



MEMORANDUM

DATE: May 21, 2018

TO: USAID/Nicaragua Mission Director, Theodore Gehr

FROM: Regional Inspector General/San Salvador, Audit Manager, Brad Moore /s/

SUBJECT: Closeout Audit of the Familias Unidas por su Salud Project Managed by Federación Red NicaSalud, Cooperative Agreement 524-A-00-06-00005-00, July 01, 2012, to September 30, 2013 (I-524-18-025-R)

This memorandum transmits the final audit report on the Familias Unidas por su Salud Project (FamiSalud) managed by Federación Red NicaSalud's (NicaSalud). USAID/Nicaragua 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 and OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

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 and a continuing professional education (CPE) program. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on NicaSalud's fund accountability statement; 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 the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate NicaSalud's internal controls; (3) determine whether NicaSalud complied with award terms and

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. "This contracted audit, however, follows the Guidelines".

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.

applicable laws and regulations; (4) determine if cost sharing contributions were made and accounted for by NicaSalud in accordance with the agreement terms; (5) determine if NicaSalud has taken adequate corrective action on prior audit report recommendations; and (6) determine the correct payment of salaries and fringe benefits that NicaSalud has charged to USAID. 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 \$2,179,457 in USAID funds for the period ended September 30, 2013.

The audit firm concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for \$603,411 in total questioned costs (\$117,235 ineligible and \$486,176 unsupported).

Concerning cost sharing contributions, Grant Thornton Hernández & Asociados, S. A. identified \$367,490 in total questioned costs (\$11,408 ineligible and \$356,082 unsupported).

The audit firm identified four material weaknesses and thirteen significant deficiencies. Three material weaknesses and eleven significant deficiencies were related to the questioned costs included in the fund accountability statement above. The remaining material weakness was related to a difference in the balance of the commodities purchased during the term of the project presented in the fund accountability statement compared to the records of NicaSalud. We are questioning \$201,996 in unsupported questioned costs (\$129,570 corresponded to NicaSalud and \$72,426 to its sub-recipients). The remaining two significant deficiencies were respectively related to: (1) outstanding fund balance of \$2,475 at the end of the audited period. We are questioning these costs in recommendation 4; and (2) a difference between the balance of the sub-recipient's fund accountability and its sub-ledgers totaling \$2,517. We are including these as unsupported questioned costs in recommendation 5.

The audit firm identified four instances of material noncompliance with applicable laws, regulations, and agreement terms. Three material instances of noncompliance were related to questioned costs included in the fund accountability statement and cost sharing contributions discussed above. The remaining material instance of noncompliance was related to final reports that were not provided.

Federación Red NicaSalud only implemented 2 out of 20 prior audit recommendations.

As stated above, the audit firm identified four material weaknesses and thirteen significant deficiencies in NicaSalud's internal controls, four instances of material noncompliance with applicable laws, regulations, and agreement terms, and eighteen outstanding recommendations from prior audit reports. While we consider these findings significant, we acknowledge that NicaSalud's award with USAID/Nicaragua ended on September 30, 2013, and the recipient has not received any subsequent awards from the mission. Accordingly, we will not include these concerns as recommendations in this transmittal memorandum because USAID/Nicaragua cannot take action on them. However, the mission should consider the volume and significance of these internal control weaknesses and deficiencies, instances of noncompliance, and failure to implement prior recommendations in any future funding decisions regarding the recipient.

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

Recommendation 1. Determine the allowability of \$603,411 in questioned costs (\$117,235 ineligible, \$486,176 unsupported) identified on pages 25 and 26 of the audit report and recover any amount that is unallowable.

Recommendation 2. Determine the allowability of \$367,490 in questioned costs (\$11,408 ineligible, \$356,082 unsupported) related to cost sharing contributions identified on pages 127 and 128 of the audit report and recover any amount that is unallowable.

Recommendation 3. Determine the allowability of \$201,996 in unsupported questioned costs identified on pages 33 and 34 of the audit report and recover any amount that is unallowable.

Recommendation 4. Determine the allowability of \$2,475 in ineligible questioned costs identified on page 59 of the audit report and recover any amount that is unallowable.

Recommendation 5. Determine the allowability of \$2,517 in unsupported questioned costs identified on pages 60 and 61 of the audit report and recover any amount that is unallowable.

We ask that you provide your written notification of actions planned or taken to reach a 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").