



MEMORANDUM

DATE: September 25, 2018

TO: USAID/Nepal Mission Director, Peter Malnak

FROM: Regional Inspector General/Manila, Matthew Rathgeber /s/

SUBJECT: Financial Audit of USAID Resources Managed by the Department of Health Services, Government of Nepal, Assistance Agreement 367-013, Implementation Letter No. 36, July 16, 2016, to July 15, 2017 (5-367-18-032-R)

This memorandum transmits the final audit report on the USAID resources managed by the Department of Health Services (DoHS), Government of Nepal. The Office of the Auditor General of Nepal (Auditor General) contracted the independent certified public accounting firm of CSC & Co. to conduct the audit under the supervision of the Auditor General. The contract required the audit firm to perform the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹ The Memorandum of Understanding Between the United States Agency for International Development and the Auditor General requires that the audit be conducted in accordance with U.S. GAGAS, auditing standards issued by the International Organization of Supreme Audit Institutions (INTOSAI), government auditing standards of Nepal, or such standards as the principals may agree upon.

The Auditor General stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. The Auditor General also stated that it performed its audit in accordance with INTOSAI fundamental auditing principles.² The Auditor General is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on DoHS' fund accountability statement; the effectiveness of its

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. The mission, however, asked the auditors in its contract to follow the Guidelines, and this contracted audit follows those Guidelines.

² GAGAS 2.19 allows auditors to use GAGAS in conjunction with professional standards issued by other authoritative bodies.

internal control; or its compliance with the agreement, laws, and regulations.³

The audit objectives were to (1) express an opinion on whether DoHS' fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate DoHS' internal controls; (3) determine whether DoHS complied with agreement terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine whether DoHS has taken corrective actions on prior audit report recommendations. To answer the audit objectives, the Auditor General reviewed program documents and procedures; examined the fund accountability statement; reviewed and documented the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. The audit covered project revenues and costs of \$863,357 and \$1,949,382, respectively, from July 16, 2016, to July 15, 2017.

The Auditor General concluded that, except for the effects of the questioned costs of \$85,152 (\$29,011 ineligible and \$56,141 unsupported), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the assistance agreement for the period audited. Examples of major questioned costs were (1) budget reallocation not communicated to USAID and claimed expenditures not supported—\$48,563 (unsupported, Finding 9 on pages 21-22); (2) value added tax payments explicitly prohibited by the agreement—\$21,768 (ineligible, Finding 8 on page 21); (3) supporting documents not sufficient—\$6,765 (unsupported, Finding 6 on pages 13-16); (4) unspent advance amount reported as expenditure or questioned costs on liquidated amounts—\$4,417 (ineligible, Finding 3 on pages 10-12); and (5) excess expenses charged to the project—totaling \$1,788 (\$1,549 ineligible, Findings 2 and 14 on pages 9 and 26-28, respectively; \$239 unsupported, Findings 4 and 5 on pages 12-13).

Concerning internal control, the Auditor General identified seven significant deficiencies in internal control, six of which are associated with the questioned costs in the fund accountability statement and the remaining one involved DoHS' delay in implementing project's activities. The Auditor General also identified eight material instances of noncompliance, seven of which are associated with the questioned costs in the fund accountability statement; the remaining one involved procurement totaling \$5,580 (NPR574,477)⁴ without obtaining three quotations. The \$5,580 charges should have been identified as questioned costs (unsupported) in the fund accountability statement. Accordingly, we are including these questioned costs in Recommendation I below.

In addition, the management letter reported three nonmaterial instances of noncompliance. Based on our review of the descriptions of the issues, we consider one issue to be a material instance of noncompliance; hence, we are making a recommendation for corrective action. The material instance of noncompliance pertained to not stamping "Paid" on the vouchers and the supporting documents (Observation 3).

³ We reviewed the 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.

⁴ NPR stands for Nepalese rupee. NPR figure has been converted at USD 1 = NPR102.96.

Regarding the review of cost-sharing contributions, the Auditor General reported cost-share contribution of \$62,198,449 for the audited period, which met the cost-share requirement under Implementation Letter No. 36 of \$833,350. The cost-sharing contributions have been verified by the Auditor General from the financial information related to the project retrieved from the financial controller general office of Nepal. The Auditor General did not report any questioned cost-sharing contributions.

Further, the Audit General reported that (1) DoHS has no USAID-authorized provisional indirect cost rate and (2) six of the nine findings noted in the prior year audit had not been resolved; therefore, these findings are being reported again in this audit report as part of Recommendation Nos. 2 and 3.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated September 25, 2018.

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

Recommendation 1. Determine the allowability of \$90,732 in questioned costs (\$29,011 ineligible, and \$56,141 plus \$5,580 unsupported) on page 3 of the audit report, and further detailed in Annexure V on page 41, and recover any amount that is unallowable.

Recommendation 2. Verify that the Department of Health Services, Government of Nepal corrects the seven significant deficiencies (Findings 1-7 on pages 8-17 of the audit report).

Recommendation 3. Verify that the Department of Health Services, Government of Nepal corrects the nine material instances of noncompliance (Findings 8-15 on pages 21-29 of the audit report and Observation 3 on page 2 of the management letter).

We ask that you provide written notification of actions planned or taken to reach management decisions. We appreciate the assistance extended during the engagement.

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").

Attachment: a/s