



MEMORANDUM

DATE: October 31, 2019

TO: USAID/Nepal Acting Mission Director, Adriana Hayes

FROM: USAID OIG Asia Regional Office Acting Audit Director, Emily Gardiner /s/

SUBJECT: Financial Audit of the National Early Grade Reading Program Managed by the Center for Education and Human Resources Development, Ministry of Education, Science and Technology, Government of Nepal, Assistance Agreement 367-013, Implementation Letter 3.14-3, July 16, 2017, to July 16, 2018 (5-367-20-005-R)

This memorandum transmits the final audit report on the National Early Grade Reading Program managed by the Center for Education and Human Resources Development (CEHRD), Ministry of Education, Science and Technology, Government of Nepal. The Memorandum of Understanding between the United States Agency for International Development (USAID) and the Office of the Auditor General of Nepal (Auditor General) states that the Auditor General will conduct audits of USAID funded agreements with the Government of Nepal, and that both parties may agree that the Auditor General can contract an independent public accounting firm to perform an audit. The Auditor General contracted with the independent certified public accounting firm of CSC & Co. to conduct the audit under the supervision of the Auditor General. The Auditor General stated that it performed its audit in accordance with U.S. generally accepted government auditing standards (GAGAS), USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients,¹ and International Organization of Supreme Audit Institutions (INTOSAI) fundamental auditing principles. However, the Auditor General did not fully comply with the GAGAS requirements on having a continuing professional education program and external quality control reviews. The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 statement of work, however, required the auditors to follow the Guidelines, and this audit followed those Guidelines.

CEHRD'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 CEHRD's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate CEHRD's internal controls; (3) determine whether CEHRD complied with agreement terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine if CEHRD had taken adequate corrective actions on prior audit recommendations. To answer the audit objectives, the Auditor General reviewed project documents and procedures; examined the fund accountability statement; evaluated the recipient's internal controls relevant to the project; tested compliance with agreement terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The audit covered project revenues and costs of \$0 and \$901,238, respectively, and equipment and commodities directly procured by USAID of \$1,909,889, from July 16, 2017, to July 16, 2018.³

The Auditor General concluded that, except for the effects of the questioned costs of \$22,366 (\$21,655 ineligible and \$711 unsupported), the fund accountability statement presented fairly, in all material respects, project revenues, costs incurred, and commodities directly procured by USAID under the assistance agreement for the period audited. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the mission determine the allowability of the \$22,366 in questioned costs and recover any amount determined to be unallowable.

The Auditor General identified six material instances of noncompliance, one of which is associated with the questioned costs in the fund accountability statement related to unallowable value-added taxes. The remaining five pertained to (1) travel expenses not supported with the required monitoring/field visit reports; (2) vouchers and supporting documents not stamped "paid;" (3) requirements of branding and marking provision not complied with; (4) stationery items procured in 12 sets of the invoices over a short period, instead of on the bulk basis with quotations from eligible vendors; and (5) project progress reports and reimbursement claims submitted to USAID after required deadlines. In addition, although we are not making a recommendation for the nine significant deficiencies noted in the report, we suggest that the mission determine if the recipient addressed the issues noted.

Regarding the review of cost-sharing contributions, the Auditor General reported cost-sharing contributions of \$365,554 for the period audited, which met the cost-share requirement of \$300,413. The Auditor General did not report any questioned cost-sharing contributions.

² We reviewed the Auditor General'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.

³ The claims for the project costs of \$901,238 were reimbursed by USAID to CEHRD after the period audited. Further, the equipment and commodities directly procured by USAID of \$1,909,889 was net of commodities of \$8,280 that were procured after the period audited.

Finally, the Auditor General reported that six of the nine findings noted in the prior year audit had not been resolved; thus reported again in this audit report.

During our desk review, we noted a few issues which the Auditor General will need to address in future audit reports. We presented these issues in a memorandum to the controller dated October 31, 2019.

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

Recommendation 1. Verify that the Center for Education and Human Resources Development, Government of Nepal corrects the six material instances of noncompliance identified in the report on compliance on page 21 and detailed in Findings 10–15 on pages 22–25 of the report.

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”).

Attachment: a/s