



MEMORANDUM

DATE: April 30, 2020

TO: USAID/Nepal Acting Mission Director, Adriana Hayes

FROM: USAID OIG Asia Regional Office Audit Director, James C. Charlifue /s/

SUBJECT: Financial Audit of USAID Resources Managed by the Department of Health Services, Ministry of Health and Population, Government of Nepal, Assistance Agreement 367-013, Implementation Letter No. 53, July 16, 2017, to July 16, 2018 (5-367-20-031-R)

This memorandum transmits the final audit report of USAID resources managed by the Department of Health Services (DoHS), Ministry of Health and Population, Government of Nepal. The memorandum of understanding between USAID/Nepal 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 it can contract an independent public accounting firm to perform an audit, if agreed upon by both parties. The Auditor General contracted with the independent certified public accounting firm of CSC & Co., Chartered Accountants to conduct the audit under the supervision of the Auditor General. The Auditor General stated that it performed its audit in accordance with generally accepted government auditing standards and the International Organization of Supreme Audit Institutions' (INTOSAI) fundamental auditing principles. However, it did not have 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 DoHS' fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

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 related to USAID-funded programs; (3) determine whether DoHS

¹ 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.

complied with agreement terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine if DoHS 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; obtained an understanding of the recipient's accounting, administrative and internal control systems and assessed their effectiveness; 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 \$513,224 and \$1,163,910, respectively from July 16, 2017, to July 16, 2018.

The Auditor General concluded that the fund accountability statement presented fairly, in all material respects, project revenues, and costs incurred under the agreement for the period audited except for \$22,259 in total questioned costs (\$19,447 ineligible and \$2,812 unsupported). 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 \$22,259 in questioned costs and recover any amount determined to be unallowable.

The Auditor General did not identify any material weaknesses in internal control but noted three significant deficiencies, two of which are related to the identified questioned costs. Although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID/Nepal determine if the recipient addressed the issues noted.

Further, the Auditor General identified six material instances of noncompliance, three of which are associated with the questioned costs in the fund accountability statement. These include unallowable costs related to value-added taxes; activities not related to the program; and excess payments for daily subsidy allowances. The remaining three material instances of noncompliance pertain to (1) insufficient income tax withholdings for a consultant; (2) paid vouchers and supporting documents not stamped "paid;" and (3) noncompliance with branding and marking requirements. The Auditor General also issued a management letter to DoHS identifying immaterial instances of noncompliance.

Regarding the review of cost-sharing contributions, the Auditor General reported cost-sharing contributions of \$231,736,518 for the period audited which significantly exceeded the cost-share requirement of \$832,293. The Auditor General did not identify any questioned costs related to these contributions.

Finally, the Auditor General reported that 9 of 18 findings noted in the prior year audit, including findings related to immaterial instances of noncompliance, had not been resolved.

During our desk review, we noted issues which the Auditor General will need to address in future audit reports. We presented these issues in a memorandum to the controller dated April 30, 2020.

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

Recommendation 1. Verify that the Department of Health Services, Ministry of Health and Population, Government of Nepal corrects the six material instances of noncompliance identified in the report on compliance on pages 14-15, and detailed in Findings 4-9 on pages 16-21 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