



## MEMORANDUM

**DATE:** July 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. 75, July 17, 2018 to July 16, 2019 (5-367-20-060-R)

This memorandum transmits the final audit report on the USAID resources managed by the Department of Health Services (DoHS), Ministry of Health and Population, Government of Nepal. 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 the audit was performed in accordance with generally accepted government auditing standards, the International Organization of Supreme Audit Institutions' fundamental auditing principles and the USAID financial audit guide for foreign organizations. However, it did not fully comply with the 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 the recipient's fund accountability statement; 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 DoHS's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate DoHS's internal controls; (3) determine whether DoHS complied with agreement terms (including cost-sharing contributions), and applicable laws and regulations; and (4) determine whether DoHS has taken corrective actions on prior audit report recommendations. To answer the audit objectives, the Auditor General examined the fund accountability statement

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<sup>1</sup> 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.

and supporting transactions; evaluated the effectiveness of the design and operation of the internal control system; conducted tests of the recipient's compliance with agreement terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The audit covered program costs of \$931,766, respectively, from July 17, 2018 to July 16, 2019. There was no program revenue for the audited period.

The Auditor General concluded that, except for the effects of \$49,030 in total questioned costs (\$48,772 ineligible and \$258 unsupported), the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred and reimbursed under the agreements for the period audited. The ineligible costs pertained to taxes charged to USAID (\$18,968), unspent funds claimed as expenditure (\$17,222), unsettled advances claimed as expenditure (\$6,210), payment of benefits in excess of prescribed norms (\$4,758), and same expenditure claimed twice (\$1,614). The unsupported costs pertained to expenses charged without adequate supporting documentation (\$258). The Auditor General did not identify any material weaknesses in internal control but noted seven significant deficiencies, of those four were 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 four material instances of noncompliance, two of those were associated with the questioned costs and the others were related to inadequate withholding of income tax and branding/marketing requirements not observed on certain activities.

The Auditor General also issued a management letter to DoHS identifying other internal control matters.

Regarding the review of cost-sharing contributions, the Auditor General reported cost-sharing contributions of \$29,154,814 for the period audited that significantly exceeded the cost-share requirement of \$623,333. The Auditor General did not identify any questioned costs related to these contributions.

Finally, the Auditor General reported that several findings noted in the prior year audit had not been resolved.

During our desk review, we noted an issue which the Auditor General will need to address in future audit reports. We presented this issue in a memorandum to the mission's controller dated July 30, 2020.

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

**Recommendation 1.** Determine the allowability of \$49,030 in total questioned costs (\$48,772 ineligible and \$258 unsupported) identified on page 1 and detailed on page 5 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that the Department of Health Services, Ministry of Health and Population, Government of Nepal corrects the two material instances of noncompliance detailed in Findings 10 and 11 on pages 19-20 of the report.

We ask that you provide written notification of actions planned or taken to reach a 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