



MEMORANDUM

DATE: May 07, 2019

TO: USAID/Afghanistan Mission Director, Peter Natiello

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

SUBJECT: Costs Incurred Financial Audit of Palladium International LLC., Under Health Sector Resiliency in Afghanistan, Contract AID-306-C-15-00009, September 28, 2015, to December 31, 2017 (8-306-19-017-N)

This memorandum transmits the final report on the costs incurred financial audit of Palladium International LLC., under Health Sector Resiliency in Afghanistan, contract AID-306-C-15-00009, September 28, 2015, to December 31, 2017. The agency contracted with the independent certified public accounting firm CohnReznick to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards.

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the auditee's schedule of costs incurred; 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 schedule of costs incurred for the period audited, was presented fairly, in all material respects; (2) evaluate the auditee's internal controls; (3) determine whether the auditee complied with the award terms and applicable laws and regulations; (4) verify that the correct indirect cost rate(s) have been applied in accordance with the terms of the award; and (5) determine if the auditee has taken

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.

adequate corrective action on prior audit report recommendations. To answer the audit objectives, the auditors performed the subject financial audit that covered \$11,510,371 for the period from September 28, 2015, to December 31, 2017.

The auditors expressed an unmodified opinion on the schedule of costs incurred and identify questioned costs of \$15,014 (unsupported). The audit firm did not identify any material weaknesses but identified three significant deficiencies in internal control related to 1) misclassification of direct costs, 2) submission of timesheets prior to months-end, and 3) late submission of quarterly reports. The audit firm identified one instance of material instance 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/Afghanistan determine the allowability of the \$15,014 in questioned costs and recover any amount determined to be unallowable. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID/Afghanistan determine if the recipient addressed the issues noted.

To address the findings identified in the report, the auditors made recommendations to the auditee. We agree and recommend that USAID/Afghanistan do the following.

Recommendation 1. *Verify that the Palladium International LLC corrects the one instance of noncompliance as detailed on pages 28 - 29 of CohnReznick LLP report.*

We ask that you provide your written notification of actions planned or taken to reach management decision. We appreciate the assistance extended to audit staff 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").