MEMORANDUM

DATE: December 4, 2018

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

FROM: Office of Inspector General/Asia Regional Office Audit Director
Matthew Rathgeber /s/

SUBJECT: Financial Audit of Karnataka Health Promotion Trust Under Multiple USAID Agreements in India, April 1, 2016, to March 31, 2017 (5-386-19-006-R)

This memorandum transmits the final audit report on the multiple USAID awards managed by Karnataka Health Promotion Trust (KHPT). KHPT contracted the independent certified public accounting firm, Bansal & Co. LLP, to conduct the audit. The contract required the audit firm to perform the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.[1]

Bansal & Co. LLP stated that it performed its audit in accordance with U.S. GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Bansal & Co. LLP is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the recipient's fund accountability statements; 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 recipient's fund accountability statements for the period audited were presented fairly, in all material respects; (2) evaluate the recipient's internal controls; (3) determine whether the recipient complied with agreement terms and applicable laws and regulations (including cost-sharing contributions); and

[1] On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. The mission, however, asked the auditors in its contract to follow the Guidelines, and this contracted audit followed those Guidelines.
[2] 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.

(4) determine if the recipient had taken corrective actions on prior audit report recommendations. To answer the audit objectives, Bansal & Co. LLP reviewed relevant agreements, policies and procedures; examined documentation supporting financial transactions; evaluated the internal control environment and adequacy of the accounting systems and control procedures, with emphasis on policies pertaining to recording, processing, summarizing and reporting financial data; and tested compliance with the agreement requirements and applicable laws and regulations. The audit covered program revenues and costs of $1,702,630 and $1,977,173,[3] respectively, from April 1, 2016, to March 31, 2017, pertaining to two programs managed by KHPT.[4]

Bansal & Co. LLP concluded that the fund accountability statements (FASs) presented fairly, in all material respects, program revenues, and costs incurred and reimbursed under the two agreements for the period audited. The audit firm did not identify any significant deficiencies or material weaknesses in internal control, or material instances of noncompliance.

During our desk review, we noted several expenditures that were misclassified based on their descriptions in the notes to the FASs. Examples of account misclassifications under the OVC Program are: (1) expenditures described as "Consultancy Charges" amounting to $116,173 and $239,982 which were charged to "Personnel" and "Contractual Services" accounts (Notes 6 and 11 to the FASs), respectively, instead of charging to "Others/Consultants" account, and (2) expenditures described as "Travel Others-Local" amounting to $27,620 charged to "Contractual Services" account (Note 11 to the FASs) instead of charging to "Travel" account. Examples of account misclassifications under the THALI Program are (1) expenditures described as "Consultancy Charges" amounting to $129,679 and $5,027 which were charged to "Personnel-Salaries" and "Other Direct Costs" accounts (Notes 14 and 21 to the FASs), respectively, instead of charging to "Consultants" account, and (2) expenditures described as "Salaries" amounting to $42,778 charged to "Other Direct Costs" account (Note 21 to the FASs) instead of charging to either "Personnel-Salaries" or "Consultants" account.

On the other hand, we noted expenditures under the OVC program that were misclassified based on the descriptions of the expense accounts they were charged to. However, appropriate classification could not be readily identified among the approved cost categories.[5] Examples are (1) cash grants ($264,041) accounted for as "Contractual Services" (Note 11 to the FASs), (2) rental expenses – office ($26,392) charged to "Supplies" (Note 10 to the FASs), and (3) meeting expenses ($12,426) charged to "Contractual Services" account (Note 11 to the FASs).

[3] The total expenditures of $1,977,173 included costs of $545,745 incurred by various sub-partners that were not subject to audit per USAID guidelines. Only costs totaling $1,431,428 and directly incurred by KHPT were subject to this audit.
[4] The two KHPT programs subjected to annual financial audits covering the period from April 1, 2016, to March 31, 2017, were: (a) HIV/AIDS Orphan and Vulnerable Children Social Protection (OVC) Program under Cooperative Agreement AID-386-A-14-00007 and (b) Tuberculosis Health Action Learning Initiative (THALI), Pool 2 Program under Cooperative Agreement AID-386-A-16-00005.
[5] Approved cost categories under the OVC program are Personnel, Fringe Benefits, Travel, Equipment, Supplies, Contractual Services and Others/Consultants.

Further, we noted that had the expenditures been properly classified, total expenditure amounts as of March 31, 2017 would have exceeded the life-of-program budgeted amounts by category. The desk review established an excess over life-of-program budgeted amount for the "Others/Consultants" account under the OVC program. To illustrate, had the above misclassified OVC program expenditures totaling $356,155 ($116,173 and $239,982) been classified under the "Others/Consultants" account, the expenditures incurred in excess of the budgeted amount of $158,856 for "Others/Consultants" account, would have been $200,008, (consisting of net expenditures for fiscal years ending March 31, 2016 and 2017, amounting to $2,709,[6] plus reclassification of $356,155, less budgeted amount of $158,856). Per inquiry with the India mission, we were informed that budget for this category had been increased to $238,366, but even so, incurred costs would still exceed the adjusted budget allocation by $120,498. Thus, we are making a recommendation for the mission to determine (1) whether all expenditures were properly classified and reclassify accordingly; (2) the amount of expenditures per category that exceeded the related budgeted amounts after proper classification; and (3) the allowability and recovery, if appropriate, of the excess of expenditures over budget. Also, we considered the recipient's misclassification of accounts and excess of expenditures incurred over the budgeted amount to be a significant deficiency in internal control; hence we are also making a recommendation for corrective action.

Regarding the review of cost-sharing contributions, Bansal & Co. LLP reported that KHPT did not have cost-sharing contributions during the audited period. The agreements required cost-sharing contributions of $675,449 and $757,582 for the OVC and THALI programs, respectively, over the life of the programs. The prior year audit reported cost-sharing contributions of $242,492 for the OVC Program. Of the $242,492 contributions, $217,838 was questioned by the audit firm and subsequently reversed by the recipient, resulting in net cost-sharing contributions of $24,654 only, with the program ending period of August 19, 2017. This leaves a significant amount of unsettled cost sharing contributions ($650,795), with less than 5 months remaining in the program's performance period. Per inquiry with the USAID/India, the program was extended to August 18, 2020, but was eventually terminated on June 28, 2018, due to the recipient's poor project performance. It was also indicated that the audit for fiscal year ending March 31, 2018 will cover all costs incurred until the actual closing date of the program.

The audit firm reported in its review of prior year audit recommendations that one finding pertaining to delay in submission of financial reports to USAID had not been fully resolved during the audit period. However, it did not consider the finding as a material instance of noncompliance in the current period because reporting timelines during such period were met, except on few occasions where submissions were little beyond the timelines due to holidays.

During our desk review, we noted several issues which the audit firm needs to address in future audit reports. We presented these issues in a memorandum to the controller dated December 4, 2018.

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[6] Net expenditures as of March 31, 2017 amounting to $2,709 consisted of expenditures charged for fiscal year 2016 ($ 19,966) and negative $17,257 for fiscal year 2017 representing adjusted expenditures following reversal of questioned costs.

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

Recommendation 1. Determine (1) whether all expenditures were properly classified; (2) the amount of expenditures that exceeded the budgeted amounts by category had the expenditures been properly classified; and (3) the allowability and recovery, if appropriate, of the excess of expenditures over budget.

Recommendation 2. Verify that Karnataka Health Promotion Trust corrects the significant deficiency in internal control discussed on page 2 of this memorandum related to misclassification of accounts.

We ask that you provide written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended 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").

Attachment: a/s