



## MEMORANDUM

**DATE:** February 22, 2019

**TO:** USAID/Bangladesh Mission Director, Derrick Brown

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

**SUBJECT:** Financial Audit of the Marketing Innovations for Sustainable Health Development Program in Bangladesh Managed by the Social Marketing Company, Cooperative Agreement AID-388-A-16-00004, October 17, 2016, to September 30, 2017 (5-388-19-017-R)

This memorandum transmits the final audit report on the Marketing Innovations for Sustainable Health Development Program in Bangladesh. The Social Marketing Company (SMC) contracted the independent certified public accounting firm of ACNABIN 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.<sup>1</sup>

ACNABIN 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. ACNABIN 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 statement and statement of program income earned and used; the effectiveness of its internal control; or its compliance with the award, laws, and regulations including cost-sharing contributions.<sup>2</sup>

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 On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

<sup>2</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.

The audit objectives were to (1) express an opinion on whether SMC's fund accountability statement for the period audited was presented fairly, in all material respects; (2) express an opinion on whether SMC's statement of program income earned and used for the period audited was presented fairly, in all material respects; (3) evaluate SMC's internal controls; (4) determine whether SMC complied with award terms and applicable laws and regulations (including cost-sharing contributions). To answer the audit objectives, ACNABIN examined the program's fund accountability statement and supporting documentation; reviewed the statement of program income earned and used and cost-sharing schedule; evaluated the control environment, accounting systems, and control procedures; and determined compliance with agreement requirements and applicable laws and regulations. The audit covered the following revenues and costs, for the period from October 17, 2016, to September 30, 2017: program revenues (from USAID funds) and costs of \$3,328,683 and 3,398,174, respectively; and program income earned<sup>3</sup> and used amounting to \$758,733 and 364,816, respectively.

ACNABIN concluded that the fund accountability statement and statement of program income earned and used presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. However, the audit firm identified questioned cost in the fund accountability statement of \$200 (ineligible) that it did not disclose in the report on the fund accountability statement. The questioned cost pertained to the unallowable value-added tax that SMC charged to the program's cash fund. The amount of questioned cost is considered not significant and the audit firm reported that this was subsequently recovered; hence, we are not making any recommendation or suggestion on this questioned cost.

The audit firm did not identify any significant deficiencies or material weaknesses in internal control, or material instances of noncompliance. However, in its management letter, the audit firm identified a total of five other internal control matters and immaterial instances of noncompliance for SMC and its subrecipients. Based on the audit firm's description of the issues, we consider one issue, associated with the questioned cost identified in the fund accountability statement to be a material instance of noncompliance; thus, we are making a recommendation for corrective action.

Regarding the review of the cost-sharing contributions, which is required under the program, the audit firm reported that SMC contributed an actual amount of \$38,290,744 during the period audited. The audit firm did not report any questioned cost-sharing contributions. In response to our inquiry, the mission confirmed that SMC has no USAID-authorized provisional indirect cost rate in the agreement. This is the first audit of the program, covering the period from the start of the cooperative agreement to September 30, 2017.

During our desk review, we noted some issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated February 22, 2019.

To address the issue identified in the report, we recommend that USAID/Bangladesh:

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<sup>3</sup> Program income earned is the revenue from the sale of USAID-donated commodities.

**Recommendation 1.** Verify that Social Marketing Company corrects the one material instance of noncompliance discussed on page 2 of this memorandum and detailed in finding no. 5 of the management letter on page 37 of the report.

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.

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