



MEMORANDUM

DATE: October 12, 2018

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

FROM: Office of Inspector General/Asia Regional Office Audit Director,
Matthew Rathgeber /s/

SUBJECT: Financial Audit of Social Empowerment and Building Accessibility Centre-Nepal
Under Multiple USAID Agreements, July 16, 2016, to July 15, 2017
(5-367-19-001-R)

This memorandum transmits the final audit report on the multiple USAID agreements managed by the Social Empowerment and Building Accessibility Centre-Nepal (SEBAC-Nepal). SEBAC-Nepal contracted the independent certified public accounting firm of PP Pradhan & Co 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

PP Pradhan & Co stated that it performed its audit in accordance with International Standards on Auditing and U.S. GAGAS except that it did not fully comply with the requirements on having continuing professional education program and external quality control reviews. PP Pradhan & Co 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 SEBAC-Nepal's fund accountability statements for the period audited were presented fairly, in all material respects;

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

(2) evaluate SEBAC-Nepal's internal controls; (3) determine whether SEBAC-Nepal complied with agreement terms and applicable laws and regulations; and (4) determine whether SEBAC-Nepal has taken corrective actions on prior audit report recommendations. To answer the audit objectives, PP Pradhan & Co examined the fund accountability statements and supporting documentation; evaluated the recipient's internal control system; determined compliance with agreement terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered project revenues and costs of \$1,315,710 and \$1,179,783, respectively, from July 16, 2016, to July 15, 2017, pertaining to two projects that SEBAC-Nepal managed.³

PP Pradhan & Co concluded that, except for the effects of the questioned costs totaling \$957 (\$955 ineligible and \$2 unsupported), the fund accountability statements presented fairly, in all material respects, project revenues and costs incurred under the two agreements for the period audited. The questioned costs pertained to (1) cost-sharing contributions not related to USAID projects and charged to the WRA project—\$884; (2) payment of excess per diem—\$2; (3) payments of value added taxes or withholding taxes—\$64; (4) payment of unallowable bank penalty—\$5; and (5) unsupported travel expense—\$2. Since the questioned costs did not meet the OIG's established threshold of \$1,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the mission determine the allowability of the \$957 in questioned costs and recover any amount determined to be unallowable.

The audit firm did not identify any significant deficiencies or material weaknesses in internal control, or material instances of noncompliance. The \$957 in questioned costs identified in the fund accountability statements was not included as findings either in the report on internal control or report on compliance. Based on the audit firm's description of these questioned cost issues, we considered item 1 above (related to cost-sharing contributions not related to USAID projects and charged to the WRA project—\$884) as a material instance of noncompliance; therefore, we are making a procedural recommendation for corrective action.

In addition, in its management letter, the audit firm identified four other internal control matters or nonmaterial instances of noncompliance. Based on our review of the audit firm's descriptions of the issues, we considered two issues to be significant deficiencies in internal control and one issue to be a material instance of noncompliance; hence, we are making a recommendation for corrective action. The significant deficiencies pertained to: (1) errors noted in the annual progress report as compared with the financial record and (2) unspent advance amount given to a staff not refunded timely to the sub-awardee. The material instance of noncompliance pertained to recurring delays in sub-awardee's submission of financial reports to SEBAC-Nepal.

Regarding the review of cost-sharing contributions which are required under the agreements, the audit firm reported in the cost-sharing schedules for Safe WASH II and WRA that SEBAC-Nepal contributed a total of \$172,198 and \$0, respectively, for the period audited.

³ The two SEBAC-Nepal projects subjected to annual financial audits covering the period from July 16, 2016, to July 15, 2017 were: (a) Safe Practices on Water, Sanitation and Hygiene II Project (Safe WASH II) under Cooperative Agreement AID-367-A-14-00003 and (b) Water, Sanitation and Hygiene Recovery Activity Project (WRA) under Cooperative Agreement AID-367-A-16-00001.

The audit firm did not report any questioned costs on these cost-sharing contributions. In addition, the audit firm reported that (1) the recipient has no USAID-authorized provisional indirect cost rate; and (2) the two findings noted in the prior year audit had not been resolved during the period audited.

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 October 12, 2018.

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

Recommendation 1. Verify that the Social Empowerment and Building Accessibility Centre-Nepal corrects the two significant deficiencies in internal control discussed on page 2 of this memorandum and detailed in Observations A.1 and A.2 of the management letter.

Recommendation 2. Verify that the Social Empowerment and Building Accessibility Centre-Nepal corrects the two material instances of noncompliance discussed on page 2 of this memorandum and detailed in Issue 6 on page 11 of the report and Observation B.3 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