



## MEMORANDUM

**DATE:** December 17, 2018

**TO:** USAID/Nicaragua, Mission Director, Theodore Gehr

**FROM:** OIG Latin America and Caribbean Regional Office, Assistant Director, Brad Moore /s/

**SUBJECT:** Financial Audit of Fundación para la Autonomía y el Desarrollo de la Costa Atlántica de Nicaragua's Management of the Education for Success Program in Nicaragua Under the Central American Regional Security Initiative, Cooperative Agreement AID-524-A-10-00005, January 1 to December 31, 2017 (I-524-19-014-R)

This memorandum transmits the final audit report on Fundación para la Autonomía y el Desarrollo de la Costa Atlántica de Nicaragua's Management of the Education for Success Program in Nicaragua under the Central America Regional Security Initiative (CARSI). Fundación para la Autonomía y el Desarrollo de la Costa Atlántica de Nicaragua (FADCANIC) contracted with the independent certified public accounting firm Grant Thornton Hernández & Asociados, S.A. 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 the audit in accordance with generally accepted government auditing standards except that the audit firm did not have an external peer review that fully complies with GAGAS requirements. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on FADCANIC'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 fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate

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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.

FADCANIC's internal controls; (3) determine whether FADCANIC complied with award terms and applicable laws and regulations; (4) determine if cost-sharing contributions were made and accounted for by FADCANIC in accordance with the agreement terms; and (5) determine if FADCANIC has taken adequate corrective action on prior audit report recommendations. To answer the audit objectives, the audit firm reported that they assessed and tested the internal controls related to the project; compliance with applicable laws, regulations, the agreement's provisions; and reviewed project expenditures. The audit covered \$1,327,997 in USAID expenditures for the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for \$1,384 in ineligible questioned costs. The audit firm stated that the ineligible questioned costs have been refunded to the project; as a result, we are not including a recommendation regarding these costs.

The audit firm did not identify any material internal control weaknesses. However, the audit firm did identify three internal control deficiencies in a separate management letter, related to (1) use of an incorrect exchange rate for a wire transfer conversion resulting in \$45 in ineligible questioned costs; (2) irreconcilable quarterly and year-end financial reports; and (3) misclassification of expenses.

The audit firm identified one instance of material noncompliance with applicable laws, regulations, and agreement terms, related to late submission of the recipient's annual performance report. Additionally, the audit firm identified two instances of noncompliance with applicable laws, regulations, and agreement terms in a separate management letter. These instances of noncompliance were related to (1) miscalculation of the indirect cost rate resulting in \$1,384 in ineligible questioned costs stated earlier in this report and (2) overstated recipient cost-sharing contributions resulting in \$2,835 in ineligible questioned costs. Since the recipient refunded the project \$1,384 for the ineligible questioned costs, we will not include a recommendation for this instance of noncompliance.

The audit firm determined that cost sharing contributions were made and accounted for by FADCANIC in accordance with the agreement terms except for \$2,835 in ineligible questioned costs discussed in the prior paragraph. Additionally, the audit firm determined that there were no prior audit findings or recommendations for the recipient to follow-up.

To address the issues identified in the report, we recommend that USAID/Nicaragua:

**Recommendation 1.** Determine the allowability of \$2,880 in ineligible questioned costs on pages 3 and 11 of the management letter and recover any amount that is unallowable.

**Recommendation 2.** Verify that FADCANIC corrects the three deficiencies in internal control detailed on pages 1 and 2 of the management letter.

**Recommendation 3.** Verify that FADCANIC corrects the one instance of material noncompliance detailed on page 28 of the audit report and the one instance of noncompliance detailed on pages 11 and 12 of the management letter.

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

management decision. 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").