



MEMORANDUM

DATE: August 2, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

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

SUBJECT: Financial Audit of the Pakistan Outreach and Communication Activity Managed by M&C Saatchi World Services LLP, Contract AID-391-15-C-00014, September 8, 2015, to December 31, 2016 (5-391-18-026-R)

This memorandum transmits the final audit report on the Pakistan Outreach and Communication Activity. M&C Saatchi World Services (M&C Saatchi) contracted the independent certified public accounting firm of UHY Hassan Naeem & Co. to conduct the audit. The contract required UHY Hassan Naeem & Co. to perform the audit in accordance with generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

UHY Hassan Naeem & Co. stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. UHY Hassan Naeem & Co. 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; 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 M&C Saatchi's incurred costs for the period audited are allowable, reasonable, and allocable to the contract; (2) evaluate M&C Saatchi's internal controls; (3) determine whether M&C Saatchi complied with contract terms and applicable laws and regulations; and (4) determine whether M&C Saatchi has taken corrective actions on prior audit report recommendations. To answer the audit objectives,

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 UHY Hassan Naeem & Co'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.

UHY Hassan Naeem & Co. reviewed program documents and procedures; examined the cost representation statement; reviewed and documented the internal control systems; and tested compliance with contract terms and applicable laws and regulations. The audit covered program costs of \$4,313,291, from September 8, 2015, to December 31, 2016.

UHY Hassan Naeem & Co. concluded that, except for the effects of the questioned costs totaling \$22,061 (ineligible), the cost representation statement presented fairly, in all material respects, program costs incurred under the contract for the period audited. The questioned costs pertained to sales tax paid out of USAID project funds for which prescribed procedure for obtaining tax exemption was not followed, and expenses claimed from USAID before actual payment despite the contract being under the reimbursement payment method (Findings 1 & 2).

UHY Hassan Naeem & Co. did not identify any significant deficiencies or material weaknesses in internal control. However, it identified two material instances of noncompliance related to the questioned costs identified in the cost representation statement.

In addition, in its management letter (Part 2, pages 29–35), UHY Hassan Naeem & Co. identified eight other internal control matters. Based on our review of UHY Hassan Naeem & Co.'s descriptions of the issues, we consider six to be significant deficiencies in internal control; hence, we are making a recommendation for corrective action. The significant deficiencies were:

1. M&C Saatchi did not maintain written policies and standard operating procedures related to the conduct of business in Pakistan (Finding 1).
2. Timesheets were manually processed which is prone to error and manipulation (Finding 2).
3. Accounting system required manual extraction and compilation of USAID related expenses which may be cumbersome (Finding 5).
4. Controls were lacking in the records and invoice compilation process within the finance function (Finding 6).
5. M&C Saatchi erroneously charged USAID for salaries of certain staff in the wrong period and billed USAID using budgeted exchange rate instead of actual rate (Finding 7).
6. Expenses in certain sub-budget heads exceeded the budgeted amounts (Finding 8).

For items 5 and 6 above, we are not making a questioned costs recommendation because M&C Saatchi subsequently adjusted the invoices submitted to USAID to correct the error in salaries and indicated that all expenses in excess of budget were approved by the contracting officer representative.

Finally, UHY Hassan Naeem & Co. did not prepare an indirect cost calculation statement because USAID reimbursed allowable indirect costs as per pre-defined rate of 20 percent of the total cost excluding media buying, and 7 percent of media buying. This is the first audit of the contract; therefore, there are no prior year recommendations.

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

Recommendation 1. Determine the allowability of \$22,061 in questioned costs (ineligible) detailed on page 7 of the report, and recover any amount that is unallowable.

Recommendation 2. Verify that M&C Saatchi World Services LLP corrects the six issues which we consider as significant deficiencies in internal control detailed on pages 31 to 35 of the of the management letter.

Recommendation 3. Verify that M&C Saatchi World Services LLP corrects the two material instances of noncompliance identified in the report on compliance on page 20 and detailed on page 21 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 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”).

Attachment: a/s