



# OFFICE OF INSPECTOR GENERAL

## U.S. Agency for International Development

### MEMORANDUM

**DATE:** September 13, 2024

**TO:** USAID/Nepal Mission Director, Katie Donohoe

**FROM:** Asia Regional Office Assistant Director, Rhonda M. Horried/s/

**SUBJECT:** Financial Audit of Health Direct Financing Project Managed by Government of Nepal's Department of Health and Services and Other Implementing Government Agencies Under Development Objective Agreement 367-014(3670184.00), IL No. 6, March 26 to July 16, 2023 (5-367-24-050-R)

This memorandum transmits the final report on the audit of Health Direct Financing Project managed by the Government of Nepal's Department of Health and Services and other implementing government agencies under Implementation Letter No. 6 issued under Development Objective Agreement 367-014 (3670184.00), for the period from March 26 to July 16, 2023. The Office of the Auditor General of Nepal conducted the audit. The auditor stated it performed this audit in accordance with generally accepted government auditing standards (GAGAS). However, it did not have a continuing professional education program or an external quality control review that fully comply with GAGAS requirements. The auditor 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 its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

The audit objectives were to: (1) express an opinion on whether the schedule of expenditures of USAID award for the period audited was presented fairly, in all material respects; (2) evaluate and obtain an understanding of internal controls related to USAID awards; and (3) perform tests of compliance with the agreement terms, applicable laws and regulations. To answer the audit objectives, the audit firm performed the subject financial audit that covered project expenditures of \$1,579,038 for the period March 26 to July 16, 2023.

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<sup>1</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items that need clarification or issues that require management attention. Desk reviews are limited to review of the audit report itself and exclude review of the auditor's supporting work papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The auditor concluded that the schedule of expenditures of USAID award presented fairly, in all material respects, program revenues and costs incurred and reimbursed under the agreement for the period audited except for \$45,026 questioned costs (\$39,909 ineligible, \$5,117 unsupported). The auditor reported one material weakness in internal control for not monitoring project's total budget over actual expenditures; and eleven instances of material noncompliance. In addition, although we are not making a recommendation for several deficiencies noted in the report, we suggest that USAID/Nepal determine if the recipients have addressed the issues noted.

During our desk review, we noted an area for improvement which the auditor should address in its future audit reports. We presented this deficiency through a memo to the mission controller, dated September 13, 2024.

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

**Recommendation 1:** Determine the allowability of \$45,026 in questioned costs (\$39,909 ineligible, \$5,117 unsupported) on pages 13 to 14 and pages 33 to 41 of the audit report and recover any amount that is unallowable.

**Recommendation 2:** Verify that the Government of Nepal's Department of Health and Services and Other Implementing Government Agencies corrects the I material weakness in internal control detailed on pages 25 to 26 of the audit report.

**Recommendation 3:** Verify that the Government of Nepal's Department of Health and Services and Other Implementing Government Agencies corrects the II instances of material noncompliance detailed on pages 33 to 45 of the audit 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.

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"). In addition, USAID OIG has determined that this transmittal memo and the enclosed report are not subject to notification and reporting requirements under Section 5274 of the National Defense Authorization Act.<sup>2</sup>

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<sup>2</sup> The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 Pub. L. No. 117-263, §5274. Please direct related inquiries to [oignotice\\_ndaa5274@usaid.gov](mailto:oignotice_ndaa5274@usaid.gov).