



## MEMORANDUM

**DATE:** January 27, 2020

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

**FROM:** USAID/OIG Middle East and Eastern Europe (M/EE) Regional Office, USDH NFA Coordinator, Abdoulaye Gueye /s/

**SUBJECT:** Closeout Audit of USAID Resources Managed by Sky Advertising Under Contract AID-294-C-17-00003, August 23, 2017 Through January 31, 2019 (8-294-20-036-R)

This memorandum transmits the closeout audit report on USAID resources managed by Sky Advertising under contract AID-294-C-17-00003, Outreach and Communications Contract, for the period covering August 23, 2017 through January 31, 2019. USAID West Bank Gaza contracted with the independent certified public accounting firm Ernst & Young in Ramallah Palestine to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards. However, it did not have an external peer review because 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 Sky Advertising'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 the incurred costs for the period audited, are allowable, reasonable, and allocable to the contract; (2) evaluate Sky Advertising's internal controls; and (3) determine whether Sky Advertising complied with award terms and applicable laws and regulations to include (a) compliance with the prohibition on paying Value Added Tax (VAT) with USAID funds; and (b) compliance with Executive Order 13224-Blocking Property and Prohibiting Transaction with Persons Who Commit, Threaten to Commit, or Support Terrorism.. To answer the audit objectives, the audit firm reviewed Sky Advertising's local incurred costs billed to and reimbursed by USAID, tested internal controls,

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<sup>1</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.

and examined the entities compliance with agreement terms, laws, and regulations. The audit covered \$163, 281 for the period August 23, 2017 to January 31, 2019.

The audit firm concluded the cost representation statement presents fairly, in all material respects, local costs incurred and reimbursed for the period audited in accordance with the terms of the contract except for \$261 in total ineligible questioned costs; one significant deficiency in internal control for improper recording of hours; and two instances of material 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 \$261 in questioned costs and recover any amount determined to be unallowable. As of January 31, 2019, USAID/West Bank and Gaza terminated its foreign assistance activities, and Sky Advertising currently has no open awards with USAID. USAID OIG ME/EE Regional Office is not including a procedural recommendation regarding the material noncompliance instances and the significant deficiency in internal control. However, if USAID/West Bank and Gaza considers future awards to Sky Advertising, it should ensure that adequate policies and procedures are implemented to address these findings, as detailed on pages 16 through 18 of Ernst & Young's report. In addition, on June 19, 2019 Ernst & Young issued a management letter to Sky Advertising addressing other matters that came to their attention during the audit.

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").