



## MEMORANDUM

**DATE:** March 15, 2018

**TO:** USAID/India Mission Director, Mark A. White

**FROM:** Regional Inspector General/Manila, Matthew Rathgeber /s/

**SUBJECT:** Financial Audit of the Agriculture Innovation Bridge: Feed the Future India Kenya Dairy Development Project in Kenya Managed by IL&FS Cluster Development Initiative Limited, Cooperative Agreement AID-386-A-14-00008, April 1, 2015, to March 31, 2016 (5-386-18-013-R)

This memorandum transmits the final audit report on the Agriculture Innovation Bridge: Feed the Future India Kenya Dairy Development Project in Kenya. IL&FS Cluster Development Initiative Limited (IL&FS Cluster) contracted the independent certified public accounting firm of S. N. Dhawan & Co LLP to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

In carrying out its oversight responsibilities, OIG reviewed the audit firm's report and related audit documentation and inquired of its representatives. Our review, which is different from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the recipient's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations. S. N. Dhawan & Co LLP is responsible for the enclosed report and the conclusions expressed in it. We found no instances in which the audit firm did not comply, in all material respects, with applicable standards except that the audit firm did not have a continuing professional education program and external quality control reviews.

The audit objectives were to (1) express an opinion on whether IL&FS Cluster's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate IL&FS Cluster's internal controls; and (3) determine whether IL&FS Cluster complied with contract terms and applicable laws and regulations (including cost-sharing contributions). To answer the audit objectives, S. N. Dhawan & Co LLP examined the recipient's revenues and expenditures, evaluated the internal controls related to the project,

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 On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

reviewed the project's compliance to the agreement and applicable laws. The audit covered project revenues and costs of \$1,234,110 and \$805,890<sup>2</sup>, respectively, for the period from April 1, 2015, to March 31, 2016.

S. N. Dhawan & Co LLP concluded that, except for the effects of the questioned costs totaling \$32,787 (unsupported), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. The questioned costs pertained to support staff costs calculated and charged to the project without adequate supporting documents (Finding 1) and unspent balance with subrecipient Heifer International that was reported as expenditure in the fund accountability statement (Finding 2).

Regarding cost-sharing contributions required under agreement, the audit firm reported total contributions of \$70,203 for the period audited. The audit firm identified unsupported questioned costs of \$40,394 on these contributions pertaining to support staff costs calculated and charged to the project without adequate supporting documents (Finding 5).

The audit firm did not identify any material weaknesses but identified three significant deficiencies in internal control, one of which was associated with the unsupported questioned cost in the fund accountability statement (Finding 2). The other two significant deficiencies pertained to lack of reconciliation of the expenditures reported to USAID with the expenditures recorded in the IL&FS Cluster books (Finding 3) and lack of reconciliation of the outstanding fund balance in the fund accountability statement with the balance in bank accounts (Finding 4). The audit firm also identified four material instances of noncompliance, two of which were associated with the unsupported questioned costs in the fund accountability statement (Finding 1) and in the cost-sharing contributions (Finding 5). The other two material instances of noncompliance pertained to IL&FS Cluster's not retaining the legal title of the fixed assets acquired by the project (Finding 6) and not placing USAID funds in an interest-bearing account (Finding 7).

Finally, the audit firm reported that IL&FS Cluster did not have a USAID-authorized provisional indirect cost rate and this is the first audit of the project.

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

**Recommendation 1.** Determine the allowability of \$32,787 in questioned costs (unsupported) on page 17 and further detailed on pages 30–32 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Determine the allowability of \$40,394 in questioned cost-sharing contributions (unsupported) on page 28 and further detailed on pages 35–36 of the audit report and recover any amount that is unallowable.

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<sup>2</sup> Represents total project costs of \$1,028,724 less amount not covered by the audit totaling \$222,834 which pertained to payments to a U.S. subcontractor that were subjected to audit per 2 CFR Part 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) Subpart F, which superseded U.S. Office of Management and Budget Circular A-133.

**Recommendation 3.** Verify that IL&FS Cluster Development Initiative Limited corrects the three significant deficiencies in internal control (Findings 2, 3, and 4 on pages 32–34 of the audit report).

**Recommendation 4.** Verify that IL&FS Cluster Development Initiative Limited corrects the four material instances of noncompliance (Findings 1, 5, 6, and 7 on pages 30–31 and 35–39 of the audit report).

We ask that you provide written notification of actions planned or taken to reach management decisions. We appreciate the assistance extended to audit staff during the engagement.

The 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”).