



## MEMORANDUM

**DATE:** April 29, 2020

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

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

**SUBJECT:** Financial Audit of the Merit and Need-Based Scholarship Program Phase-II in Pakistan Managed by the Higher Education Commission, Grant 391-G-00-04-01023-12, July 1, 2017, to June 30, 2018 (5-391-20-026-R)

This memorandum transmits the final audit report on the Merit and Need Based Scholarship Program Phase-II in Pakistan managed by the Higher Education Commission (HEC). The audit was conducted by the Auditor General of Pakistan (Auditor General). The Auditor General stated that it performed its audit in accordance with generally accepted government auditing standards (GAGAS) and international standards of supreme audit institutions issued by the International Organization of Supreme Audit Institutions (INTOSAI). The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on HEC's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

The audit objectives were to (1) express an opinion on whether HEC's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate HEC's internal controls; and (3) determine whether HEC complied with agreement terms and applicable laws and regulations (including cost-sharing contributions). To answer the audit objectives, the Auditor General examined the fund accountability statement; evaluated HEC's internal controls relevant to the program; and tested compliance with agreement terms and applicable laws and regulations. The audit covered program revenues and costs of \$4,869,490 and \$5,018,472, respectively, from July 1, 2017, to June 30, 2018.

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<sup>1</sup> We reviewed the Auditor General'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 Auditor General concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. The Auditor General did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance. In its management letter, the Auditor General identified seven internal control matters/immaterial instances of noncompliance. Six of the seven findings involved questioned costs of \$207,700 (\$187,658 ineligible and \$20,042 unsupported). The ineligible questioned costs pertained to (1) salaries of staff who were not appointed under the public sector development program funded projects and based on a standardized pay package not approved by USAID - \$52,858 (Finding 4.1.1); (2) honoraria paid to project employees without USAID approval - \$44,663 (Finding 4.1.2); (3) entertainment costs not allowed by the applicable cost principles - \$17,116 (Finding 4.1.3); (4) total amount of checks recorded per books higher than those cashed per bank statement - \$55,526 and amount of checks cashed per bank statement not recorded in the books - \$15,646 (Finding 4.1.5); and (5) unliquidated advances recorded as expense - \$1,849 (Finding 4.1.6). The unsupported questioned costs pertained to expenditures not adequately supported - \$20,042 (Finding 4.1.4). Accordingly, we recommend that the mission determine the allowability of the \$207,700 (\$187,658 ineligible and \$20,042 unsupported) in questioned costs and recover any amount determined to be unallowable.

Regarding the review of cost-sharing contributions, the Auditor General reported that HEC contributed \$1,618,326 for the period audited. The Auditor General did not report any questioned cost-sharing contributions.

During our desk review, we noted issues that the Auditor General will need to address in future audit reports. We presented these issues in a memorandum to the mission's controller dated April 29, 2020.

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

**Recommendation I.** Determine the allowability of \$207,700 in questioned costs (\$187,658 ineligible and \$20,042 unsupported) as discussed on page 2 of this memorandum and further detailed on pages 15-20 of the report and recover any amount that is unallowable.

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