



## MEMORANDUM

**DATE:** December 17, 2019

**TO:** USAID/West Bank and Gaza Acting Mission Director, Courtney Chubb

**FROM:** USAID OIG Middle East and Eastern Europe (ME/EE) Regional Office, Audit Director, David Thomanek /s/

**SUBJECT:** Closeout Fund Accountability Statement Audit of Arava Institute for Environmental Studies, Solutions for Off-Grid Food Energy and Water in West Bank and Gaza, Cooperative Agreement AID-294-A-15-00015, September 29, 2015 to August 30, 2016 (8-294-20-025-R)

This memorandum transmits the final closeout audit report on the fund accountability statement of Arava Institute for Environmental Studies (Arava), Solutions for Off-Grid Food Energy and Water in West Bank and Gaza, Cooperative Agreement AID-294-A-15-00015, from September 29, 2015 to August 30, 2016.

Arava contracted with the independent certified public accounting firm Talal Abu Ghazaleh & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. Government Auditing Standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup> However, the audit firm did not have an external quality control review by an unaffiliated audit organization since no such program is offered by professional organizations in West Bank and Gaza. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on Arava's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<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 On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and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. This contracted audit, however, was initiated before that date and follows the 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 mainly to: (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate Arava's internal controls; (3) determine whether the auditee complied with award terms and applicable laws and regulations; and (4) review cost share contributions to determine if they were made in accordance with agreement terms. The engagement objectives also included testing Arava's compliance with Executive Order 13224 – Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism. To answer the audit objectives, the audit firm reviewed Arava's incurred costs, tested internal controls, and examined Arava's compliance with the agreement terms, laws, and regulations. The audit covered \$151,511 for the period September 29, 2015 to August 30, 2016.

The audit firm expressed a qualified opinion on the fund accountability statement and concluded that it presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for ineligible questioned costs of \$4,298. The audit firm did not identify material weaknesses in internal control, but identified two material instances of noncompliance. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that USAID/West Bank and Gaza determine the allowability of the \$4,298 in questioned costs and recover any amount determined to be unallowable. The auditors also did not identify any material instances of noncompliance with Executive Order 13224.

As of January 31, 2019, USAID/West Bank and Gaza terminated its foreign assistance activities, and Arava currently has no open awards with USAID. USAID OIG ME/EE Regional Office is not including a procedural recommendation regarding the material noncompliance instances. However, if USAID/West Bank and Gaza considers future awards to Arava, it should ensure that adequate policies and procedures are implemented to address these findings, as detailed on pages 21 and 22 of Talal Abu Ghazaleh & Co.'s report.

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").