



Financial Audit of the USAID Resources Managed by  
Armenian Young Lawyers Association under

*"Armenia Against Corruption" Project*  
*Cooperative Agreement AID-111-A-11-00002*

For the Year Ended December 31, 2012



Grant Thornton

## Transmittal letter

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Armenian Young Lawyers Association NGO  
7/2 Nalbandyan Str., Yerevan, Armenia  
Attention: Mr. Karen Zadoyan, President

September 6, 2013

Dear Mr. Zadoyan,

Hereby we submit for your kind attention our reports on the financial audit of the USAID resources managed by the Armenian Young Lawyers Association NGO (AYLA) under the “Armenia Against Corruption” Project (the “Project”), Cooperative Agreement AID-111-A-11-00002, for the year ended December 31, 2012 conducted in accordance with Contract No. AT/AUD/043-13, dated June 12, 2013 between Grant Thornton CJSC and AYLA.

The reporting package includes the following deliverables:

- Summary,
- Independent Auditor’s Report on the Fund Accountability Statement,
- Independent Auditor’s Review Report on the Cost-Sharing Schedule,
- Independent Auditor’s Report on Internal Control, and
- Independent Auditor’s Report on Compliance.

The reports and information contained herein have been prepared pursuant to the requirements set forth in the (a) Statement of Work included in the above-mentioned contract for audit services, and (b) *Guidelines for Financial Audits Contracted by Foreign Recipients* issued by the Office of Inspector General of the USAID (February 2009 revision).

We would like to take this opportunity to thank the staff of AYLA for assistance and cooperation provided to us during the implementation of the audit works.

Yours sincerely,

Emil Vassilyan, FCCA  
Engagement Partner

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## Summary

### Background

The “Armenian Young Lawyers Association” (AYLA) NGO was founded in 1995, by a group of students from the faculty of law at Yerevan State University with other young lawyers. It was registered as a non-governmental organization in the Ministry of Justice of the Republic of Armenia on 14 March, 1995. AYLA was established with the aim of coordinating the efforts of its members and supporters, as well as of the new generation of lawyers, to promote the establishment of Armenia as a sovereign, democratic, legal and social state. From 1999, the organization has expanded its activities to the Armenian regions as well establishing regional branch offices in Vanadzor, Gavar, Gyumri, Kapan, Goris, and Ijevan.

The Armenian Young Lawyers Association is registered at 7 Nalbandyan Street, apt. 2, Yerevan 0010, Republic of Armenia.

On September 12, 2011 the U.S Agency for International Development (the “USAID”) awarded 599,976 US dollars to AYLA under Cooperative Agreement AID-111-A-11-00002, for the implementation of the “Support to Armenian Advocacy and Assistance Centers” Project. Project implementation period was from August 1, 2011 to July 31, 2012, subsequently extended to August 21, 2012 in accordance with Modification No. 3 dated July 23, 2012.

In accordance with Modification No. 4 dated August 21, 2012, the following changes were made to the Cooperative Agreement:

- The Project was renamed as “Armenia Against Corruption” Project;
- Implementation period was extended to August 20, 2015;
- Additional 1,800,000 US dollars were awarded to AYLA for the Project, thus increasing Project budget to 2,399,976 US dollars.

Project budget, as last amended, is the following:

In US dollars	USAID	Cost-Share	Total
Personnel	1,653,194	-	1,653,194
Other Direct Costs	746,782	120,600	867,382
	<b>2,399,976</b>	<b>120,600</b>	<b>2,520,576</b>

With USAID financial support, AYLA will support and strengthen the existing National Network of Advocacy and Assistance Centers (AACs), which consists of 11 Centers in Yerevan and all marzes of Armenia. The AACs are operated by three non-profit organizations:

- AYLA, which operates AACs in Yerevan, as well as in the marzes of Kotayk, Aragatsnotn, Shirak, Lori, Tavush, Ararat, Vayots Dzor and Syunik;
- Armavir Development Center (ADC), which operates the AAC in the marz of Armavir under a sub-grant agreement between ADC and AYLA;
- Gegharkunik Chamber of Commerce and Industry (GCCCI), which operates the AAC in the marz of Gegharkunik under a sub-grant agreement between GCCCI and AYLA.

The AACs carry out their activities in the following main directions.

- 1 Provision of free legal advice and counseling to address grievances of citizens on a daily basis, including the following:
  - a Providing legal advice to citizens in connection with their complaints with respect to their rights against corruption and protection of these rights;
  - b Based on these complains, legal advisors of AACs will draft briefs, applications, complaints and other trial documents of legal character;
  - c Assistance to citizens in submitting briefs to the respective governmental and non-governmental institutions and providing follow-up support, if necessary;
  - d Providing legal representation of citizens in courts on civil, administrative and criminal issues, as well as in governmental and local bodies, the police or other public authorities.

## 2 Promotion of anticorruption reforms

Based on the analyses of complaints submitted to the AACs, realize procedural and systems-level change of legislation containing corruption risks, through study of the legislation containing corruption risks, providing suggestions, organizing discussions, preparing drafts on changes of laws and by-laws, as well as lobbying in the target marzes.

## 3 Anticorruption awareness and education strategies

Aiming to raise public awareness on corruption and to form an anticorruption behavior, as well as demonstrate intolerance towards corruption, public awareness campaigns are carried out in the target marzes, taking into consideration their peculiarities, including distance from Yerevan, the level of poverty, the level of corruption risks and other factors.

## Prior audit recommendations

In accordance with Chapter 4 of the *U.S. Government Auditing Standards*, Section "Considering the Result of Previous Audits and Attestation Engagements", we are required to consider the results of previous audits and follow up on known significant findings and recommendations that are directly related to the objectives of the audit.

Since the financial audit of the USAID resources managed by the Armenian Young Lawyers Association under the "Armenia Against Corruption" Project, Cooperative Agreement AID-111-A-11-00002, for the year ended December 31, 2012 is an initial audit, hence there are no prior audit recommendations to report on.

#### Indirect cost rates

Audit objectives do not include review of indirect cost rates, since AYLA does not have a provisional indirect cost rate authorized by the USAID.

### Objectives and scope of the financial audit

#### Objectives

The objective of this engagement is to conduct a financial audit of the USAID resources managed by AYLA under the "Armenia Against Corruption" Project (the "Project"), Cooperative Agreement AID-111-A-11-00002 for the year ended December 31, 2012 in accordance with the *U.S. Government Auditing Standards* (December 2011 revision issued by the United States Government Accountability Office) and the *Guidelines for Financial Audits Contracted by Foreign Recipients* issued by the Office of Inspector General of the USAID (February 2009 revision).

The Fund Accountability Statement is the basic financial statement to be audited that presents the recipient's revenues, costs incurred, cash balance of funds provided by the USAID, and commodities and technical assistance directly procured by the USAID for the recipient's use. The Fund Accountability Statement is expressed in US dollars.

Specific objectives of the audit of the USAID-provided funds are to:

- Express an opinion on whether the Fund Accountability Statement for the USAID-funded Project presents fairly, in all material respects, revenues received, costs incurred, and assets and technical assistance directly procured by the USAID during the audit period in conformity with the terms of the agreement and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Evaluate and obtain a sufficient understanding of AYLA's internal controls related to the USAID-funded Project, including internal control related to required cost-sharing contributions, assess control risk, and identify significant deficiencies, including material weaknesses.
- Perform tests to determine whether AYLA complied, in all material respects, with agreement terms, including compliance requirements related to cost-sharing contributions, and applicable laws and regulations related to the USAID-funded Project in effect during the audit period.
- Determine if AYLA has taken adequate corrective action on prior audit report recommendations.

## Scope

Our scope of work has included the following main directions.

- a. With regard to the Fund Accountability Statement, we have evaluated Project implementation actions to determine whether specific costs incurred are allowable, allocable, and reasonable under the agreement terms and applicable cost principles, and to identify areas where fraud and illegal acts have occurred or are likely to have occurred as a result of inadequate internal control. We have examined the Fund Accountability Statement for the above mentioned USAID-funded Project including the budgeted amounts by category and major items; the revenues received from the USAID for the period covered by the audit; the costs incurred during that period; and the assets/technical assistance directly procured by the USAID for AYLA's use. As part of our work, we have completed the following:
  1. Review of costs billed to and reimbursed by the USAID and costs incurred but pending reimbursement by USAID, identifying and quantifying any questioned costs. Presentation of all costs that are not supported with adequate documentation or not in accordance with the agreement terms as questioned, and categorization as (a) ineligible costs, that are explicitly questioned because they are unreasonable, unallowable, prohibited by agreements or applicable laws and regulations, or not Project related; and (b) unsupported costs, that are not supported with adequate documentation or did not have required prior approvals or authorization.
  2. Review of general and Project ledgers to determine whether costs incurred were properly recorded; reconciliation of direct costs billed to, and reimbursed by the USAID to the Project and general ledgers;
  3. Review of the procedures used to control the funds, including their channeling to contracted financial institutions or other implementing entities; review of bank accounts and controls on bank accounts.
  4. Review of (a) the substantiation of disbursement requests made to the USAID, including reconciliations of funds advanced, disbursed, and available; (b) proper recording of all funding received from the USAID in the AYLA's accounting records, and their periodical reconciliation with the USAID records;
  5. Determine whether Project income and reimbursement, if any, representing recoveries of direct and indirect costs, are recorded as income or as credits to project cost accounts.
  6. Review of procurement with regard to (a) application of sound commercial practices and competition, (b) reasonableness of prices obtained, (c) adequate controls over the qualities and quantities received;
  7. Review of direct salary charges with regard to (a) reasonableness of salary rates and their approval, if required, (b) substantiation by appropriate payroll records, (c) allowableness of any overtime charged to the Project, (d) compliance of allowances and fringe benefits to the agreements and applicable laws and regulations;
  8. Review of travel and transportation charges to determine whether they are adequately supported and approved;
  9. Review of assets procured by AYLA as well those directly procured by the USAID for the recipient's use to determine whether (a) the assets are accounted for; (b) the assets have been used for their intended purposes, (c) control procedures exist and have been placed in operation to adequately safeguard the assets;

10. Review of technical assistance and services procured by AYLA or directly procured by the USAID for AYLA. We determined whether technical assistance and services: (a) were used for their intended Project purposes; (b) were adequately supported by AYLA as required by the terms of the agreement and applicable laws and regulations; (c) were properly accounted for.
  - b. With regard to the Cost-Sharing Schedule, our scope of work included the review to determine whether required cost-sharing contributions have been provided and accounted for by AYLA in accordance with the terms of the agreements and Project needs.
  - c. With regard to internal controls, our scope of work included the review and evaluation of the recipient's internal controls related to the USAID-funded Project in order to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation.

The major internal control components under review and assessment included, but were not limited to the controls related to each revenue and expense account on the Fund Accountability Statement. As part of our audit procedures, we aimed to:

1. obtain sufficient understanding of internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed;
2. assess inherent and control risks, in order to determine the detection risk;
3. summarize risk assessments for each assertion;
4. evaluate the control environment, adequacy of the accounting systems, and control procedures, including policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the Fund Accountability Statement. The internal control evaluation includes:
  - Understanding and documentation of the internal control environment on both entity and activity levels;
  - Assessing design effectiveness of controls for each of the processes within two levels;
  - Assessing operating effectiveness of controls by conducting walkthrough test and test of details for each significant cycle with a critical assertion.

This evaluation included, but was not limited to, the control systems for:

- i. ensuring that charges to the Project are proper and supported;
- ii. managing cash-on-hand and in bank accounts;
- iii. procuring goods and services;
- iv. managing inventory and receiving functions;
- v. managing of personnel functions such as timekeeping, salaries, and benefits;
- vi. managing and disposing of assets (such as vehicles, equipment, and tools and other assets) purchased through the USAID resources managed by the recipient or directly by the USAID; and
- vii. ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the Fund Accountability Statement.



5. evaluate internal control established to ensure compliance with cost-sharing requirements, including both provision and management of contributions.
- d. With regard to compliance with agreement terms and applicable laws and regulations, our scope of work included the following tests and procedures:
1. review of the agreement and applicable laws and regulations, as well as other documents related to AYLA and regulation of AYLA's operations, such as accounting and administrative policies and procedures, etc., with the objective to (a) identify requirements imposed by these agreements and documents; and (b) determine those, which, if not observed, could have a direct and material effect on the Fund Accountability Statement;
  2. test of AYLA's compliance to the above-mentioned requirements. Areas of compliance tested included, *inter alia*, the following:
    - i. compliance of payments made to the agreement and applicable laws and regulations;
    - ii. inappropriate costs or funds expended for unauthorized purposes;
    - iii. existence, appropriate marking and use of assets procured;
    - iv. appropriate use of any technical assistance and services procured;
    - v. calculation of the amount of cost-sharing funds, if applicable, and their recording;
    - vi. provision of the cost-sharing funds, if applicable, according to the terms of the agreement, quantification of any shortfalls;
    - vii. eligibility of services and benefits for such services and benefits;
    - viii. substantiation of the recipient's financial reports and claims for advances and reimbursement by books and records;
- e. Since the financial audit of the USAID resources managed by the Armenian Young Lawyers Association under the "Armenia Against Corruption" Project, Cooperative Agreement AID-111-A-11-00002 for the year ended December 31, 2012 is an initial audit, hence there are no prior audit recommendations to report on.

#### Scope limitations

Our continuing professional education program may not fully satisfy the requirements set forth in Chapter 3, paragraph 3.76 of the *U.S. Government Auditing Standards* (December 2011 revision issued by the United States Government Accountability Office), since not all auditors involved in the engagement's planning, directing, performing field work and reporting have completed at least 24 hours every 2 years of continuing professional education directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. We believe that the effects of this departure from *U.S. Government Auditing Standards* are not material, as the firm's current continuing professional education program provides for at least 120 hours of continuing professional education and training every three years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirements.

We did not have an external quality control review conducted by an unaffiliated audit organization as required by Chapter 3, paragraph 3.82.b of *U.S. Government Auditing Standards*, since no such program is offered by professional organizations in Armenia. We believe that the effects of this departure from *U.S. Government Auditing Standards* are not material, because we participate in the Grant Thornton International worldwide internal quality control review program, which requires

our office to be subjected, every three years, to an extensive quality control peer review by partners and managers from other Grant Thornton International member offices.

### Summary of audit results

Below is a brief summary of the audit results on the Fund Accountability Statement, internal control, compliance with the agreement terms and applicable laws and regulations.

#### Fund Accountability Statement

The Fund Accountability Statement presents fairly, in all material respects, Project revenues, costs incurred and reimbursed during the year ended December 31, 2012 in accordance with the terms of agreement and in conformity with the basis of accounting described in the note 2 to the Fund Accountability Statement.

#### Internal control

We consider the following deficiencies in the AYLA's internal control to be a material weakness:

##### **Internal control over funds disbursed under Sub-Grant Agreements**

When submitting monthly financial reports to AYLA, Project implementation partners (ADC and GCCI) have not been required to submit copies of bank statements, showing movements and balances on the separate accounts held for Project funds received within the scope of respective Sub-Grant Agreements. Bank account reconciliations are not carried out by AYLA, when reviewing and accepting monthly reports. Checks and reviews of reports submitted by Sub-Grantees are carried out at the AYLA headquarters in Yerevan, and are based on copies of supporting documentation provided by the Sub-Grantees. Absence of month-end cash and bank reconciliation procedures may increase the risk of errors remaining undetected and uncorrected, and resulting in misstatement of the monthly financial reports, as well as the Fund Accountability Statement. In addition, absence of periodic on-site financial reviews may limit AYLA's ability to identify problem areas in the internal controls of the Sub-Grantees that are not reflected and immediately detectable in supporting documentation provided together with the monthly financial reports.

##### **Internal control over sources and uses of funds**

Through the course of Project implementation, the Armavir Development Center (ADC), has been applying funds received from several non-USAID sources towards Project expenses. These borrowings from non-Project sources were then refunded during the normal course of the Organization's operations, as non-Project expenses were instead paid from the separate Project account, giving rise to differences between funds and cash balances at the end of the reporting period. Separate detailed records of such recurring inter-source borrowings were not maintained by the Organization, further complicating the reconciliation of fund and cash balances at the end of the reporting period. Incorrect application of the separate Project bank account complicates the process of bank reconciliations and increases the risk of misstatement of Project expenses in the monthly financial reports, as well as the Fund Accountability Statement. Multiple borrowings between various sources of financing, which are not adequately recorded and documented, weaken the control over fund and cash balances, and reduce transparency and accountability of Project transactions.

We consider the following deficiency in the AYLA's internal control to be a significant deficiency:

**Application of accounting software by GCCI**

The GCCI does not use a specialized software for maintaining Project accounting records and preparation of financial reports. MS Excel spreadsheets are used to account for funds received under the Sub-Grant Agreement with AYLA and to prepare monthly financial reports. Use of spreadsheets for the purpose of maintaining accounting records and preparation of financial reports has a number of shortcomings, which increase risks of material misstatement in financial reports, and may offer only a limited level of reliability for financial reporting purposes.

**Compliance**

The results of our tests disclosed the following material instance of noncompliance.

**Reporting of cost-sharing contributions to the USAID**

Cost-sharing contributions provided by AYLA during the year ended December 31, 2012 in accordance with the requirements of the Cooperative Agreement, have not been reported to the USAID in the liquidation reports submitted by AYLA on a monthly basis, as required by the reporting forms prescribed by the USAID. In the absence of information on cost-sharing contributions provided by the Organization, the monthly financial reports are incomplete and do not show the overall progress of the program, as well as the Organization's factual compliance with the agreement terms concerning cost-sharing contributions. There are no questioned costs arising from the instance of non-compliance, as the Organization has prepared and presented a Cost-Sharing Schedule for the year ended December 31, 2012, which reflects the cumulative amount of cost-sharing contributions actually provided from inception of the Project.

**Implementation of prior audit recommendations**

Since the financial audit of the USAID resources managed by the Armenian Young Lawyers Association under the "Armenia Against Corruption" Project, Cooperative Agreement AID-111-A-11-00002 for the year ended December 31, 2012 is an initial audit, hence there are no prior audit recommendations to report on.

**Questioned costs**

Our audit procedures for the Fund Accountability Statement for the year ended December 31, 2012 have not revealed any questioned costs, i.e. (a) ineligible costs that are explicitly questioned because they are unreasonable, prohibited by the agreement or applicable laws and regulations; or not Project-related; and (b) unsupported costs, that are not supported with adequate documentation or did not have required prior approvals or authorizations.

**Indirect cost rates**

The audit did not include review of indirect cost rates, since AYLA does not have a provisional indirect cost rate authorized by the USAID.

**Cost-sharing contributions**

Based on our review, except for the material non-compliance described in the "Compliance" section above, nothing came to our attention that caused us to believe that AYLA did not fairly present the Cost-Sharing Schedule for the year ended December 31 2012, in all material respects, in accordance with the basis of accounting used to prepare the Cost-Sharing Schedule, described in note 2 to the Cost-Sharing Schedule.

Management comments on audit results

AYLA management agrees with the audit results and findings. Actions are being undertaken for implementation of audit recommendations.



Financial Audit of the USAID Resources Managed by  
Armenian Young Lawyers Association under

"Armenia Against Corruption" Project  
Cooperative Agreement AID-111-A-11-00002

For the Year Ended December 31, 2012

Fund Accountability Statement and  
Independent Auditor's Report thereon

# Independent Auditor's Report on the Fund Accountability Statement

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To the Board of the Armenian Young Lawyers Association NGO  
7/2 Nalbandyan Str., Yerevan, Armenia

We have audited the Fund Accountability Statement of the USAID resources managed by the Armenian Young Lawyers Association (the “Organization”) under the “Armenia Against Corruption” Project (the “Project”), Cooperative Agreement AID-111-A-11-00002, for the year ended December 31, 2012. The Fund Accountability Statement is the responsibility of the Organization’s management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit of the Fund Accountability Statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our continuing professional education may not fully satisfy the requirements set forth in Chapter 3, paragraph 3.76 of the *U.S. Government Auditing Standards* (December 2011 revision issued by the United States Government Accountability Office), since not all auditors involved in the engagement’s planning, directing, performing field work and reporting have completed at least 24 hours every 2 years of continuing professional education directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. However, the firm’s current continuing professional education program provides for at least 120 hours of continuing professional education and training every three years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirements.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.82.b of *U.S. Government Auditing Standards*, since no such product is offered by professional organizations in Armenia. We believe that the effects of this departure from the *U.S. Government Auditing Standards* are not material, because we participate in the Grant Thornton International worldwide internal quality control review program, which requires our office to be subjected, every three years, to an extensive quality control peer review by partners and managers from other Grant Thornton International member offices.

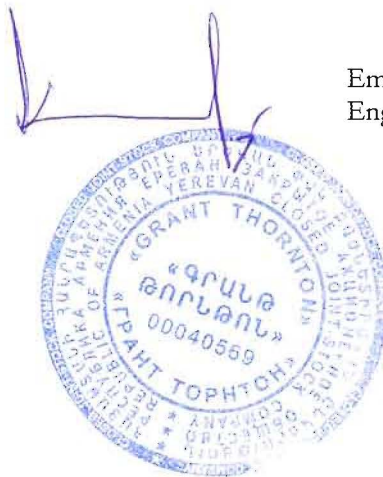
In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, Project revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by the USAID during the year ended December 31, 2012 in accordance with the terms of the agreement and in conformity with the basis of accounting described in the note 2 to the Fund Accountability Statement.

In accordance with the *U.S. Government Auditing Standards*, we have also issued our reports dated September 6, 2013, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with the *U.S. Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of the Organization and the U.S. Agency for International Development (the "USAID"). However, upon release by the USAID, this report is a matter of public record and its distribution is not limited.

Gagik Gyulbudaghyan  
Managing Partner

Grant Thornton CJSC  
Yerevan, September 6, 2013



Emil Vassilyan, FCCA  
Engagement Partner

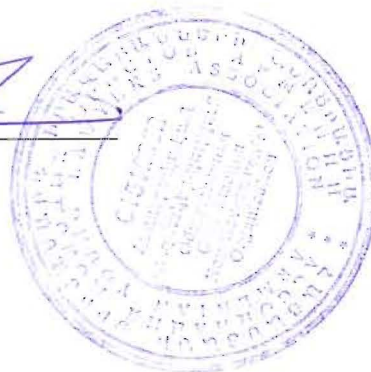
## Fund Accountability Statement

For the year ended December 31, 2012  
 In US dollars

	Total budget	Actual costs for the year	Questioned costs		Notes
			Ineligible	Unsup- ported	
<b>REVENUE</b>					
Cash received from the USAID	2,399,976	524,749			
	<u>2,399,976</u>	<u>524,749</u>			
<b>COSTS INCURRED</b>					
Personnel	1,653,194	362,881			
Other Direct Costs	746,782	175,647			3
<b>TOTAL COSTS INCURRED</b>	<u>2,399,976</u>	<u>538,528</u>			
<b>NET DECREASE IN FUNDS</b>		<u>(13,779)</u>			
<b>FUND BALANCE</b>					
Balance at the beginning of the year		25,852			4
<b>Balance at the end of the year</b>		<u>12,073</u>			4

The Fund Accountability Statement was approved by the management of the Organization on September 6, 2013 and signed on its behalf. The accompanying notes set out on pages from 15 to 20 form an integral part of this Fund Accountability Statement.

Karen Zadovyan  
 President



Alvard Hovhannisyan  
 Chief Accountant



## Notes to the Fund Accountability Statement

*For the year ended December 31, 2012*

*In US dollars*

### 1. General information

The “Armenian Young Lawyers Association” (AYLA) NGO was founded in 1995, by a group of students from the faculty of law at Yerevan State University with other young lawyers. It was registered as a non-governmental organization in the Ministry of Justice of the Republic of Armenia on 14 March, 1995. AYLA was established with the aim of coordinating the efforts of its members and supporters, as well as of the new generation of lawyers, to promote the establishment of Armenia as a sovereign, democratic, legal and social state. From 1999, the organization has expanded its activities to the Armenian regions as well establishing regional branch offices in Vanadzor, Gavar, Gyumri, Kapan, Goris, and Ijevan.

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- Gegharkunik Chamber of Commerce and Industry (GCCCI), which operates the AAC in the marz of Gegharkunik under a sub-grant agreement between GCCCI and AYLA.

The AACs carry out their activities in the following main directions.

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  - a Providing legal advice to citizens in connection with their complaints with respect to their rights against corruption and protection of these rights;
  - b Based on these complains, legal advisors of AACs will draft briefs, applications, complaints and other trial documents of legal character;
  - c Assistance to citizens in submitting briefs to the respective governmental and non-governmental institutions and providing follow-up support, if necessary;
  - d Providing legal representation of citizens in courts on civil, administrative and criminal issues, as well as in governmental and local bodies, the police or other public authorities.

### 2 Promotion of anticorruption reforms

Based on the analyses of complaints submitted to the AACs, realize procedural and systems-level change of legislation containing corruption risks, through study of the legislation containing corruption risks, providing suggestions, organizing discussions, preparing drafts on changes of laws and by-laws, as well as lobbying in the target marzes.

### 3 Anticorruption awareness and education strategies

Aiming to raise public awareness on corruption and to form an anticorruption behavior, as well as demonstrate intolerance towards corruption, public awareness campaigns are carried out in the target marzes, taking into consideration their peculiarities, including distance from Yerevan, the level of poverty, the level of corruption risks and other factors.

## Sub-Grant Agreements

Within the scope of the Project, subgrant agreements were signed with two partner organizations for implementation of Project activities in two regions of Armenia.

### **Armavir Development Center**

“Armavir Development Center” NGO was established on 29.04.2005. The mission of the NGO is “Collaboration for social-economic progress”, which aims to promote the collaboration of public, private and business sectors of the region. To implement its mission effectively the organization has adopted the following strategic directions of its activity:

- Improvement and consolidation of democratic system
- Support to civil society
- Sustain social and economic development.

ADC is registered at 39a Hunan Avetisyan Street, Armavir city, Armavir marz, Republic of Armenia.

Within the scope of the Project, Sub-Grant Agreement No. 2011-01-ADC was signed between the AYLA and ADC on September 22, 2011, which granted Armenian drams 25,415,000 (approximately USD 63,540) for the operation of the AAC in the city of Armavir, Armavir marz of Armenia during the Project implementation period (August 1, 2011 to July 31, 2012). In parallel to Modification No. 3 of the Cooperative Agreement between the USAID and AYLA extending Project duration to August 21, 2012, the Sub-Grant Agreement was respectively amended on August 1, 2012, in order to:

- extend implementation period to August 21, 2012; and
- increase the budget up to AMD 26,790,217 (approximately USD 66,980).

In parallel to Modification No. 4 of the Cooperative Agreement between the USAID and AYLA extending Project duration to August 20, 2015, the Sub-Grant Agreement was respectively amended on August 21, 2012, in order to:

- extend implementation period to August 21, 2013; and
- increase the budget up to AMD 54,428,217 (approximately USD 136,070).

### **Gegharkunik Chamber of Commerce and Industry**

Gegharkunik Chamber of Commerce and Industry (GCCCI) is a NGO established in April 2002. The mission of GCCCI is formation of the business community in Gegharkunik region and unification of enterprises around common and prospective benefits. GCCCI has about 300 member businesses.

GCCCI is registered at 2 Burnazyan Street, Gavar city, Gegharkunik marz, Republic of Armenia.

Within the scope of the Project, Sub-Grant Agreement No. 2011-02-GCCCI was signed between the AYLA and GCCCI on September 22, 2011, which granted Armenian drams 17,376,400 (approximately USD 43,440) for the operation of the AAC in the city of Gavar, Gegharkunik marz of Armenia during the Project implementation period (August 1, 2011 to July 31, 2012). In parallel to Modification No. 3 of the Cooperative Agreement between the USAID and AYLA extending Project duration to August 21, 2012, the Sub-Grant Agreement was respectively amended on August 1, 2012, in order to:

- extend implementation period to August 21, 2012; and
- increase the budget up to AMD 18,078,400 (approximately USD 45,200).

In parallel to Modification No. 4 of the Cooperative Agreement between the USAID and AYLA extending Project duration to August 20, 2015, the Sub-Grant Agreement was respectively amended on August 21, 2012, in order to:

- extend implementation period to August 21, 2013; and
- increase the budget up to AMD 37,205,204 (approximately USD 93,010).

## 2. Significant accounting policies

### a. Basis of preparation

Accounting records of the Project have been maintained by the Organization under the accrual basis of accounting. The Fund Accountability Statement has been prepared on the cash basis of accounting. Under this basis, revenues are recognized when received rather than when earned, and expenses are recognized when paid, rather than when incurred.

### b. Functional and presentation currency

The functional currencies of the Project are United States dollars and Armenian drams.

The Fund Accountability Statement is presented in US dollars.

### c. Foreign currencies

Revenue is received in US dollars and is converted to Armenian drams using the commercial exchange rate of the HSBC Bank Armenia cjsc at the date of conversion.

Expenses are recorded in US dollars and in Armenian drams. Expenses recorded in Armenian drams are converted to US dollars using the historical foreign exchange rate, i.e. exchange rate at which USAID financing is converted into Armenian drams.

### d. Revenue

Revenue consists of advances made by the USAID to the Project's separate bank account in US dollars held by AYLA in accordance with the procedures prescribed in the Cooperative Agreement.

### e. Expenses

Expenses include:

- payments made by AYLA for implementation of Project activities envisioned under the Cooperative Agreement;
- payments made by Project implementing partners ADC and GCCI from advances made by AYLA under respective sub-grant agreements.

### f. Cash balance

Project cash balances are comprised of:

- balances held by AYLA on the separate US dollar and Armenian dram accounts;
- balances held by Project implementing partners ADC and GCCI on separate Armenian dram bank accounts and cash on hand.

### 3. Other Direct Costs

<b>In US dollars</b>	<b>For the year ended December 31, 2012</b>
Media materials and publications	40,342
Office rent and utilities	31,488
Travel expenses	22,123
Office expenses and supplies	18,382
Furniture, equipment and software	16,598
Communication expenses	12,625
TV/radio spots and advertisements	6,099
Vehicle and transportation expenses	5,076
Other	22,914
	<b>175,647</b>

### 4. Reconciliation of fund and cash balances

Project fund balances are reconciled to Project cash balances as follows:

<b>In US dollars</b>	<b>As of January 1, 2012</b>	<b>As of December 31, 2012</b>
Fund balances	25,852	12,073
Cash balances (note 5)	26,021	12,291
Difference	<b>(169)</b>	<b>(218)</b>
<b>Reconciling items</b>		
Non-project expenses to be refunded to the Project account (AYLA)	-	28
Project expenses paid from non-USAID funds to be repaid (ADC)	(169)	(376)
Non-project expenses to be refunded to the Project account (GCCCI)	-	130
	<b>(169)</b>	<b>(218)</b>

As at the date of the Fund Accountability Statement, all amounts due for refund to Project accounts held by AYLA and by GCCCI have been repaid.

### 5. Cash balances

<b>In US dollars</b>	<b>As of January 1, 2012</b>	<b>As of December 31, 2012</b>
Balances on bank accounts (AYLA)	16,934	813
Balances of cash on hand and on bank account (ADC)	1,501	4,971
Balances of cash on hand and on bank account (GCCCI)	7,586	6,507
	<b>26,021</b>	<b>12,291</b>

## 6. Sub-Grant Agreements

In US dollars

For the year ended December 31, 2012

	ADC	GCCI	Total
<b>Advances disbursed to Sub-Grantees</b>	<b>64,589</b>	<b>49,484</b>	<b>114,073</b>
<b>Project expenditures incurred by Sub-Grantees</b>			
Personnel	40,077	31,548	71,625
Other Direct Costs	19,918	11,301	31,219
	<b>59,995</b>	<b>42,849</b>	<b>102,844</b>

## 7. Taxation

Goods purchased and services provided within the framework of the USAID Grant Agreements are VAT-exempt according to the Agreement between the U.S. Government and the Government of Armenia dated on December 15, 1992 related to “The Cooperation for Humanitarian and Technical Assistance”.



Financial Audit of the USAID Resources Managed by  
Armenian Young Lawyers Association under

"Armenia Against Corruption" Project  
Cooperative Agreement AID-111-A-11-00002

For the Year Ended December 31, 2012

Cost-Sharing Schedule and  
Independent Auditor's Review Report thereon

# Independent Auditor's Review Report on the Cost-Sharing Schedule

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To the Board of the Armenian Young Lawyers Association NGO  
7/2 Nalbandyan Str., Yerevan, Armenia

We have reviewed the accompanying Cost-Sharing Schedule of the Armenian Young Lawyers Association (the “Organization”) under the “Armenia Against Corruption” Project (the “Project”), Cooperative Agreement AID-111-A-11-00002, for the year ended December 31, 2012. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (the “AICPA”). The purpose of our review was to determine if the Cost-Sharing Schedule is fairly presented in accordance with the basis of accounting described in the note 2 to the Cost-Sharing Schedule. We also considered internal control related to the provision of and accounting for cost-sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the Cost-Sharing Schedule. Accordingly, we do not express such an opinion.

## Reporting of cost-sharing contributions to the USAID

Cost-sharing contributions provided by AYLA during the year ended December 31, 2012 have not been reported to the USAID in the liquidation reports submitted by AYLA on a monthly basis, required by the reporting forms prescribed by the USAID. In the absence of information regarding cost-sharing contributions provided by the Organization, the regular monthly financial reporting is incomplete and does not show the overall progress of the program, as well as the Organization’s factual compliance with the agreement terms concerning cost-sharing contributions.

This compliance finding is described in detail in the Independent Auditor’s Report on Compliance.

Based on our review, except as noted above, nothing came to our attention that caused us to believe that the Organization did not fairly present the Cost-Sharing Schedule, in all material respects, in accordance with the basis of accounting used to prepare the Cost-Sharing Schedule, described in note 2 to the Cost-Sharing Schedule.



This report is intended for information of the Organization and the U.S. Agency for International Development (the "USAID"). However, upon release by the USAID, this report is a matter of public record and its distribution is not limited.

Gagik Gyulbudaghyan  
Managing Partner



Emil Vassilyan, FCCA  
Engagement Partner



Grant Thornton CJSC  
Yerevan, September 6, 2013




## Cost-Sharing Schedule

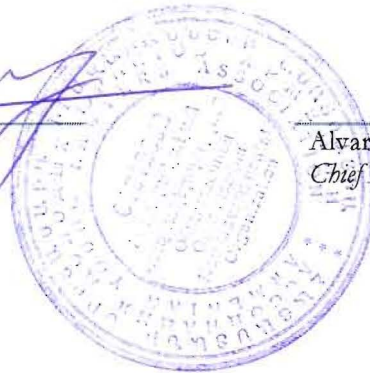
For the year ended December 31, 2012  
In US dollars

	Actual for the year			Notes
	Total	Cash	In-kind	
Other Direct Costs	14,517	-	14,517	3
<b>TOTAL:</b>	<b>14,517</b>	<b>-</b>	<b>14,517</b>	

*The Cost-Sharing Schedule was approved by the management of the Organization on September 6, 2013 and signed on its behalf. The accompanying notes set out on pages from 25 to 26 form an integral part of this Cost-Sharing Schedule.*

  
Karen Zadoyan  
President

  
Alyard Hovhannisyan  
Chief Accountant



## Notes to the Cost-Sharing Schedule

*For the year ended December 31, 2012*

*In US dollars*

### 1. General information

In accordance with the Cooperative Agreement AID-111-A-11-00002 for the “Armenia Against Corruption” Project, as last revised on August 21, 2012, the Armenian Young Lawyers Association (the “Organization”, AYLA) is required to make cost-sharing contributions in the amount of US dollars 120,600 over the life of the Project.

### 2. Significant accounting policies

#### a. Basis of preparation

The Cost-Sharing Schedule has been prepared based on the Organization’s records on own cost-sharing contributions.

Cost-sharing contributions are made in-kind and are recognized at the time of factual provision of donated goods, supplies and services to beneficiaries.

#### b. Functional and presentation currency

The functional currencies of the Project are United States dollars and Armenian drams. The Cost-Sharing Schedule is presented in US dollars.

#### c. Foreign currencies

Cost-sharing cash contributions, for which value is determined in Armenian drams, are converted to US dollars using the exchange rate underlying approved budget under the Cooperative Agreement AID-111-A-11-00002:

- 1 US dollar = 400 Armenian drams.

#### d. Cost-sharing contributions

Cost-sharing contributions are provided in-kind and include Project costs represented by services and property or use thereof, donated by non-US Government organizations and individuals.

Values of in-kind contributions (volunteer services, supplies, equipment, use of space, etc) are determined in accordance with the following valuation principles:

- Value of donated space must not exceed the fair rental value of comparable space and facilities in a privately owned building in the same locality, as determined by adequate market research.
- Value of loaned equipment must not exceed its fair rental value.

### 3. Other Direct Costs

<b>In US dollars</b>	<b>For the year ended December 31, 2012</b>
Office rent	11,267
Vehicle rent	3,250
	<b>14,517</b>

Cost-sharing contributions for donated space and loaned equipment are accounted for based on the unit costs approved in the Project budget, at the same time conforming any limitations set forth by the applicable valuation principles.



Financial Audit of the USAID Resources Managed by  
Armenian Young Lawyers Association under

*"Armenia Against Corruption" Project  
Cooperative Agreement AID-111-A-11-00002*

For the Year Ended December 31, 2012

*Independent Auditor's Report on Internal Control*

# Independent Auditor's Report on Internal Control

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To the Board of the Armenian Young Lawyers Association NGO  
7/2 Nalbandyan Str., Yerevan, Armenia

We have audited the Fund Accountability Statement of the USAID resources managed by the Armenian Young Lawyers Association (the “Organization”) under the “Armenia Against Corruption” Project (the “Project”), Cooperative Agreement AID-111-A-11-00002 for the year ended December 31, 2012, and have issued our report on it dated September 6, 2013. We also reviewed the separate Cost-Sharing Schedule.

Except for not having a fully satisfactory continuing education program and not having an external quality control review by an unaffiliated audit organization (as described in our report on the Fund Accountability Statement), we conducted our audit in accordance with the *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. In planning and performing our audit, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we do not express an opinion on the effectiveness of the entity’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Organization's internal control to be a material weakness:

#### Internal control over funds disbursed under Sub-Grant Agreements

**Condition:** When submitting monthly financial reports to AYLA, Project implementation partners (ADC and GCCI) have not been required to submit copies of bank statements, showing movements and balances on the separate accounts held for Project funds received within the scope of respective Sub-Grant Agreements. Bank account reconciliations are not carried out by AYLA, when reviewing and accepting monthly reports. Checks and reviews of reports submitted by Sub-Grantees are carried out at the AYLA headquarters in Yerevan, and are based on copies of supporting documentation provided by the Sub-Grantees.

**Criteria:** The *Standards for Internal Control in the Federal Government* issued by the US Government Accountability Office, set forth the minimum level of quality for internal control, including for control activities, which are an integral part of an entity's planning, implementing, reviewing and accountability for stewardship of government resources, and thus supporting achievement of the objectives of internal control related to reliability of financial reporting. Control activities include, *inter alia*, approvals, authorizations, verifications, reconciliation, creation and maintenance of related records, which provide evidence of execution of these activities, as well as appropriate documentation.

**Cause:** Due to the requirement for the Sub-Grantees to maintain separate bank accounts, additional control measures, such as bank and cash reconciliations have not been deemed necessary at the time reviewing and approving of monthly financial reports submitted by the Sub-Grantees.

**Effect:** Absence of month-end cash and bank reconciliation procedures may increase the risk of errors remaining undetected and uncorrected, and resulting in misstatement of the monthly financial reports, as well as the Fund Accountability Statement. In addition, absence of periodic on-site financial reviews may limit AYLA's ability to identify problem areas in the internal controls of the Sub-Grantees that are not reflected and immediately detectable in supporting documentation provided together with the monthly financial reports.

**Recommendation:** We recommend that AYLA introduce the following additional measures, aimed at strengthening internal control over funds disbursed to Project partners under Sub-Grant Agreements:

- reconciliation of financial reports with bank statements of respective bank accounts;
- regular on-site monitoring of financial management and accounting functions of the Project partners, including review of supporting documentation, cash reconciliations, etc. Results of such reviews should be documented, and implementation status for any resulting recommendation should be reviewed during subsequent visits.

**Management response:** AYLA has implemented additional measures aimed at strengthening internal control over funds disbursed to Project partners under Sub-Grant Agreements. Specifically:

- Starting with July 2013 reconciliation of financial reports to bank statements are performed.
- Starting with August 2013, regular site visits are performed to the offices of partner organization (once a month), in order to carry out monitoring of financial management and accounting functions of partner organizations, including review of supporting documents, cash box checks, etc. Results of reviews are to be documented, and implementation status of recommendations will be checked during next visit.

#### Internal control over sources and uses of funds

**Condition:** Through the course of Project implementation, the Armavir Development Center (ADC), has been applying funds received from several non-USAID sources towards Project expenses, due to various considerations - availability of large amounts of cash on hand (from non-Project sources), lack of required amount of USAID funds in the separate bank account held for Project purposes. These borrowings from non-Project sources were then refunded during the normal course of the Organization's operations, as non-Project expenses were instead paid from the separate Project account.

As a result, Project financial reports often included items which were not paid from the separate Project account, and the funds flow in the separate Project account, in turn, included items which were not Project-related, giving rise to differences between funds and cash balances at the end of the reporting period. At the same time, separate detailed records of such recurring inter-source borrowings were not maintained by the Organization, further complicating the reconciliation of fund and cash balances at the end of the reporting period.

**Criteria:** Under Sub-Grant Agreements signed by AYLA within the scope of the Project, the sub-grantee organizations are required to hold separate bank accounts for Project purposes, in order to ensure transparency and accountability of Project financial operations and expending of funds.

**Cause:** The separate bank account maintained for the Project was not applied correctly, defeating the purpose of the requirement of non-commingling of funds.

**Effect:** Incorrect application of the separate Project bank account complicates the process of bank reconciliations and increases the risk of misstatement of Project expenses in the monthly financial reports, as well as the Fund Accountability Statement. Multiple borrowings between various sources of financing, which are not adequately recorded and documented, weaken the control over fund and cash balances, and reduce transparency and accountability of Project transactions.

**Recommendation:** We recommend that the Organization realign the sources and uses of funds, by restricting transactions related to the Project to the separate bank account established for that purpose. In addition, we recommend that in exceptional cases when the Organization faces a need for a short-term borrowing of funds between various financing sources, detailed records of such transfers are produced documenting reasons and required approvals, and that refunds of such transfers are made in a lump sum equaling that of the borrowing, instead of refunding by means of payment of non-Project related expenses from the separate Project account.



**Management response:** During the normal course of Organization’s activities, there have been instances where a need has come up to use Project funds for various Projects being implemented simultaneously. The short-term borrowings between different financing sources have been repaid, however absence of separate cashbox records for different sources has not allowed to record balance of funds separately for each financing sources at any given point in time. In addition to separate bank accounts opened for the purposes of separate accounting of funds, separate cash box records will also be established for each financing source. In exceptional cases of short-term borrowings between different projects, these will be refunded with a single payment. In case of such inter-project payments, records and documentation will be prepared as required.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a significant deficiency in internal control.

#### Application of accounting software by GCCI

**Condition:** The GCCI does not use a specialized software for maintaining Project accounting records and preparation of financial reports. MS Excel spreadsheets are used to account for funds received under the Sub-Grant Agreement with AYLA and to prepare monthly financial reports, based on the bank statement records for the separate account held for the Sub-Grant.

**Criteria:** In accordance with the Cooperative Agreement, Section C2 *Accounting, Audit and Records*, paragraph (a) sets forth a number of requirements towards financial records and supporting documentation for substantiation of charges to the award. The provision requires, *inter alia*, that: “... *Accounting records that are supported by documentation will as a minimum be adequate to show all costs incurred under the award, receipt and use of goods and services acquired under the award, the costs of the program supplied from other sources, and the overall progress of the program.*”

**Cause:** Due to small turnover of funds, the simple nature of transactions, single currency operations and the cash basis of accounting used by the entity, the need for an accounting software package has not been deemed critical by the management.

**Effect:** Use of spreadsheets for the purpose of maintaining accounting records and preparation of financial reports has a number of shortcomings, which increase risks of material misstatement in financial reports, such as absence of tailored accounting tools and features such as double entry and transaction-specific modules (payroll and income tax calculations, depreciation, etc.), absence of security features, higher risks of loss of data due to inadvertent human error, etc. Hence, spreadsheets may offer only a limited level of reliability for financial reporting purposes.

**Recommendation:** We recommend GCCI management to consider application of a suitable double-entry accounting software package for maintaining accounting records and preparation of financial reports. Use of accounting software will strengthen internal control by reducing risks of misstatement and loss of records, which are significantly higher in a spreadsheet application without necessary functions, tools and security features.

**Management response:** The Organization is taking steps for introduction of an accounting software for accounting and preparation of financial statements. We have applied for corresponding changes in the budget of the AAC, in order to purchase the accounting software with the savings of funds.

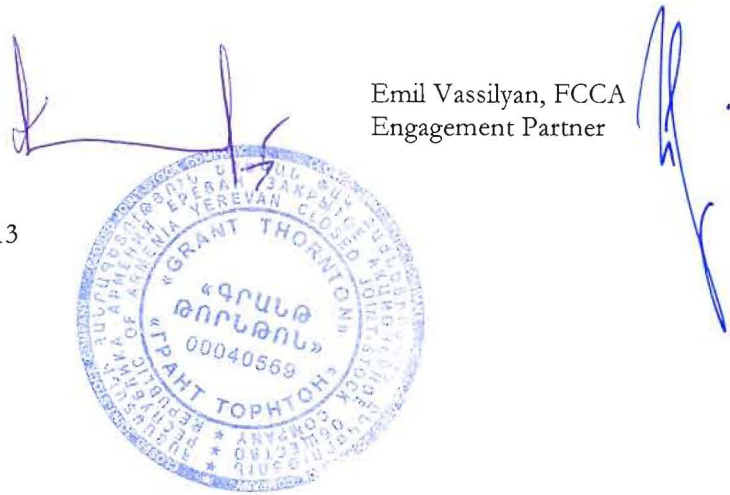
We also noted certain matters involving internal control and its operation that we have reported to the management of AYLA in a separate letter dated September 6, 2013.

This report is intended for information of the Organization and the U.S. Agency for International Development (the "USAID"). However, upon release by the USAID, this report is a matter of public record and its distribution is not limited.

Gagik Gyulbudaghyan  
Managing Partner

Grant Thornton CJSC  
Yerevan, September 6, 2013

Emil Vassilyan, FCCA  
Engagement Partner





Financial Audit of the USAID Resources Managed by  
Armenian Young Lawyers Association under

*"Armenia Against Corruption" Project  
Cooperative Agreement AID-111-A-11-00002*

For the Year Ended December 31, 2012

*Independent Auditor's Report on Compliance*

# Independent Auditor's Report on Compliance

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To the Board of the Armenian Young Lawyers Association NGO  
7/2 Nalbandyan Str., Yerevan, Armenia

We have audited the Fund Accountability Statement of the USAID resources managed by the Armenian Young Lawyers Association (the “Organization”) under the “Armenia Against Corruption” Project (the “Project”), Cooperative Agreement AID-111-A-11-00002 for the year ended December 31, 2012, and have issued our report on it dated September 6, 2013. We also reviewed the separate Cost-Sharing Schedule.

Except for not having a fully satisfactory continuing education program and not having an external quality control review by an unaffiliated audit organization (as described in our report on the Fund Accountability Statement), we conducted our audit of the Fund Accountability Statement in accordance with the *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct effect on the determination of the Fund Accountability Statement amounts.

Compliance with agreement terms and laws and regulations applicable to the Project is the responsibility of the Organizations’s management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of the Organization’s compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of the Organization’s compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost-sharing contributions.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement and the cost-sharing schedule. The results of our compliance tests disclosed the following material instances of noncompliance.

**Reporting of cost-sharing contributions to the USAID**

**Condition:** Cost-sharing contributions provided by AYLA during the year ended December 31, 2012 in accordance with the requirements of the Cooperative Agreement, have not been reported to the USAID in the liquidation reports submitted by AYLA on a monthly basis.

**Criteria:** The reporting forms prescribed by the USAID require reporting of Project costs supplied from other sources to be reported to the USAID in parallel to costs incurred from the USAID funds provided under the award.

**Cause:** The cost-sharing contribution amounts were omitted from the monthly financial reports by error, due to the fact that the cost-sharing requirement was introduced by a revision to the award budget at mid-year.

**Effect:** In the absence of information on cost-sharing contributions provided by the Organization, the monthly financial reports are incomplete and do not show the overall progress of the program, as well as the Organization’s factual compliance with the agreement terms concerning cost-sharing contributions. There are no questioned costs arising from the instance of non-compliance, as the Organization has prepared and presented a Cost-Sharing Schedule for the year ended December 31, 2012, which reflects the cumulative amount of cost-sharing contributions actually provided from inception of the Project.

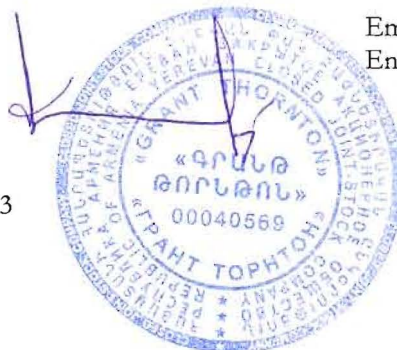
**Recommendation:** We recommend AYLA management to revise the monthly liquidation reports submitted to the USAID to include the cumulative amounts of cost-sharing contributions actually made to the date of the revised report, based on the accounting records on these contributions, as well as continue reporting of cost-sharing contributions provided on a monthly basis thereafter.

**Management response:** Starting with July 2013 AYLA has made adjustments in monthly reports with respect to cost-sharing contributions, and from now on cost-sharing contributions are duly included in the monthly reports submitted by AYLA to the USAID.

This report is intended for the information of the Organization and the U.S. Agency for International Development (the “USAID”). However, upon release by the USAID, this report is a matter of public record and its distribution is not limited.

Gagik Gyulbudaghyan  
Managing Partner

Grant Thornton CJSC  
Yerevan, September 6, 2013



Emil Vassilyan, FCCA  
Engagement Partner



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