



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

MEMORANDUM

DATE: September 7, 2022

TO: USAID/Nepal Mission Director, Sepideh Keyvanshad

FROM: USAID OIG Asia Regional Office, USDH NFA Coordinator, Rhonda M. Horried /s/

SUBJECT: Financial Audit of USAID Awards Managed by the Department of Health Services and Karnali Province's Ministry of Social Development in Nepal Under Assistance Agreement 367-013, Implementation Letter 113, July 16, 2020, to July 15, 2021 (5-367-22-024-R)

This memorandum transmits the final audit report of USAID awards managed by the Government of Nepal's Department of Health Services and Karnali Province's Ministry of Social Development (the recipients), under Implementation Letter 113 issued under Assistance Agreement 367-013.

The Office of the Auditor General of Nepal (Auditor General) conducted the audit. 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' standards. However, it did not have a continuing professional education program and external quality control review that satisfied the requirements of generally accepted government auditing standards. The Auditor General is responsible for the enclosed report, and the conclusions expressed in it. We do not express an opinion on the schedule of expenditures of USAID awards; the effectiveness of the recipients' internal control; or their compliance with the award, laws, and regulations.¹

The audit objectives were to (1) express an opinion on whether the schedule of expenditures of USAID awards for the period audited was presented fairly, in all material respects; (2) evaluate the recipients' internal controls related to USAID programs; (3) determine whether the recipients complied with agreement terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine if the recipients had taken adequate corrective actions on prior audit recommendations.

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.

To answer the audit objectives, the Auditor General reported that it reviewed project documents and procedures; examined the schedule of expenditures of USAID awards; obtained an understanding of and assessed relevant internal controls; tested compliance with agreement terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The audit covered project expenditures of \$774,025 from July 16, 2020, to July 15, 2021.

The Auditor General concluded that the schedule of expenditures of USAID awards presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited except for the effects of the \$27,809 in questioned costs (\$27,780 ineligible and \$29 unsupported). The Auditor General reported 13 significant deficiencies, no material weakness in internal controls and 6 instances of material noncompliance. Although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID/Nepal determine if the recipients addressed the issues noted.

Regarding the review of cost-sharing contributions, the Auditor General reported the recipients contributed \$24,677,331 for the period audited which exceeded the total cost-share requirement of \$732,424. The Auditor General did not identify any questioned costs related to these contributions. Finally, the Auditor General reported that 14 of 20 findings noted in the prior year audit had not been resolved and were reported in the current audit.

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

Recommendation 1. Determine the allowability of \$27,809 in questioned costs (\$27,780 ineligible, \$29 unsupported) detailed on page 5 of the audit report and recover any unallowable amount.

Recommendation 2. Verify that the Government of Nepal's Department of Health Services and Karnali Province's Ministry of Social Development correct the six material instances of noncompliance detailed in Findings 14-19 on pages 23-27 of the report.

We ask that you provide your 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").