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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit

SINGAPORE

PD-ADD-081

AUDIT OF WORLD EDUCATION, INC. - NEPAL

AUDIT REPORT NO. 5-367-91-05-N

JULY 26, 1991

Except for approximately \$2,600 in costs questioned as unallowable under the grant, the auditors determined that grant expenditures were allocable, allowable, and reasonable. However, the audit report disclosed several areas where internal controls procedures needed to be strengthened.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
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July 26, 1991

MEMORANDUM FOR: Kelly Kammerer, Mission Director
USAID/Nepal
FROM: 
James B. Durnil, RIG/A/Singapore
SUBJECT: Audit of World Education, Inc. - Nepal
Audit Report No. 5-367-91-05-N

The accounting firm of Price Waterhouse, New Delhi, India performed a financial audit of a USAID/Nepal grant awarded to World Education, Inc. - Nepal. Five copies of the audit report are enclosed for your action.

USAID/Nepal awarded a three-year grant to World Education, Inc. of Boston, Massachusetts under the PVO Co-Financing Project (Project number 367-0159). This \$600,000 grant, effective September 1, 1987 through August 31, 1990, included a subgrant of \$322,500 to the Government of Nepal, Ministry of Education and Culture. The purpose of the grant was to implement USAID/Nepal's Literacy Program Expansion Project. The overall objective of this Project was to increase the number of participants served by Nepal's National Literacy Program through improved Program efficiency and effectiveness.

The purpose of the audit was to determine whether: (1) expenditures made under the grant were allocable, allowable, and reasonable; (2) internal controls were adequate to segregate and account for USAID/Nepal funds; and (3) the provisions of the grant agreement and applicable laws and regulations were complied with. The amount audited was about \$164,000 in expenditures claimed by World Education, Inc. - Nepal for the period September 1, 1987 through June 30, 1989. An additional \$134,000 of expenditures claimed by World Education, Inc. - Boston was not audited because the official records for these claims are maintained in the United States and are subject to audit under the provisions of OMB Circular A-133. Further, costs incurred under the \$322,500 subgrant to the Ministry of Education and Culture were not reviewed during this audit.

Except for approximately \$2,600 in costs questioned as unallowable under the grant, the auditors determined that grant expenditures were allocable, allowable, and reasonable. However, the audit report disclosed several areas where internal controls procedures needed to be strengthened. Finally, the auditors found that World Education, Inc. - Nepal generally complied with the grant agreement and applicable laws and regulations.

Management officials of World Education, Inc. - Nepal generally concurred in the audit findings and agreed to implement applicable audit recommendations. Management's complete written responses are included as Appendix E to the enclosed report.

Recommendation No. 1: We recommend that USAID/Nepal take the necessary actions to resolve the \$2,590 in questioned costs and recover from World Education, Inc. - Nepal any costs not allowable under the grant.

Recommendation No. 2: We recommend that USAID/Nepal require World Education, Inc. - Nepal to develop and implement written procedures to ensure that (1) A.I.D.-funded assets are adequately protected, (2) cash receipt and cash disbursement journals are routinely maintained, and (3) bank reconciliations are regularly performed.

Recommendation No. 3: We recommend that USAID/Nepal require World Education, Inc. - Nepal to establish and use written procedures to ensure that project counterpart contributions are properly made and that World Education, Inc. - Nepal receives prior written approval from USAID/Nepal before incurring unbudgeted expenditures.

Please advise me within 30 days of any actions planned or taken to close these recommendations.

AUDIT OF WORLD EDUCATION INC.
NEPAL PYD CO-FINANCING II PROJECT
NO. 367-0158
KATHMANDU

Price Waterhouse



June 3, 1991

Mr. James B. Durnil
United States Agency for
International Development
Regional Inspector General/Audit
17-03 Peninsula Plaza
111 North Bridge Road
Singapore 0617

Dear Mr. Durnil,

**AUDIT OF WORLD EDUCATION INC. NEPAL PVO
CO-FINANCING II PROJECT (387-0159), KATHMANDU**

This report presents the results of the financial audit of the WEI Nepal PVO Co-Financing II Project (387-0159), Kathmandu.

The background, audit objectives and scope, and the summary results of audit are contained in Parts I and II of this report. Parts III, IV and V include our audit opinions on the fund accountability statement, the internal controls, and the compliance with laws and regulations, together with the related findings and recommendations.

The comments received from WEI and Mission officials are summarized in Part II of the report and are presented in their entirety in Appendices E and F.

Yours faithfully,

Price Waterhouse

**AUDIT OF WORLD EDUCATION INC
NEPAL PYO CO-FINANCING II PROJECT (367-0150)
KATHMANDU, NEPAL**

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AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

PART I - INTRODUCTION

A. Background

USAID/Nepal engaged Price Waterhouse, New Delhi to perform a financial audit of the World Education Inc., Nepal PVO Co-Financing II Project.

USAID/Nepal assists the Literacy Expansion Project by providing funds for salaries, consultants, travel and other direct costs. The Literacy Program Expansion Project under the PVO Co-Financing II Project (367-0159) was a 3-year effort authorized at \$600,000 and ended on August 31, 1990.

USAID/Nepal implemented this project through a grant of \$600,000 to a non-governmental organization (NGO), World Education Inc., Boston, Massachusetts (WEI). The grant to WEI (No.367-0159-G-00-7001-00) was dated September 23, 1987. This grant included a \$322,500 subgrant to the Government of Nepal (GON)/Ministry of Education and Culture (MOEC).

The general objective of the Project was to expand the number of people served by the National Literacy Program in Nepal and to improve the program's efficiency and effectiveness through:

- (i) Timely delivery of literacy materials, for which a one-time subgrant of \$85,000 was given to MOEC to produce a year's supply of materials and to stay one year ahead of the Government's budgeting process.
- (ii) Increased effectiveness of facilitators.
- (iii) Provision of post literacy materials.
- (iv) Expansion of the Literacy Program, for which the MOEC had set a new goal of doubling the number of learners from 50,000 to 100,000 per year.
- (v) Increased participation of women and girls.
- (vi) Improved coordination with non-MOEC institutions.

Liquidation of advances under the grant is carried out by WEI, Boston by preparing SF-269, "Financial Status Report" (Fund Accountability Statement) and submitting it directly to USAID/Nepal. The Fund Accountability Statement includes expenditure incurred by WEI Boston, WEI Kathmandu and disbursements under the sub-grant to MOEC. Details of MOEC expenses under the subgrant are not shown in the Fund Accountability Statement.

As at June 30, 1989, USAID/Nepal had obligated \$800,000 for the Literacy Program Expansion of which \$ 298,298 had been spent as reported by WEI in the fund accountability statement submitted to USAID/Nepal.

B. Audit Objectives and Scope

The audit objectives were :

- To determine whether the Fund Accountability Statement of WEI for the period September 1, 1987 to June 30, 1989 (22 months) fairly presents the project expenditures under the terms of the grant agreement and to identify any costs which were not fully supported with adequate records or which were not allocable, reasonable or allowable in accordance with grant requirements.
- To determine whether the WEI internal accounting controls are adequate for A.I.D. purposes.
- Report on compliance with applicable laws, regulations and grant agreement terms.

Our examination was made in accordance with (1) generally accepted auditing standards set forth by the AICPA, (2) U.S. Government Auditing Standards and (3) the standards mentioned under Article II of the "Guidelines for Financial and Compliance Audits of A.I.D. - Financed Agreements".

The scope of our work for the first audit of the project comprised:

- confirmation of the grant funds received by the project and the contribution made by WEI and GON.
- an examination of grant related disbursements made by WEI and MOEC.
- review of the literacy material distribution and internal controls and supervision exercised by the Adult Education Section of the MOEC.
- testing of compliance with the applicable laws, regulations and grant agreement terms by WEI and its sub-grantee, the MOEC.

AUDIT OF WORLD EDUCATION INC
NEPAL PYD CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

PART II - SUMMARY RESULTS OF AUDIT

We were engaged as auditors on September 10, 1990, which was several months after the end of the activities under review. Thus, we were not able to test the validity of certain evidential matter relating to project disbursements, and the internal controls and supervision exercised by WEI and MOEC over the distribution of literacy materials through physical examination, observation and inspection.

Fund Accountability Statement

The scope of our work was limited to an examination of locally incurred expenditures included in the Fund Accountability Statement of World Education Inc. Kathmandu only. Our examination revealed that:

- The expenses incurred by WEI, Boston and charged to the project, representing 45 percent of the total expenditures, could not be verified as the related supports are reportedly maintained at WEI, Boston and were unavailable at Kathmandu. Also certain local expenditures were not fully supported (see Finding 1).
- Grant funds were used for purposes other than the grant objectives, although subsequently refunded (see Finding 2).
- There were certain expenses charged to the project which were not related to the grant and details of expenditures incurred by MOEC, under the sub-grant, were not reported (see Finding 3).
- Approvals were not obtained for certain expenses which required prior USAID approval (see Finding 4).
- The fund closing balances could not be verified as WEI, Kathmandu did not maintain adequate books of account to segregate project and other funds (see Finding 5).

Consequently, we were unable to express an opinion on the Fund Accountability Statement (Part III B) and have presented questioned costs noted during the course of the audit as Appendix D.

Internal Accounting Controls

Consideration of the significant internal accounting controls indicated the following deficiencies:

- The amounts reported as paid by WEI under the sub-grant could not be reconciled with the receipts recorded by MOEC (see Finding 8).
- Assets were not adequately protected (see Finding 7).
- Costs in excess of budget could not be determined (see Finding 8).
- Internal accounting controls and the records needed substantial improvements (see Finding 9).

Therefore, we concluded that the reportable conditions stated above resulted in more than a relatively low risk that errors or irregularities, in relation to the Fund Accountability Statement, could occur and not be detected in a timely manner.

Compliance with Agreement Terms

The audit disclosed instances of non-compliance with the regulations, grant agreement and local requirements as discussed in Part V B of the report. Consequently, we have qualified our audit opinion in this regard (see Part V A).

WEI and Mission Response to Draft Report

In its initial response to the draft report (Appendix E pages 1 to 4) WEI stated that it would work with the Mission for dealing with the recommendations and had already initiated action to improve:

- its record keeping
- oversight over the sub-grantee
- reporting to the Mission
- matching of grant contributions

The Mission also agreed with the principal concerns reported by the audit and confirmed that it would be working with WEI to resolve these issues (Appendix F).

However, in a subsequent response received from WEI (Appendix E pages 5 and 6) they have indicated disagreement with the findings relating to:

- maintenance of records at Kathmandu in support of reported expenditures (Finding 1),
- expenses unrelated to the grant (Finding 3), and
- matching of grant contributions (Finding 11).

The disagreement expressed by WEI nevertheless does not provide any additional evidence and consequently no changes are considered necessary in the report.

Price Waterhouse



AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

PART III-A

**INDEPENDENT AUDITOR'S OPINION ON
THE FUND ACCOUNTABILITY STATEMENT**

We were engaged to audit the Fund Accountability Statement of World Education Inc., under the Nepal PVO Co-Financing II Project (367-0159), for the twenty-two-month period September 1, 1987 to June 30, 1989, as summarized in Part III B of the report, in accordance with the Audit Objectives and Scope (Part I). This statement is the responsibility of WEI.

As stated in the Summary Results of Audit (Part II) and the detailed findings (Part III C), the scope of our examination was limited due to unavailability at Kathmandu of certain essential records supporting about 45 percent of the total grant expenditures. Also, certain funds were used for purposes not related to the grant and certain expenditures were made without the required USAID approval.

Since it was not possible to examine all essential supporting records and as we were not able to apply other auditing procedures to satisfy ourselves as to a significant part of the reported expenditures, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the Fund Accountability Statement.

This report is intended solely for the use of WEI and USAID/Nepal. This restriction is not intended to limit distribution of this report which, upon acceptance by the AID Office of the Inspector General, is a matter of public record.

New Delhi

October 26, 1990.

Price Waterhouse

AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

PART III B

FUND ACCOUNTABILITY STATEMENT - WEI
FOR THE PERIOD SEPTEMBER 1, 1987 TO JUNE 30, 1989

(US Dollars)

PARTICULARS	LABOR	CONSULTANTS	TRAVEL	OTHER DIRECT COST	INDIRECT ADMINISTRATIVE COST	SUB GRANTS MOEC	TOTAL
Per Budget, contained in the Agreement	128,724	13,303	36,700	25,000	73,773	322,500	608,000
Expenses as reported in SF-269 for the period June 30, 1989	66,353	1,973	22,850	18,122	39,612	149,359 (Refer Note 2)	298,269
Expenses incurred at Kathmandu (Refer Note 3)	5,297	1,350	11,026	11,689	7,412	127,130	163,904
Expenses booked by WEI, Boston for which supports were not available at Kathmandu and consequently were not covered by audit.	61,056	623	11,024	6,433	32,200	22,229 (Refer note 4)	134,365

Note: 1. The Fund Accountability Statement presented above is for information only in order to show what was reported to USAID/Nepal. As explained in Part III A, we have disclaimed our audit opinion on this report. Also, this statement is prepared on a cash basis and accrual data is not provided as per requirements.

2. As per sub-grant agreement this amount should have been US\$ 327,500.
Refer Note 2 in Part III B.1

3. Expenses at Kathmandu are incurred in Nepalese Rupees and converted to U.S. Dollars by WEI, Boston.

4. As per SF-269 amounts released to sub-grantee MOEC were stated as US\$ 149,359. However, our scrutiny of records at WEI, Kathmandu and MOEC revealed that amounts released to MOEC were US\$ 127,130. Refer Finding 6 in Part IV B and Fund Accountability Statement for MOEC, presented for information in Part III B.1.

AUDIT OF WORLD EDUCATION INC.
NEPAL PVO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

PART III - B.1

FUND ACCOUNTABILITY STATEMENT - MOEC
FOR THE PERIOD APRIL 3, 1988 TO JUNE 30, 1989
(Nepal Rupees)
(as referred to in Note 4 of Part III B)

PARTICULARS	TRAVEL	REPAIRS	PRINTING/ STATIONERY	FUEL	PUBLISHING OF LITERACY MATERIALS	GRANTS/ PROJECTS	MISCELLANEOUS	OFFICE EQUIPMENT	TOTAL
As per Budget Approved by GON (Refer Note-2)	59,000	5,000	30,000	26,000	2,740,000	301,000	5,000	114,000	3,274,000
Releases as recorded in MOEC statement for the period April 3, 1988 to June 30, 1989. (Refer Note-3)									3,070,000
Expenses as recorded in MOEC statement for the period April 3, 1988 to June 30, 1989	57,011	5,671	28,292	12,653	2,308,811	260,721	2,996		2,676,155
Balance in hand per MOEC statement as at June 30, 1989									393,845
									3,070,000

NOTES:

1. The Fund Accountability Statement presented above is for information only. Refer Note 4 Part III B.
2. The MOEC budget could not be correlated with the budget contained in the original Agreement dated September 27, 1987 as the GON had redefined the budget. Refer Finding 8 in Part V-B.
3. Releases include Rs.270,000 received subsequent to June 30, 1989.

US\$ 127,130

AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

PART III - C

FINDINGS AND RECOMMENDATIONS

FINDING 1: SUPPORTS NOT AVAILABLE

CONDITION:

Supports for the expenses charged to the project by WEI, Boston were not available at Kathmandu (US\$ 134,365). Also, no documentary evidence was available for the expenses at Kathmandu for the period September 1987 to May 1988 and only photocopies were available for the subsequent period to June, 1989 (US\$ 42,000 approx. Refer Appendix A.1 page 1 of 2 for details).

CRITERIA:

Handbook 13 requires expenses under the grant to be supported by appropriate original bills and receipts.

CAUSE:

Original supports documents for expenditure, as per practice, are sent to Boston and photocopies were maintained at Kathmandu only from June, 1988. Also, no details or supporting documents for expenditure charged under the grant by WEI, Boston were available at Kathmandu as these were retained in Boston. In this regard, according to the Audit Status Report for quarter ending September 30, 1989 issued by OIG Office of Financial Audits that WEI, Boston had been subject to audits under OMB Circular A-110 guidelines. However, it is not clear whether these audits included WEI, Kathmandu or its related documents.

EFFECT:

The scope of audit was limited to documents and records available locally at Kathmandu and to the calculation of indirect administrative expenses pertaining to WEI, Kathmandu only. (refer Appendix A.1 page 2 of 2).

RECOMMENDATION:

WEI should maintain adequate support documents at Kathmandu.

FINDING 2 : USE OF GRANT FUNDS FOR OTHER PURPOSES BY THE MOEC

CONDITIONS:

The MOEC provided grant funds of NRs.112,858 to other unrelated sections of the ministry and although these funds were repaid, after a period of upto 9 months, the monthly expense statements were not properly reviewed by WEI to ensure their accuracy. Refer Appendix A.2 for details.

CRITERIA:

As per agreement, grant funds need to be exclusively utilized for meeting grant objectives and may not be used for purposes outside the scope of the agreement. Also, the monitoring to be exercised by WEI should adequately determine and report on such instances.

CAUSE:

Short-term financing provided due to lack of funds in other sections of the Ministry was not reported upon due, to weak oversight.

EFFECT:

- (i) Grant funds were used for meeting expenses not related to the objectives of the Grant;
- (ii) Since accounts are maintained on cash basis the monthly expense statements were incorrectly stated to the extent of such short-term financing.

RECOMMENDATION :

WEI should provide adequate oversight to ensure that Grant funds are used by MOEC only for the purposes for which they are provided.

FINDING 3: EXPENSES NOT RELATED TO THE GRANT

CONDITION:

Expenses not related to the grant have been charged to the project. Also, the fund accountability statement submitted to the Mission only reports payments to MOEC without providing details of expenditure incurred under the sub-grant.

CRITERIA:

Only those expenses which are allocable and allowable to achieve the objectives of the Grant should be incurred/recorded and the grantee should report details of the sub-grant expenditures, which form nearly 80 percent of the expenditures incurred at Kathmandu.

CAUSE:

Expenses were believed to be allowable under grant terms and no clarifications from the Mission were considered necessary.

EFFECT:

NRs.77,720.15 (US\$ 2,590 approx.) non-allocable/disallowable expenses have been charged to the grant funds. Refer Appendix A.3 for details. Also, WEI did not appear to have adequately reviewed the expenditures incurred by MOEC.

RECOMMENDATIONS:

- (i) Expenses should be charged only if they relate to meeting the objectives of the grant and in case of doubt clarifications obtained from the Mission.
- (ii) Details of expenditure incurred by MOEC under the sub-grant need to be reviewed and reported upon by WEI.
- (iii) Personnel activity reports should be maintained so that correct allocations of salary and related benefits can be made to different projects undertaken.

FINDING 4: EXPENDITURE NOT APPROVED

CONDITION:

Prior approval for certain expenses, US\$ 7,820 approx., was not obtained from USAID/Nepal (Refer Appendix A.4).

CRITERIA:

Per requirements of OMB Circular A-122 certain expenses require prior Mission approval.

CAUSE:

WEI explained that expenses were unavoidable due to immediate requirements.

EFFECT:

Grant funds were utilized without proper approvals in certain cases, resulting in potentially unauthorized use of funds.

RECOMMENDATION:

WEI needs to ensure that USAID/Nepal approvals are obtained in accordance with requirements of OMB Circular A-122.

FINDING 5: BALANCE OF FUNDS IN-HAND COULD NOT BE VERIFIED

CONDITIONS:

The balance of funds in hand as at June 30, 1989, per records at Kathmandu, could not be confirmed with information reported either by WEI, Boston or by WEI, Kathmandu as at July 1, 1989. This is illustrated as follows:

	Balance per WEI, Kathmandu U.S.\$	Balance per WEI, Boston U.S.\$
June 30, 1989	4,305	2,807
July 1, 1989	4,070	2,807

CRITERIA:

As per Handbook 13, accurate records are required to be maintained.

CAUSE:

The inadequacy of records available at Kathmandu did not permit verification of the closing fund balance, as reported by WEI, Boston.

EFFECT:

It was not possible to verify the closing balance reported.

RECOMMENDATION:

Details of balance reported need to be obtained from WEI, Boston for reconciling to the records/bank account at Kathmandu. Also, WEI Kathmandu should maintain adequate records to support reports to the Mission.

Price Waterhouse



AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (387-0159)
KATHMANDU, NEPAL

PART IV-A

**INDEPENDENT AUDITOR'S OPINION ON
THE INTERNAL ACCOUNTING CONTROLS**

We have audited the Fund Accountability Statement of World Education Inc. Nepal PVO Co-Financing II Project (387-0159), Kathmandu for the twenty-two-month period September 1, 1987 to June 30, 1988 and have issued our report thereon dated October 26, 1990. We conducted our audit in accordance with the generally accepted auditing standards and the U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The planning and performing our audit of the fund accountability statement of WEI for the period ended June 30, 1988, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of WEI is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of fund accountability statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure, to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- reconciliation of payments made by WEI under the sub-grant to receipts by MOEC.
- adequate protection of assets.
- conforming to costs budgeted in the grant agreement.
- maintenance of proper and adequate books of account.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

The reportable conditions noted by us have been discussed in Part IV-B of the report (refer to Findings 6 to 9).

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not be considered to be material weaknesses as defined above. However, the reportable conditions disclosed by the audit, we believe, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the Fund Accountability Statement may occur and not be detected within a timely period.

This report is intended solely for the use of WEI and USAID/Nepal. This restriction is not intended to limit distribution of this report which, upon acceptance by the A.I.D. Office of the Inspector General, is a matter of public record.

New Delhi

October 26, 1990

Luce Waterhouse

AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

PART IV-B
FINDINGS AND RECOMMENDATIONS

FINDING 6 : AMOUNTS PAID TO MOEC

CONDITION:

The amounts reported as paid to MOEC and those received by the sub-grantee revealed a difference of US\$ 22,229 (Refer Appendix B.1), which has been included in the questioned costs per Appendix D.

CRITERIA:

Funds paid to and acknowledged by MOEC were not matched to ensure accuracy of information reported in the fund accountability statement, as required by Handbook 13.

CAUSE:

The amount reported as paid under the sub-grant by WEI, Boston was not reviewed or reconciled at WEI, Kathmandu.

EFFECT:

Incorrect amounts reported in the fund accountability statement submitted to the Mission.

RECOMMENDATION :

The fund accountability statement needs to be reviewed and reconciled by WEI, Kathmandu for confirming its accuracy, prior to submission to the Mission.

FINDING 7 INADEQUATE PROTECTION OF ASSETS

S.No:	CONDITIONS	ORGANIZATION	CRITERIA	EFFECT	CAUSE	RECOMMENDATION
1	Ownership of motor cycle purchased in June, 1989 for Rs.40,000 not transferred in the name of MEI. Also the motor cycle is not insured.	MEI	Proper title and insurance of assets is necessary per Mandatory Standard Provision No.2 - H.B.13.	Title to property and its adequate protection not ensured.	Overlooked the registration and insurance requirements.	Title and adequate insurance cover to be obtained.
2	Inadequate protection of articles purchased for Surkhet Project. Articles worth Rs.51,000 approx. were damaged due to floods.	MOEC	As floods are a regular feature in Surkhet the articles should have been adequately protected.	Goods worth about Rs.51,000 were damaged.	Care was not taken for proper storage facilities.	When such campaigns are organized proper storage facilities should be made available.
3	Stock records not properly maintained by the Adult Education Section. Also no physical stock count performed for 1988-89. Refer Appendix B.2	MOEC	As per our stock reconciliations there were discrepancies in the closing stock.	Adequate control over stock and the related records not exercised.	As explained, the discrepancy may be due to some old stocks lying unaccounted and since there was no stock count such discrepancies could not be rectified.	All stock records should be properly maintained and periodically reconciled to physical inventory.

FINDING 8: BUDGET/SUB-GRANT LIMITS

CONDITION:

Comparison of budgets contained in the grant agreement to the expenses incurred was not possible as the account coding used by WBI and MOEC was different from the budget line items in the agreement. Also, the budget for MOEC per original agreement dated September 27, 1987, was US\$ 322,500. However, per sub-grant agreement dated April 3, 1988, the budgeted amount for MOEC is stated as US\$ 327,500.

CRITERIA:

Expenditure incurred under the grant, per Handbook 13, should conform to the approved budget and deviations or changes require prior approval from the Mission. In the absence of such approval, costs in excess of budget are disallowable.

CAUSE:

The Budget for MOEC was changed by GON so as to fit into the Government account coding structure.

EFFECT:

As budget per grant agreement was not comparable to the expenses incurred, it was not possible to determine disallowable costs, if any. For better understanding of the problem we have provided under Appendix B.3 a comparison between the budgets approved by the Ministry and that contained in the grant agreement.

RECOMMENDATION :

The budget contained in grant agreement should be reconciled and amended to conform to the sub-grant agreement and to the local expense category requirements for facilitating a comparison to determine disallowable costs, if any.

FINDING 9 : INTERNAL CONTROL AND OTHER RELATED MATTERS

CONDITION:

The internal accounting controls and the accounting records available at Kathmandu needed substantial improvements for providing assurance that the risk of errors or irregularities occurring is minimized.

CRITERIA:

As per Handbook 13 requirements, the accounting records need to provide sufficient particulars for identifying the application of A.I.D. funds and the internal accounting controls should be adequate for ensuring that records are accurate.

CAUSE:

Existing internal control procedures and accounting records were considered adequate by WEI although more formalized procedures had been under consideration.

EFFECT:

As a result of inadequate records certain matters, listed in Appendix B.4 and B.5, remained unexplained.

RECOMMENDATION :

Internal accounting controls and the related records need to be substantially improved by WEI, Kathmandu for providing sufficient particulars in support of grant funds expended and for ensuring that the risk of errors or irregularities occurring is minimized.

Price Waterhouse



AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

PART V - A

**INDEPENDENT AUDITOR'S OPINION ON COMPLIANCE WITH
AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS**

We have conducted a financial audit of the Fund Accountability Statement of World Education Inc., Nepal PVO Co-Financing II Project (367-0159) for the twenty-two month period September 1, 1987 to June 30, 1989.

We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with laws, regulations and grant agreement provisions applicable to World Education Inc. is the responsibility of its management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of WEI's compliance with certain provisions of laws, regulations and grant agreement. However, our objective was not to provide an opinion on overall compliance with such provisions.

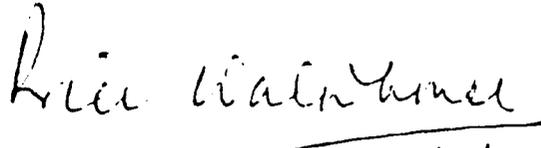
Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance and the effect thereof on the Fund Accountability Statement have been described in Part V-B.

We considered these instances of noncompliance in forming our opinion on whether WEI's fund accountability statement is presented fairly, in all material respects, in conformity with generally accepted accounting principles.

Except as described in Part V-B, the results of our tests of compliance indicate that, with respect to the items tested WEI, complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that WEI had not complied, in all material respects, with those provisions.

This report is intended solely for the use of WEI and USAID/Nepal. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Office of the Inspector General, is a matter of public record.

New Delhi


Eric Wainhouse

October 26, 1990

AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (387-0159)
KATHMANDU, NEPAL

PART V - B

FINDINGS AND RECOMMENDATIONS

FINDING 10: MINUTES/REPORTS NOT PREPARED/SUBMITTED

CONDITION:

In accordance with the grant agreement certain reports and minutes described below have not been prepared or submitted by HOEC to WEI for reporting to the Mission.

<u>Title</u>	<u>Requirement</u>
Progress Report.	Trimesterly
Monthly Expense Report	Monthly
Meetings and conference minutes	After each such meeting and conference.
Trip Reports	After each trip.

CRITERIA:

Per grant agreement, minutes and reports are required to be prepared and submitted to WEI and the Mission.

CAUSE:

The written reports specified in the grant agreement that are not submitted as information is conveyed verbally to the Mission.

EFFECT:

In the absence of the required written reports, it remains unclear as to the monitoring of project progress which may have been exercised by WEI and the extent to which the Mission was kept informed in this regard.

RECOMMENDATION:

WEI needs to ensure that reporting requirements specified in the grant agreement are complied with.

FINDING 11: GRANTEE CONTRIBUTIONS TOWARDS THE PROGRAM

CONDITION:

Contributions from the grantee and sub-grantee, towards program costs, have not been received in line with the grant agreement requirements.

CRITERIA:

Per agreement dated September 27, 1987, the total project cost was stated as US \$ 1.2 million, and accordingly contributions were required from WEI (US\$ 30,000) and MOEC (US\$ 570,000) to match the US\$ 600,000 grant provided by USAID/Nepal.

CAUSE:

WEI interpreted the contribution requirement as expenses to be incurred under other projects and which they reportedly complied with while MOEC, reportedly expended the required amount of funds at the district level, but for which details were not available.

EFFECT:

WEI had not contributed the required amount towards the project from its own sources, whereas MOEC had reportedly contributed an indeterminate amount. Consequently, it was unclear whether the cost sharing required by the grant agreement was being complied with.

RECOMMENDATION:

WEI should provide the funds as required by the grant agreement and also determine the contributions made by MOEC. If necessary, WEI should seek clarifications from the Mission to establish what would constitute its contribution under the terms of the agreement.

FINDING 12: NON COMPLIANCE - OTHER ISSUES

CONDITION:

WEI did not comply with grant agreement terms by ensuring that accurate reports are submitted to the Mission on a timely basis. Also, local requirements as to provident and tax deduction rules were not always complied with, while the requirement to arrange an internal audit, as per grant agreement, was ignored. Refer Appendix C.1.

CRITERIA:

Grant terms and local rules/regulations need to be complied with by WEI to conform to its obligations under the grant agreement.

CAUSE:

Certain requirements were overlooked, due to involvement of WEI, Kathmandu personnel with project implementation only.

EFFECT:

The Mission did not receive accurate reports on a timely basis and WEI, contrary to requirements, did not ensure compliance with the grant agreement.

RECOMMENDATION :

The matters detailed in Appendix C.1 should be resolved by complying with grant terms and legal advice should be sought if necessary, to ensure that WEI does not face any exposure as a result of non-compliance with provident fund and tax deduction rules.

AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

APPENDIX A

MATTERS RELATING TO FUND ACCOUNTABILITY STATEMENT

- A.1 Supports not available.
- A.2 Grant Funds used for other purposes by MOEC
- A.3 Expenses not related to the grant.
- A.4 Expenses not reasonably incurred/unapproved
- A.5 Funds position

SUPPORTS NOT AVAILABLE

GRANTEE	REFER	AMOUNT (NRs)	NATURE OF EXPENSE	REMARKS
WEI	Nov. '87	6537	ODC*	}Original supports }sent to Boston Office }per information and }copies not available }at Kathmandu. } }* other direct costs. } } } } } } } } }
	Dec. '87	900	Travel	
	Jan. '88	2298	ODC	
	Feb. '88	1056	ODC	
	Mar. '88	10126	ODC	
	Apr. '88	3187	Travel	
		17270	ODC	
	May '88	8394	ODC	
	July '88	1451	Labour charges	
	Nov. '87 to June '89	75000	Office rent @ 3750/- per month	
		----- 126219	(US\$ 42,000 approx.)	
Notes :				

1. Seen copies of letters written to WEI Boston for the purpose.

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COMPUTATION OF INDIRECT ADMINISTRATIVE OVERHEADS

(U.S Dollars)

PER SF 269 ----- Period (B/E) Total Direct Cost -----	Overhead rate applicable on Total Direct cost (%) -----	Amount Payable -----	Amount charged in SF 269 -----
Dec. 1987 8,274	36.8 on 33,124	12,198	2,979
March, 1988 7,468			2,685
June, 1988 17,398			6,261
<u>33,124</u>			
Sept., 1988 15,825			5,489
December, 1988 14,489	41.8 on 76,174	31,841	5,216
March, 1989 18,673			6,987
June, 1989 27,987			10,875
<u>76,174</u>			<u>39,612</u>
Total 189,298 (refer Note 1)			4,358 Arrears claimed in SF 269 for B/E 9/89
			<u>44,162</u>
			(131) Excess charged
		<u>44,031</u> =====	<u>44,031</u> =====

Note

- The total expenditure of US\$ 189,298 to which the overhead is applicable includes expenses of US\$ 79,936 booked by MEI, Boston and for which supports were not available at Kathmandu. Consequently, the calculation of indirect administrative expenses could not be verified to that extent, (US\$ 32,200 approx.).

GRANT FUNDS USED FOR OTHER PURPOSES BY MOEC

Sr. No.	V/No.	Date	Amount (NRs)	Debited to	Paid to	Remarks
1	43	Sept. '88	2,856	A/c 8(Grants)	Women Education Section	This amount was refunded by the Women Education Section after 10 days.
2	49	Sept. '88	10,000	-do-	-do-	This amount was refunded in a week's time.
3	65	Sept. '88	100,000	-do-	Nepal Mahila Sangathan	This amount was adjusted after 9 months by deducting from the monthly expenses subsequent to June 30, 1989.
TOTAL:			112,856	(US\$ 3,760 approx.)		

EXPENSES NOT RELATED TO THE GRANT

GRANTEE/ SUBGRANTEE	REFER	AMOUNT NR's	NATURE	HEAD/BUDGET CODE BOOKED	REMARKS
-----	-----	-----	-----	-----	-----
WEI	1988 October	758.06	Amount deposited in Provident Fund (PF) Account	Labour	The Employee's salary for this period on which the PF is calculated was charged to another project. The PF was however, charged to the project as WEI does not maintain activity reports for its personnel to determine staff costs allocations.
	November	758.06	-do-		
December	379.03		-do-		
	(A)	<u>1,095.15</u> =====			
MOEC	V.NO.110	1,560.00	Electric heaters	7.5.1	These expenses did not relate to the Grant and were not covered by the approved budget.
		2,331.00	Tube, Wires, Plugs etc.	-do-	
	114	335.00	Utensils	-do-	
	245	2,200.00	Electric Automatic Therms	-do-	
	270	5,615.00	Telephone, Junction box, drop wires	-do-	
	134	2,400.00	Single rod heater	-do-	
	137	1,489.00	Tea sets, cups	-do-	
	190	1,300.00	Brief case	-do-	
	222	8,811.00	Woollen carpet, sofa cover, curtains	-do-	
	297	6,165.00	Purchase of bulbs, wires	7.5.1	
	79	4,272.00	Pens, diaries, torch lights, paper scissors, files.	7.1	
	1989 ----				
	346	5,660.00	Tea set, cutlery, spoons	-do-	
	227	8,003.00	Carpets, sofa cover, curtains	-do-	
	337	6,179.00	Digital Telephone	-do-	
	270	8,125.00	Certificates to be issued after the completion of course(s) to the participants.	-do-	
	1900 ----				
	205	5,500.00	Travel advance	3	Reportedly to audit accounts of the various district offices.
	217	3,500.00	-do-	3	
	209	1,600.00	-do-	3	For collection of bills from the districts so as to update MOEC records.
	211	500.00	-do-	3	
	(B)	<u>75,825.00</u>			
Total (A) + (B)		<u>77,720.15</u>	(US\$ 2,590 approx.)		

EXPENDITURE NOT APPROVED

(Amount in NRs)

GRANTEE	MONTH	AMOUNT (NRs)	NATURE	REMARKS
MEI	June, 1989	48,000	Purchase of Motor Cycle	Approval from USAID/M not available
	May, 1989	9,000	Clearing and Forwarding charges on purchase of new jeep.	Approval from USAID/M for the jeep not available. Original cost where booked not known.
	May, 1989	NRs 41,951.00 and US\$ 4,588.20	International Travel	Approval from USAID/M not available.
		<u>NRs. 90,951 + US\$ 4588.20</u>		
		TOTAL: US\$ 7,620 (approx.)		

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FUNDS POSITION

GRANTEE	DATE	AMOUNT NR's	REMARKS
WEI, Kathmandu	June 30, 1989	129,151.58	Closing balance per Monthly Financial Report (MFR) could not be agreed to the opening balance per MFR i.e. a difference of 7029.06.
	July 1, 1989	122,122.52	
WEI, Boston	June 30, 1989	US\$ 2807.30 (Per SF 272)	The closing balance as at June 30, 1989 as reported by WEI, Boston is supposed to include Kathmandu's closing balance of Rs.129,151.58 (US\$ 4,305 approx.). The Kathmandu balance is in turn inclusive of funds relating to other projects which could not be identified. In view of this closing balance per Kathmandu records could not be correlated with the reported balance.

AUDIT OF WORLD EDUCATION INC
NEPAL PYO CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

APPENDIX B

MATTERS RELATING TO INTERNAL ACCOUNTING CONTROLS

- B.1 Amounts paid to MOEC
- B.2 Discrepancies in closing stock for 1988-89
- B.3 Various budgets for MOEC - Year 1 (ended on July 15, 1989)
- B.4 Internal control and other related matters
- B.5 Improper and non-maintenance of records

AMOUNTS PAID TO NOEC

Per MEI Kathmandu Records		Exchange Rate (per advice from Boston)	US\$	Per SF 269	
Month	Amounts (NCs)			Period (O/E)	US\$
Aug. '88	1,438,000	23.5	60,851.86	9/88	62,432.00
Sept. '88	970,000	24.0	40,416.67	12/88	60,416.00
Jan. '89	400,000	25.18	15,936.26	3/89	17,688.00
May, '89	270,000	27.20	9,926.47	6/89	6,831.00
	----- 3,078,000 *****		----- 127,130.46		----- 149,359.00 *****
		Difference	----- 22,228.54		
			----- 149,359.00 *****		

8 The difference of \$ 22,228.54 has been included as questioned costs in Appendix B.

DIFFERENCES IN CLOSING STOCK FOR 1988-89

1. Name of Book : Chalfal Garouna Chitra

	<u>Numbers</u>	
Opening Stock for 1988-89	Nil	
Add: Total receipts during the year	5,000	
Less: Total issues during the year	4,339	

Closing stock for 1988-89 should be	661	(A)

Opening Stock for 1989-90 taken in Stock Register as 1269. (B)

2. Name of Book : Sukhi Jeevanko Bato

Opening Stock for 1988-89	1,200	
Add: Total receipts during the year	11,000	

Total stock for the year	12,200	
Less: Total issues during the year	10,014	

Closing stock for 1988-89 should be	2,186	(A)

Opening stock for 1989-90 taken in stock register as 3490 (B)

3. Name of Book : Shaikshik Khel

Opening stock for 1988-89	Nil	
Add: Total receipts during the year	5,000	
Less: Total issues during the year	3,692	

Closing stock for 1988-89 should be	1,308	(A)

Opening stock for 1989-90 taken in stock register as 3580. (B)

Total Difference A - B = 418%

Note: Opening/closing stock numbers were not physically verified by us and are as per stock records.

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VARIOUS BUDGETS FOR NOEC - YEAR ENDED ON JULY 15, 1989

Heads	Proposed by MEI (NR's)	Per original GOM approval (NR's)	Per final GOM approval (NR's)	Per Original agreement dated Sept 27, 1987 (Amount in US\$)
-----	-----	-----	-----	-----
Consultants	73,150	73,000		2,500 (100 days @ \$ 25)
Travel			59,000	
- International	49,500	108,000		1,500 (2 trips @ \$ 750)
- Local	49,500			1,500 (15 trips @ \$ 100)
- Per diem	59,520			2,000 (100 days @ \$ 20)
Other Direct costs				
- Office Equipments	88,000	114,000	114,000	4,000
- Supplies	66,000			2,000
- One-time-grant	1,430,000	1,430,000		65,000
- Literacy Materials	690,000	690,000		10,000
- Post Literary Materials	770,000	770,000		10,000
Administrative expenses		60,000		
Supervision		30,000		
Repairs			5,000	
Office Printing			30,000	
Stationery			20,000	
Fuel				
Publishing of Materials			2,740,000	
Grants/Projects			301,000	
Miscellaneous			5,000	
	-----	-----	-----	-----
	3,275,678	3,275,000	3,274,000	90,500 (NR's 2,955,000 approx. ***** refer Note below)
	*****	*****	*****	

Note: The expenditure incurred upto June 30, 1989 amounted to NR's 2,676,155 (refer Part III - B.1)

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INTERNAL CONTROL AND OTHER RELATED MATTERS

NATURE OF ISSUE

REMARK

- Certain transactions at MEI Kathmandu remained unexplained. Refer page 2 of 3. As a result we could not fully relate the reported information to the bank statements or to the work plan as required by the grant agreement.

 - As MEI did not maintain a cash book we were unable to determine whether:
 - . 85% of the MEI budget has been spent on goods and services provided in Nepal
 - . 75% of MEI expenditure was in foreign exchange.

 - The procedures followed to monitor the fund requirements at Kathmandu did not prove effective. Refer page 3 of 3. The balances, as a consequence remained unusually higher than fund requirements at MEI, Kathmandu.

 - Any interest earned on grant funds is reportedly dealt with by MEI Boston and no records or details in this regard were available at Kathmandu.
- Refer attachment 2 of the grant agreement dated September 27, 1987.
- High holding of funds and loss of interest on funds as no interest is receivable on bank accounts held by MEI Kathmandu.

WEI

A/c No.	Refer Bank Statement (Dates)	Amount (NR's)	Nature	Remark
	Debits	April 24, 1989	3,999.60	Being commission on account of encashment of Traveller's cheques.
	Credits	February 10, 1988	47,000	Cash deposits
			23,000	Deposit cheque drawn on US
		October 27, 1988	25,300	Deposit cheque drawn on US
		December 4, 1988	12,650	-do-
		December 26, 1988	12,650	-do-
		January 20, 1989	6,600	-do-
			100,000	Cash deposit
		February 13, 1989	130,000	-do-
		April 4, 1989	12,485	Clearing
		May 7, 1989	12,650	Deposit cheque drawn on US
A/c No. <u>122124/22/69</u>		June 10, 1989	6,500	Cheques cleared
	Refer monthly Financial Report.			
	April, 1988	219,090.00	Receipt from Boston	Bank statement for the period not available.
	February, 1989	107,059.00	-do-	Amount could not be traced in the bank statement.

BALANCES PER BANK STATEMENT
(Combined for two Accounts)

Period -----	Closing Balance NR's -----
December, 1987	99,181.72
January, 1988	79,330.32
February, 1988	75,400.73
March, 1988	54,824.76
April, 1988	143,392.38
May, 1988	124,133.30
June, 1988	119,939.92
July, 1988	183,624.48
August, 1988	239,646.65
September, 1988	198,445.85
October, 1988	114,184.19
November, 1988	30,105.47
December, 1988	490,426.98
January, 1989	34,909.24
February, 1989	77,018.80
March, 1989	130,931.57
April, 1989	190,156.26
May, 1989	97,199.42
June, 1989	129,151.58

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AUDIT OF WORLD EDUCATION INC
NEPAL PVD CO-FINANCING II PROJECT (367-0159)
KATHMANDU, NEPAL

IMPROPER MAINTENANCE OF RECORDS

NATURE OF RECORDS/CONDITION	ORGANIZATION	CRITERIA	EFFECT	CAUSE	RECOMMENDATION
1 Prenumbered receipts/bills are not issued for sale of booklets. Receipts are instead issued on letter heads.	WEI	Effective control over funds generated is weak.	There is no permanent record of cash received through sequentially pre-numbered receipts.	The accounting system has not been formalized.	For effective control over funds generated prenumbered receipt book should be used and each receipt should be accounted for in the cash book promptly (refer 4.1 below).
2.1 Sales bills are not prenumbered and a number is put on them on the basis of Sales Register where sales are recorded sequentially.	MOEC	-do-	There is possibility of misuse of sales bills whereby sales can be made without recording in Sales Register.	Records maintained as per Ministry guidelines where prenumbering is not necessary.	For effective control over funds generated pre-numbered sales bills should be used and periodic reconciliations with the Sales Register should be performed.
2.2 The records did not adequately identify the expenditure incurred against grant funds.	MOEC	Records should sufficiently substantiate charges to the grant.	The records did not permit ensuring completeness of recorded transactions as attributed to grant funds and consequently the closing fund balance could not be verified.	Records are maintained as per Ministry guidelines which do not sufficiently identify charges to the grant funds.	Records, adequately identifying, the expenses incurred against grant funds need to be maintained.
2.3 Vehicle log book does not note details of mileage, purpose of visit and person using the vehicle.	MOEC	-do-	It was not possible to confirm fuel expenses charged to the grant funds.	-do-	The vehicle log book should include sufficient details for determining charges allocable to the grant.
3.1 Advances made are included as expenses in the reports.	MOEC	The reports do not provide accrual data as required by HB 13.	The monthly expense reports disclose incorrect data to the extent of unadjusted advances.	Cash basis of accounting followed without providing the accrual data in reports.	Compliance with HB 13 to be ensured by providing the accrual data for advances made and remaining unadjusted at the reporting date.
3.2 Delay in refund and adjustment of advances. Refer page 4 of 4.	MOEC	Effective control over utilisation of funds needs to be ensured.	Expense reports do not show correct expense status and grant funds could be utilised for other purposes.	Amounts are adjusted only upon submission of bills.	Advance accounts need to be monitored on timely basis in order to settle accounts promptly and establish effective control.

AUDIT OF WORLD EDUCATION INC
NEPAL PVO CO-FINANCING II PROJECT (367-0159)

KATHMANDU, NEPAL

NON-MAINTENANCE OF CERTAIN RECORDS

S.No	NATURE OF RECORDS/CONDITIONS	ORGANIZATION	CRITERIA	EFFECT	CAUSE	RECOMMENDATION
4.1	No Cash Book for recording day to day expenses, receipts is maintained to establish control over cash funds.	WEI	It is necessary to keep such records for exercising control over cash funds and comply with HB 13.	Effective control over all funds is not established.	Memoranda records are kept by Administrative Assistant and an adequate accounting system not yet implemented.	Petty Cash Book should be maintained for controlling the cash expenses/receipts and establishing effective control over cash funds.
4.2	No Bank Book maintained, records kept on memoranda basis and bank reconciliations not prepared to establish control over bank funds. Also there is a common bank account for all the projects and as a result it was not possible to verify withdrawals and expenditure for individual projects.	WEI	Effective control over grant funds needs to be ensured by maintaining records which adequately identify the source and application of funds.	The records did not permit ensuring completeness of transactions attributed to the grant and the verification of closing fund balance.	The accounting system has not been formalized.	Bank book should be maintained and bank reconciliation statements should be prepared on monthly basis.
5	No suppliers ledger maintained for processing suppliers invoices.	MOEC	In the absence of accounting on an accrual basis, accrual data needs to be provided by the reports.	The reported information is inaccurate to the extent of bills pending payment and there is a possibility of double payments to suppliers.	Ministry guidelines do not provide maintenance of suppliers ledger. Control is kept by referring to earlier payments and the original order.	Suppliers ledger should be maintained to facilitate accurate and correct reports.
6.1	Attendance and leave records were not available for the period under review.	WEI	Mandatory Standard Provision No.2 in HB-13 requires maintenance of attendance and leave records.	Due to absence of these records it was not possible to verify adherence to appointment terms and also whether proper salary deductions were made for excess leave taken or leave without pay etc.	Records were kept but were misplaced during the shifting of the office.	Attendance and leave records need to be maintained for ensuring correctness of salary payments.
6.2	Personal Activity Reports were not maintained for determining allocation of labor costs or for assessing its reasonability.	WEI	Mandatory Standard Provision No.2 in HB-13 and Circular OMB-A 122 require maintenance of these reports.	Reasonability of allocation of labor costs could not be confirmed.	WEI, Kathmandu being a small organization it did not seem necessary to keep these records.	Since the organization is growing and different projects have commenced it is recommended that such records be maintained for ensuring reasonability of labour cost allocations.

AUDIT OF WORLD EDUCATION INC
NEPAL PVD CO-FINANCING II PROJECT (367-0159)

KATHMANDU, NEPAL

NON-MAINTENANCE OF CERTAIN RECORDS (CONTD..)

S.No	NATURE OF RECORDS/CONDITIONS	ORGANIZATION	CRITERIA	EFFECT	CAUSE	RECOMMENDATION
7	No Log book for vehicles kept	WEI	Log book for vehicles should be kept for control of fuel expenses and for allocating the expenses between different projects.	Effective control over usage of vehicles and allocation to projects not established.	Since the organization is small it did not seem necessary to keep such log books.	Log book should be kept giving details of i) Mileage covered. ii) Purpose of visit iii) Signature of user. iv) Details of fuel expenses.
8	As per agreement terms there are sub-limits on travel expenses and consultancy expenses. No record is kept to show adherence to such sub-limits.	WEI	Agreement terms.	Non-adherence to agreement terms and our inability to confirm whether sub-limits exceeded.	Only overall limits were considered. Adherence to sub-limits was not considered.	Records should be kept showing details of travel and consultancy expenses for confirming adherence to agreed sub-limits.
9	No petty cash book kept and no receipts for cash sales issued. As per the system followed cash is kept at the premises at time of cash sale of material and deposited in the bank as early as possible. Entry in Ministry cash book is made only after receipt of Bank deposit slip. Moreover no receipt is issued at the time of such cash sale.	MOEC (Adult Section)	Effective control over funds generated is lacking.	Since no entry is made in Petty Cash Book nor any receipt issued there is lack of effective control over cash in such cases.	Such sales are few and such cash is kept in custody of senior officer.	It is recommended that a petty cash book be maintained at the Section and also a prenumbered receipt book used for control over such cash sales.

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DELAY IN REFUND/ADJUSTMENT OF ADVANCES

Sl.No	V.No	Amount Brawn Period 1988-89	Debited to A/c Code No.	Refunded/Adjusted after	Reasons if any
-----	-----	-----	-----	-----	-----
1	64 67	1,000 4,300	3	8 months	-
2	101	15,000	8	4 months	Delay in submission of bills.
3	100	4,600	8	7 months	-do-
4	344	1,000	9	12 months	-do-
5	72	1,200	3	Outstanding till date	-do-

NON COMPLIANCE

RELATING TO	NATURE	REMARKS																		
WEI	SF 269, 272	<p>Delays in submission of reports :</p> <p>-SF 269 is required to be submitted within 30 days from the Q/E, whereas</p> <p>-SF 272 is required to be submitted within 15 days of the Q/E.</p> <table border="1"> <thead> <tr> <th>Period</th> <th>Submitted on</th> </tr> </thead> <tbody> <tr> <td>SF 269 Q/E 12/87</td> <td>June 25, 1988</td> </tr> <tr> <td>Q/E 3/88</td> <td>Not dated but could not have been earlier than June 25, 1988.</td> </tr> <tr> <td>SF 272 Q/E 12/87</td> <td>Not submitted</td> </tr> <tr> <td>Q/E 3/88</td> <td>-do-</td> </tr> <tr> <td>Q/E 9/87 to 6/88</td> <td>-do- August 9, 1988</td> </tr> <tr> <td>Q/E 12/88</td> <td>January 23, 1989</td> </tr> <tr> <td>Q/E 6/89</td> <td>July 31, 1989</td> </tr> </tbody> </table>	Period	Submitted on	SF 269 Q/E 12/87	June 25, 1988	Q/E 3/88	Not dated but could not have been earlier than June 25, 1988.	SF 272 Q/E 12/87	Not submitted	Q/E 3/88	-do-	Q/E 9/87 to 6/88	-do- August 9, 1988	Q/E 12/88	January 23, 1989	Q/E 6/89	July 31, 1989		
Period	Submitted on																			
SF 269 Q/E 12/87	June 25, 1988																			
Q/E 3/88	Not dated but could not have been earlier than June 25, 1988.																			
SF 272 Q/E 12/87	Not submitted																			
Q/E 3/88	-do-																			
Q/E 9/87 to 6/88	-do- August 9, 1988																			
Q/E 12/88	January 23, 1989																			
Q/E 6/89	July 31, 1989																			
	SF-269, 270, 272	<p>SF 269 is prepared quarterly by WEI Boston. However, Kathandu expenses which are also part of the total expenditure were not being incorporated into the statement on a regular basis during the period of audit (as at June 30, 1989 Kathandu expenses were incorporated fully). The above delay in turn affects the respective SF 270 and 272 reports.</p> <table border="1"> <thead> <tr> <th>SF-269 Period</th> <th>Kathandu Expenses Not incorporated</th> <th>Incorporated in SF-269</th> </tr> <tr> <th>Period</th> <th>Amount(US\$)</th> <th></th> </tr> </thead> <tbody> <tr> <td>Q/E 9/88</td> <td>9/88 1,036</td> <td>Q/E 12/88</td> </tr> <tr> <td>Q/E 12/88</td> <td>10/88 to 12/88 3,423</td> <td>Q/E 3/89</td> </tr> <tr> <td>Q/E 3/89</td> <td>1/89 to 3/89 4,394</td> <td>Q/E 6/89</td> </tr> <tr> <td></td> <td>(NR's) 1,461</td> <td></td> </tr> </tbody> </table>	SF-269 Period	Kathandu Expenses Not incorporated	Incorporated in SF-269	Period	Amount(US\$)		Q/E 9/88	9/88 1,036	Q/E 12/88	Q/E 12/88	10/88 to 12/88 3,423	Q/E 3/89	Q/E 3/89	1/89 to 3/89 4,394	Q/E 6/89		(NR's) 1,461	
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	Provident Fund (PF) Rules.	PF deductions not made/deposited per requirements.																		
	Tax deduction at source (TDS)	In accordance with local requirements TDS rules not complied with. Not quantifiable in absence of full details.																		
	Internal Audit	No internal audit was performed, contrary to requirement.																		
NOEC	Internal Audit Report.	Internal audit observations were pending action.																		

44'

QUESTIONED COSTS

<u>Description</u>	<u>Amount</u> US\$	<u>Reason</u>
Expenses charged by WEI, Boston (Refer Note below)	134,365	Supports not available at Kathmandu (Finding 1)
Expenses not related to the grant	2,590	Refer Appendix A.3
	<u>\$ 136,955</u>	

Note: The amount stated as questioned costs includes approximately \$ 22,229, being difference per Finding 6.

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MEMO

To: C. Travis Rattan, Controller/USAID
CC: Mike Calavan, PPD/USAID
From: Chij Shrestha, Asia Field Director/World Education *Chij Shrestha*
Date: April 22, 1991
Subject: Draft Non-Federal Audit Report on World Education Project
No. 367-0159.

I have read through the report and discussed it with John Comings who is in Kathmandu at this time. We feel that our Controller and Auditor in Boston will need to consider this report before we can respond in a final way, but to keep the process moving we are presenting this draft reply which has not been cleared yet by WEI/Boston.

Finding 1:

World Education's auditing procedures are required by AID/Washington to conform to OMB A-110 up to June 30, 1990. As of July 1, 1990, World Education must conform to OMB A-133. Both of these require that original receipts for direct costs and overhead expenses be kept in Boston for review by the auditor who does look at all expenses including those from the Kathmandu office. Original receipts for expenses under subgrants are kept with the subgrantee and audited under their procedures with the understanding that World Education and AID have access to them. Our understanding of AID's audit requirements are that Direct and Overhead expenses are audited in Boston and Subgrant expenses are audited in the field.

Since we were unaware that AID would require an audit of direct expenses in the field we were not concerned with keeping sufficient documentation in Kathmandu. We feel that original receipts, by OMB rules, must remain in the Boston files. We could keep photocopies of receipts in Kathmandu and, if required by AID, could send photocopies of all original receipts of expenditures made in Boston to Kathmandu, but this is an added expense that would only be justified if AID is planning to audit the project from both places.

If AID/Nepal wants us to keep all original receipts in Kathmandu, we will need concurrence from the OMB-133 auditor. If AID/Nepal is willing to accept photocopies in Kathmandu with originals in Boston, we can begin doing that with the present grant.

Rec'd
4-22-91
C. TRAVIS RATTAN
CONTROLLER

APPENDIX E
Page 2 of 6

Finding 2:

World Education accepts this finding as a lack of oversight on our part, and we have discussed this procedure with the MOEC which has agreed that they will not "loan" AID funds to other accounts within the MOEC. We feel that the MOEC made this mistake in good faith, since they were only trying to manage cash flow and then replaced the AID funds which were eventually used to pay for subgrant-related expenses. Now that we are aware of this problem, WEI/Nepal will keep closer supervision of the use of subgrant funds.

Finding 3:

Though some of the expenses listed on Appendix A.3 look like ones that might be acceptable under the terms of the grant (certificates for course participants, for example), World Education accepts that some do not. WEI/Nepal staff will begin to monitor all details of MOEC expenditures, including personnel activity reports, to ensure that costs are allocated correctly. WEI/Nepal will provide that report directly to AID/Nepal with a copy to WEI/Boston.

Finding 4:

During the time covered by the audit, WEI/Nepal had become used to dealing with AID on a personal basis and should have been asking for written approval. For example, we did discuss the international travel mentioned in Appendix A.4 with AID, but at the time we thought we were only required to notify, not seek written approval for travel. As for the Rps.9000 for clearing and forwarding we assumed that since we had approval to purchase the vehicle we had approval to pay all the costs of bringing it to Nepal. WEI/Nepal has already begun seeking written approval for all expenditures covered under OMB A-122. Copies of these approvals will be on file for future audits.

Finding 5:

WEI/Nepal only has one bank account and so the bank balance will usually be greater than the remaining AID funds. Since we are being audited in Boston, that is the figure that AID should consider accurate. As was our policy, WEI/Boston was counting subgrant expenses as spent once they were sent to Kathmandu, and this, too, caused the two accounts to appear different. We have begun holding the subgrant amounts on the books until they are reported transferred to HMG.

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Finding 6:

This difference is a result of some of the subgrant expenses being paid directly by WEI/Boston rather than going through the MOEC books. For example, on a study tour to Thailand, dollar costs were sent by World Education to its office in Thailand and given to the participants there and some equipment that required dollar purchase were paid for out of WEI/Boston. Again, all of these expenses were audited in Boston under OMB A-110 and were considered valid subgrant expenses. In the future, World Education will keep the original receipt of these expenses in Kathmandu in a file to be added to the MOEC accounts.

Finding 7:

The motorcycle was purchased in haste to try to solve an immediate problem and proper procedures were not followed. WEI has already taken care of the title and insurance for the motorcycle. MOEC will, in the future, provide adequate storage for goods purchased under the grant and keep proper stock records. The storage and stock records will be supervised more closely by WEI/Nepal. At the time of the Surkhet Pilot WEI/Nepal and MOEC staff were working almost all day, 7 days a week, to ensure that the pilot went well. Some of these administrative matters suffered but for a good cause.

Finding 8:

Under our original negotiations with AID the grant was going to be \$606,197, and we entered into negotiations with MOEC for the amount of \$327,500. At the last minute the grant was reduced with subsequent cuts from direct and subgrant budgets. Since the agreement between WEI the MOEC was denominated in Rupees and since we knew that devaluations had already changed the dollar to Rupee rate, we didn't bother to change the subgrant agreement amount. We were worried that a change at that time would delay the signing of the agreement, and WEI was confident that \$322,500 would provide sufficient rupees. Had that not been true, WEI would have made up the additional \$5,000 from other sources. The present agreement conforms to the total and the expense category requirements.

Finding 9:

As with finding #1, WEI assumed that it was only required to keep adequate records in Boston. If AID/Nepal wants duplicate records kept in Kathmandu we can do that.

APPENDIX E
Page 4 of 6Finding 10:

World Education is now complying with the reporting requirements in the present grant which are less time consuming than those under the previous grant. Financial reports will come from Boston each quarter and program reports every six months.

Finding 11:

World Education will begin reporting the grant match as an estimate on its six month report and as an actual on its yearly report. The costs are completed under different schedules and so a one year reporting will allow us to look at a program cycle (one set of yearly classes) and get accurate costs from all sources.

World Education chose a conservative figure for program match based only on those funds that can be directly attributed to MOEC/Adult Education Section and World Education activities, but a much larger amount of funds are coming into the National Literacy Programme as a result of the quality of effort which is linked directly to the AID funding under the present and previous grants. So that AID/Nepal has an accurate picture of the impact of their funding, WEL will gather data that quantifies that larger effect and report it separately.

Finding 12:

As mentioned in Finding #1, and internal audit of World Education expenses were performed under A-110. The SF269 and SF272 are prepared in Boston which uses an outside accounting firm. Our books for any month only come back on the 12th or 15th of the next month. Getting these forms prepared and back in Nepal in an original form within 15 or even 30 days is difficult. Starting in July, WEL/Boston will bring its accounting in-house with a new computer system and should be able to respond more quickly. World Education is addressing the Provident Fund and TDS issues. We engaged the services of a lawyer to help with this but the process is complicated and confusing. The MOEC accounts are audited by HMG's Office of the Auditor General.

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- Finding 11: For Project 367-0159, sufficient non-AID cash match was expended on the project and did run through our books. The total was \$39,488.70, and this can be verified by records in Boston.
- Finding 12: I'll search through our files here to see if those reports were sent and the dates they were sent.

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Appendix
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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID/NEPAL
FAX MESSAGE FORM

CABLE: USAID NEPAL
TELEX: 2381-AEKTW-NP

FAX: 977-1-272357
TELEPHONE: 271425
270144, 270171

TO: Price Waterhouse OFFICE: New Delhi, India

FAX NO: 011-332-3183 TEL NO: 3314591, 3316157

PAGES: 5 (INCL. THIS PAGE) FROM: C. T. Rattan, Controller

SUBJECT: Draft Non-Federal Audit Report on the WEI Project 0159

DATE: 04/26/91 CLEARANCES (OFFICE/INITIALS): PPD:MCalevan

PROC:AEisenberg (draft)

MESSAGE:

1. Attached is a copy of response memo dated April 22, 1991 from the Asian Field Director/World Education on the subject report.
2. Mission officers have discussed the audit recommendation with WEI, but only on broad terms. In general, both WEI and USAID agree in the principal concerns of the audit. Upon receipt of the final audit USAID will work with WEI on the audit issues
3. As indicated in the memo, John Comings is in Kathmandu and is aware of the contents.

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