



MEMORANDUM

DATE: November 30, 2021

TO: USAID/Philippines, Acting Mission Director, Sean Callahan

FROM: USAID OIG Asia Regional Office, USDH NFA Coordinator, James C. Charlifue /s/

SUBJECT: Financial Audit of the Business Excellence for Sustainability and Transparency Project in Mongolia Managed by Development Solutions NGO Under Cooperative Agreement 72043820CA00001, December 2, 2019 to December 31, 2020 (5-438-22-006-R)

This memorandum transmits the final audit report on the Business Excellence for Sustainability and Transparency (BEST) Project managed by Development Solutions NGO (DS). DS contracted with the independent certified public accounting firm Baker Tilly Dalaivan Audit LLC to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards and the USAID Financial Audit Guide for Foreign Organizations. However, the audit firm disclosed that it did not have (1) a continuing professional education program that fully satisfies the standards' requirements and (2) external quality control reviews because this is not offered in Mongolia. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on DS's schedule of expenditures of USAID awards¹, the effectiveness of its internal control, or its compliance with the award, laws, and regulations.²

The audit objectives were to (1) express an opinion on whether DS's schedule of expenditures

¹ On August 6, 2021, USAID updated its Financial Audit Guide for Foreign Organizations. This audit followed the previous USAID Guide version (March 4, 2019) because this was applicable at the time of the audit. Under the updated USAID Guide, the "fund accountability statement" is now called "schedule of expenditures of USAID awards."

² 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.

of USAID awards for the BEST Project for the period audited was presented fairly, in all material respects; (2) evaluate DS's internal controls; (3) determine whether DS complied with award terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine whether DS had taken corrective actions on prior-period findings and recommendations. To answer the audit objectives, the audit firm examined the schedule of expenditures of USAID awards for the BEST Project and supporting documentation; evaluated the control environment, accounting systems, and control procedures; tested compliance with agreement requirements and applicable laws and regulations; and assessed the status of prior review recommendations. The audit covered project revenues and costs of \$2,822,889 and \$2,650,101, respectively, for the audited period.

The audit firm concluded that, except for the effect of the unsupported questioned costs totaling \$31,431, the schedule of expenditures of USAID awards for the BEST Project presented fairly, in all material respects, project revenues and costs incurred under the award for the period audited. DS did not obtain prior written approval from USAID as required by USAID's Automated Directive System Chapter (ADS) 303 and COVID-19 Implementing Partner Guidance before incurring questioned expenses (page 22 of the audit report). OIG believes that DS was also in violation of CFR 200.456 that states that participant support costs are allowable with the prior approval of the Federal awarding agency. ADS 595.6 "Audit Management Program" states that ineligible questioned costs are costs that result from violation of a provision of an agreement or regulation; therefore, OIG classifies these questioned costs as ineligible.

The audit firm reported that it did not identify any material weaknesses or significant deficiencies but included in the report on internal control two deficiencies related to (1) DS recording of costs to incorrect budget categories (page 23 of the audit report); and (2) DS' procurement manual's lack of a comprehensive definition of and terms of payment for high value and complex procurement (page 30 of the audit report). Although we are not making a recommendation for these deficiencies noted in the report, we suggest that USAID/Philippines determine if the recipient addressed the issues noted.

The audit firm identified an instance of noncompliance with the allowability of cost requirements and reported related expenses as questioned costs, which were significant enough to warrant a qualified opinion on the schedule of expenditures of USAID awards. However, the audit firm did not report the noncompliance in its report on internal control or compliance. This was contrary to generally accepted government auditing standards chapter 6.41 that states that auditors should include in their report on internal control or compliance the relevant information about noncompliance when auditors identify noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a material effect on the financial statements. Accordingly, we consider this noncompliance to be material and are making a recommendation for the mission to verify that DS corrects the noncompliance detailed on pages 22 through 23 of the audit report.

Further, the audit firm reported that prior recommendations had been implemented, except for two that were reported as deficiencies in the report on internal control (pages 23, 26, and 27 of the audit report).

The audit firm reported that (1) the agreement did not require cost-sharing contributions, and (2) the recipient has no USAID-authorized provisional indirect cost rate.

There are other minor issues that the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the mission controller dated November 30, 2021.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID/Philippines:

Recommendation 1. Determine the allowability of \$31,431 in ineligible questioned costs detailed on page 22 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Development Solutions NGO corrects the instance of material noncompliance detailed on pages 22 through 23 of the audit report.

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

The 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”).