



MEMORANDUM

DATE: December 18, 2019

TO: USAID/Pakistan Mission Director, Julie A. Koenen

FROM: USAID OIG Asia Regional Office Audit Director, James C. Charlifue /s/

SUBJECT: Financial Audit of Cultivating New Frontiers in Agriculture's Management of the Agricultural Market Development Project in Pakistan, Contract AID-391-C-15-00003, February 23, 2015, to June 30, 2018 (5-391-20-002-N)

This memorandum transmits the final audit report on the Agricultural Market Development Project managed by Cultivating New Frontiers in Agriculture (CNFA). USAID/Pakistan contracted with the independent certified public accounting firm of A. F. Ferguson and Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards. However, it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. In addition, the audit firm disclosed that (1) all documentation reviewed related to CNFA Home Office and subcontractors Pax Mondial and JE Austin comprised of scanned or photocopies, and the supporting documents for costs incurred by these subcontractors were not in the possession of CNFA, and (2) since Pax Mondial had no presence in Pakistan, its responsibilities under the contract with CNFA were performed by its subcontractor, Business Pakistan Service Provider. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on CNFA's cost representation statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

The audit objectives were to: (1) express an opinion on whether the contractor's cost representation statement for the period audited was presented fairly, in all material respects; (2) evaluate the contractor's internal controls; (3) determine whether the contractor complied with contract terms (including cost-sharing contributions, if applicable), and applicable laws and regulations; (4) determine whether the contractor had taken adequate corrective actions on prior audit recommendations; and (5) address the mission's specific concerns such as to

¹ 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.

determine whether (a) transactions that appear to be related party are reasonable, (b) labor and other direct costs charged to USAID are equal to the value of the services and outputs rendered, and (c) the contractor is following the guidelines for vetting and tax exemptions provided by USAID/Pakistan.² To answer the audit objectives, the audit firm examined the cost representation statement and supporting documentation; evaluated the effectiveness of the design and operation of the internal control system; tested compliance with contract terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The mission confirmed that the contract did not require cost-sharing contributions. The audit covered project costs of \$14,193,969 from February 23, 2015, to June 30, 2018.

The audit firm concluded that except for the effects of the questioned costs totaling \$59,134 (\$58,471 ineligible and \$663 unsupported), the cost representation statement presented fairly in all material respects, project costs incurred under the contract for the period audited. The ineligible questioned costs pertained to (1) refundable security deposits improperly charged to USAID—\$7,252; (2) employee bonus paid in excess of the amount prescribed in the contracts—\$1,645; (3) economy plus class used for local travel—\$479; (4) excess per diem improperly charged to USAID—\$168; (5) quotations not obtained for purchase of laptops—\$10,989; (6) vendors' eligibility to work with USAID not checked—\$23,560; and (7) indirect costs related to questioned costs—\$14,378. The unsupported questioned costs pertained to costs not supported with documentation which showed that equipment training to grantees was provided by the vendor—\$663.

The audit firm identified two material weaknesses in internal controls related to questioned costs and ten material instances of noncompliance, of which six related to questioned costs. Further, in the discussion of findings under internal control and compliance, the audit firm also noted three other internal control matters and two nonmaterial instances of noncompliance. They also reported that several recommendations from USAID/Pakistan's financial review of CNFA (period ending March 31, 2017) were not satisfactorily addressed; thus, they were reported again in the current audit report.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We also made suggestions to the mission. We presented these issues and suggestions in a memorandum to the controller dated December 18, 2019.

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

Recommendation 1. Determine the allowability of \$59,134 in questioned costs (\$58,471 ineligible and \$663 unsupported) identified in the report on cost representation statement on page 8 and detailed on pages 3 and 9 of the audit report and recover any amount that is unallowable.

² The mission's specific concerns (fifth audit objective) were detailed in the audit contract statement of work on pages 11-12. The audit report did not include the results of the mission's specific concerns; however, the mission confirmed that the audit conducted addressed the mission's concerns.

Recommendation 2. Verify that Cultivating New Frontiers in Agriculture corrects the two material weaknesses in internal control identified in the report on internal control and detailed on pages 14 and 18 of the audit report

Recommendation 3. Verify that Cultivating New Frontiers in Agriculture corrects the ten instances of material noncompliance identified in the report on compliance and detailed on pages 21-25, 28-35, and 37-39 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach 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