



MEMORANDUM

DATE: September 27, 2018

TO: USAID/Nepal Mission Director, Amy Tohill-Stull

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

SUBJECT: Financial Audit of National Society for Earthquake Technology – Nepal under Multiple USAID Awards in Nepal, July 16, 2016, to July 15, 2017 (5-367-18-033-R)

This memorandum transmits the final audit report on the multiple USAID awards managed by National Society for Earthquake Technology – Nepal (NSET). NSET contracted the independent certified public accounting firm of CSC & Co., Chartered Accountants, to conduct the audit. 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

CSC & Co., Chartered Accountants, stated that it performed its audit in accordance with U.S. GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. CSC & Co., Chartered Accountants, is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the recipient's fund accountability statements; 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 recipient's fund accountability statements for the period audited were presented fairly, in all material respects; (2) evaluate the recipient's internal controls; (3) determine whether the recipient complied with agreement terms and applicable laws and regulations; (4) perform an audit of the indirect cost

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 followed those 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.

rates; and (5) determine if the recipient had taken adequate corrective actions on prior audit recommendations. To answer the audit objectives, CSC & Co., Chartered Accountants, examined the documentation supporting the financial transactions, performed procedures to evaluate the effectiveness of the design and implementation of the internal controls, and determined compliance with the award requirements and applicable laws and regulations. The audit covered revenues and costs of \$3,445,537 and \$3,430,235, respectively, from July 16, 2016, to July 15, 2017, pertaining to three programs that NSET managed.³

CSC & Co., Chartered Accountants, concluded that, except for the effects of the questioned costs totaling \$49,117 (ineligible), the fund accountability statements presented fairly, in all material respects, program revenues and costs incurred under the three agreements for the period audited. The ineligible questioned costs pertained to the overstatement of indirect costs charged to two programs (PEER IV and Baliyo Ghar) that have USAID-authorized provisional indirect cost rates. The other program (BCIPN) does not have a USAID-authorized provisional indirect cost rates.

CSC & Co., Chartered Accountants, did not identify any significant deficiencies or material weaknesses in internal control. However, it identified two material instances of noncompliance—recurring findings that were also identified in the prior period audit report. One finding was associated with the ineligible questioned costs identified in the fund accountability statements while the other finding pertained to the charging of value-added tax to the programs for goods and services procured and reporting them in the quarterly financial reports for reimbursement by USAID. These charges were, nevertheless, reversed at year-end to report the correct annual program expenditures. Therefore, no questioned costs were identified in the fund accountability statements as USAID was properly charged.

In its Summary of findings and recommendation (pages 18–19), CSC & Co., Chartered Accountants, identified two issues, which were referred to as other internal control matters and immaterial instances of noncompliance in the reports on internal control and compliance, respectively. Based on our review of the audit firm’s description of the issues, we consider one issue to be a significant deficiency in internal control; hence, we are making a recommendation for corrective action. The significant deficiency in internal control pertained to the recipient not having a system for date stamping procurement bids upon receipt, opening of the bids, and preparing a memo for each procurement explaining the basis of selection. Further, all three agreements did not have a cost-sharing requirement.

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 27, 2018.

³ The three NSET programs subjected to annual financial audits covering the period from July 16, 2016, to July 15, 2017 were: (a) Program for Enhancement of Emergency Response IV (PEER IV) under Agreement AID-OFDA-G-14-00201, (b) Building Code Implementation Program in Municipalities of Nepal (BCIPN) under Agreement AID-OFDA-G-12-00177, and (c) Housing Reconstruction Technical Assistance Program (Baliyo Ghar) under Cooperative Agreement AID-367-A-15-00005.

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

Recommendation 1. Determine the allowability of \$49,117 in questioned costs (ineligible) identified in the fund accountability statements on pages 6 and 8, and further detailed in Annexure I on page 26 of the audit report, and recover any amount that is unallowable.

Recommendation 2. Verify that the National Society for Earthquake Technology – Nepal corrects the two material instances of noncompliance identified in the report on compliance on page 16 and further discussed in Findings 3 and 4 on page 19 of the audit report.

Recommendation 3. Verify that the National Society for Earthquake Technology – Nepal corrects the significant deficiency in internal control discussed on page 2 of this memorandum and detailed in Finding 2 on pages 18–19 of the audit report.

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