



MEMORANDUM

DATE: February 19, 2019

TO: USAID/Pakistan Mission Director, Jerry Bisson

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

SUBJECT: Financial Audit of National Rural Support Program Under Multiple USAID Awards in Pakistan, July 1, 2016, to November 15, 2017 (5-391-19-015-R)

This memorandum transmits the final audit report of National Rural Support Program (NRSP) under multiple USAID awards. NRSP contracted the independent certified public accounting firm of Naveed Zafar Ashfaq Jaffery & Co. 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

Naveed Zafar Ashfaq Jaffery & Co. 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. The audit firm 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 awards, laws, and regulations.²

The audit objectives were to (1) express an opinion on whether NRSP's fund accountability statement for the periods audited was presented fairly, in all material respects; (2) evaluate NRSP's internal controls; (3) determine whether NRSP complied with award terms and applicable laws and regulations; and (4) determine whether NRSP has taken corrective actions

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

on prior audit report recommendations. To answer the audit objectives, Naveed Zafar Ashfaq Jaffery & Co. examined the fund accountability statement and supporting documents; evaluated the internal control system; tested compliance with award terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered project revenues and costs incurred of \$10,271,031 and \$9,554,283,³ respectively, for the periods audited.

Naveed Zafar Ashfaq Jaffery & Co. concluded that, except for the effects of the questioned costs totaling \$1,743 (ineligible), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the awards for the periods audited. The ineligible questioned costs pertained to certain expenses inappropriately charged to the projects.

The audit firm did not identify any significant deficiencies or material weaknesses in internal control. However, it identified four material instances of noncompliance related to the questioned costs reported in the fund accountability statement. Since all of the projects have ended to date,⁴ and USAID/Pakistan does not have existing or planned awards with NRSP, we are not making any procedural recommendations on these material instances of noncompliance.

In addition, we noted the following issues in the audit report:

1. In the fund accountability statement and Note 26 to the fund accountability statement, the audit firm reconciled the ending fund balance in the fund accountability statement with the cash-on-hand and in bank accounts. In the reconciliation, the audit firm added back to the ending fund balance the project costs of \$4,805 representing costs incurred by a project that was not covered by the current audit (described as “MEDA-0018-391-A-00-09-01131-00 (closeout)” in the report). This same reconciling item (with the same project description) was also included in the prior audit report reconciliation (period ending June 30, 2016), and the project was also not covered by the prior audit. Since the costs of \$4,805 were associated with a project not covered by the current and prior audits, we are making a recommendation for the mission to determine the allowability of the ineligible questioned cost of \$4,805, and recover any amount determined to be unallowable.
2. In its management letter, the audit firm identified five other internal control matters or nonmaterial instances of noncompliance. Based on our review of the audit firm’s descriptions of the issues, one issue should be further verified since the finding involved

³ The audit covered the following awards: annual audit of 391-C-00-10-01189-00 (Small Grants and Ambassador’s Fund Program [SGAFP] for the period from July 1, 2016, to June 30, 2017); and closeout audits of three sub-awards under Rural Support Program Network (RSPN): AID-OFDA-A-14-00002 (Building Resilience Through Community-Based Disaster Risk Management in Sindh Province of Pakistan [TAHAFUZ-II] for the period from July 1, 2016, to June 30, 2017), AID-391-A-14-00002 (Health Communication Project [HCP] in Sindh Province of Pakistan for the period from July 1, 2016, to November 15, 2017), and AID-391-LA-13-00001 (Maternal and Newborn Child Health Project [MNCHP] in Sindh Province of Pakistan for the period from July 1, 2016, to September 15, 2017).

⁴ Including the SGAFP project which had ended on November 30, 2018.

monetary effect on the fund accountability statement (Observation 5). The finding discussed possible recovery of grant funds by NRSP from its grantees since misappropriation is likely to have occurred in the SGAFP project. Thus, we are making a procedural recommendation for the mission to establish the total amount of USAID funds that were misappropriated and reimbursed by USAID; determine allowability, and recover, as appropriate.

Furthermore, the audit firm reported that NRSP (1) does not have a cost-sharing requirement and USAID-authorized provisional indirect cost rate and (2) had taken corrective actions on all prior audit recommendations, except for two which were reported again in the current report.

In accordance with Section IV.B.12 of the audit contract statement of work, the audit firm presented final inventory of assets purchased with USAID funds for the sub-awards that have ended—TAHAFUZ-II, HCP, and MNCHP. The audit firm reported that (1) under the sub-agreements, the title to these assets was given to the prime recipient (RSPN) and (2) the excess fund balance of \$2,598 from the completed sub-awards will be refunded by NRSP to RSPN.

During our desk review, we also noted a few 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 19, 2019.

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

Recommendation 1. Determine the allowability of \$6,548 in questioned costs (ineligible) identified in the fund accountability statement on page 29, and further detailed in Findings 1-4 on pages 50-53 of the audit report (\$1,743), and the project costs not covered by the audit as discussed on page 2 of this memorandum (\$4,805), and recover any amount that is unallowable.

Recommendation 2. For the Small Grants and Ambassador's Fund Program (SGAFP), establish the total amount of USAID funds that were misappropriated and reimbursed by USAID (ineligible) as discussed on page 2 of this memorandum and further detailed in the management letter (Observation 5 on pages 58–59 of the audit report), determine allowability, and recover any amount that is unallowable.

We ask that you provide written notification of actions planned or taken to reach management decisions. 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