



## MEMORANDUM

**DATE:** May 15, 2019

**TO:** USAID/Zambia, Mission Director, Patrick Diskin

**FROM:** USAID OIG Africa Regional Office, Assistant Director, Louis Duncan, Jr. /s/

**SUBJECT:** Financial Audit of USAID Resources Managed by Biocarbon Partners Limited in Zambia Under Cooperative Agreement AID-611-A-14-00001, January 1, 2017, to December 31, 2017 (Report No. 4-611-19-070-R)

This memorandum transmits the final audit report on USAID resources managed by Biocarbon Partners (BCP) Limited in Zambia. BCP contracted with the independent certified public accounting firm Deloitte & Touché, Lusaka, Zambia to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards (GAGAS).

The audit firm states that it performed its audit in accordance with GAGAS, issued by the U.S. Comptroller General, except that the audit firm did not have continuing professional education and external quality control review programs that fully satisfy the requirements set forth in GAGAS. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on BCP's fund accountability statement; the effectiveness of its internal control or its compliance with the award, laws, and regulations.<sup>1</sup>

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 BCP's internal controls; (3) determine whether BCP complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; and (5) review the implementation status of the prior period recommendations.

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<sup>1</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.

To answer the audit objectives, Deloitte & Touché (1) audited the fund accountability statement for the award including the budgeted amounts by category and major items and the revenues received from USAID for the period covered by the audit and the costs reported by BCP as incurred from January 1, 2017, to December 31, 2017; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to BCP's ability to report financial data consistent with the assertions embodied in each account of the fund accountability statement; (3) identified the award terms and pertinent laws and regulations and determined which of those, if not observed, could have a direct and material effect on the fund accountability statement; (4) determined that the review of the indirect cost rate was not applicable; and (5) reviewed the implementation status of the prior period recommendations. BCP reported expenditures of \$3,379,997 in USAID funds during the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited. Notwithstanding, the audit firm identified \$14,182 in total questioned costs (\$4,726 ineligible and \$9,456 unsupported). Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that USAID/Zambia determine the allowability of the \$14,182 in questioned costs and recover any amount determined to be unallowable. The audit firm also reported 12 significant deficiencies in internal control and 12 instances of material noncompliance. Although we are not making a recommendation for the significant deficiencies noted in the report, we suggest that USAID/Zambia determine if the recipient addressed the issues noted. In addition, four instances of material noncompliance noted in the report are repeat findings from a prior period. Consequently, OIG will not make a recommendation to address the repeat instances. As a result, we will make a recommendation to address eight instances of material noncompliance.

During our desk review, we noted several minor issues which the audit firm will need to address in future audit reports. We presented these issues in a memo to the controller, dated May 15, 2019.

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

**Recommendation 1.** Verify that Biocarbon Partners Limited corrects the eight instances of material noncompliance detailed on pages 37 and 38, and 43 to 50 of the audit report.

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").