

Furthermore, CGR identified one material internal control weaknesses related to the overstated outstanding balance discussed above and four instances of noncompliance with applicable laws, regulations, and agreement terms related to the questioned costs included in the FAS and cost sharing schedule discussed above.

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

Recommendation 1. Determine the allowability of \$78,330 in ineligible questioned costs on page 20 of the audit report and recover any amount that is unallowable.

Recommendation 2. Determine the allowability of \$28,848 in questioned costs (\$7,698 ineligible, \$21,150 unsupported) on page 21 of the audit report and recover any amount that is unallowable.

Recommendation 3. Determine the allowability of \$49,846 in unsupported questioned costs reported in the cost sharing schedule on pages 48 and 50 of the audit report and recover any amount that is unallowable.

Recommendation 4. Verify that GORESAM corrects the one material weaknesses detailed on page 28 of the audit report.

Recommendation 5. Verify that GORESAM corrects the four instances of material noncompliance detailed on pages 30 and 31 of the audit report.

Recommendation 6. Verify that GORESAM takes corrective action on the 9 prior year recommendations reported on page 18 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a 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").