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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit

SINGAPORE

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**AUDIT OF
NO FRILLS CONSULTANTS - NEPAL**

AUDIT REPORT NO. 5-367-92-01-N

OCTOBER 21, 1991

Price Waterhouse concluded that the Financial Statements of No Frills Consultants did not present fairly the receipts and expenditures under the two contracts with USAID/Nepal. The auditors questioned \$116,350 in costs, and identified material weaknesses in internal controls and instances of non-compliance with applicable laws, regulations and terms of the contracts.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
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October 21, 1991

MEMORANDUM FOR: Kelly C. Kammerer
Mission Director, USAID/Nepal
FROM: 
James B. Durnil, RIG/A/Singapore
SUBJECT: Audit of No Frills Consultants - Nepal
Audit Report No. 5-367-92-01-N

The accounting firm of Price Waterhouse, New Delhi, performed a financial audit of USAID/Nepal's two contracts with No Frills Consultants (No Frills) relating to the Rapti Development Project (Project No. 367-0155) in Nepal. Five copies of the audit report are enclosed for your action.

Since 1980, USAID/Nepal has been providing assistance to the Rapti Development Project under rural area development, to implement geographically focused and time-based programs to increase agricultural, livestock and forestry production, and to strengthen local group and district institutions for managing development in these areas. USAID/Nepal appointed No Frills as consultants for the vegetable, fruit and cash crop (VFC) program (Contract No. 367-8150). No Frills is also providing support services for conducting related surveys, studies, assessments and analysis in the agro-marketing fields (Contract No. 367-8250). During the two-year period ending December 31, 1990, USAID/Nepal disbursed \$315,740 under these contracts to No Frills.

The audit objectives were to determine whether the Financial Statements of No Frills presented fairly the receipts and expenditures under the two contracts for the two-year period which ended December 31, 1990, whether No Frills' internal controls were adequate, and whether No Frills complied with applicable laws, regulations and agreement terms. The amount audited was \$315,740 in expenditures for the period January 1, 1989 through December 31, 1990.

Price Waterhouse concluded that the Financial Statements did not fairly present No Frills' receipts and expenditures under the two contracts with USAID/Nepal and the auditors expressed an adverse opinion on the Financial Statements. The auditors identified \$116,350 in questioned costs of which \$8,905 were unsupported, significant unexplained transactions, and an undisclosed bank account. The reliability of information reported in the Financial Statements was also questioned by the auditors. Further, the reimbursements claimed by No Frills included material amounts of questioned costs (Finding 5) which impact upon the provisional overhead rate used under the VFC contract. Consequently, the auditors could not determine the overhead rate for each of the accounting periods covered. In its report on internal controls, Price Waterhouse concluded that the internal accounting controls were not adequate for recording, processing, summarizing and reporting the transactions fairly. The audit also disclosed material instances of non-compliance with applicable laws and regulations and with contract terms. The details of these questioned costs, internal control deficiencies, and compliance issues are discussed in the seven findings on pages 15 to 27 of the report.

The management of No Frills generally disagreed with the auditors' findings and USAID/Nepal indicated that they will work with No Frills to resolve the questioned costs and the recommendations made by Price Waterhouse. No Frills' written comments, which included several exhibits and computations, have been extracted, summarized and shown in the seven detailed findings in the report. No Frills' comments on finding no. 5 (Page 25) relating to questioned costs have been summarized by the auditors in this report. However, because the No Frills response totally disagreed with Price Waterhouse's finding, we have attached the full text of their response to this finding as our Appendix I. The full text of No Frills' response has been provided to USAID/Nepal.

USAID/Nepal should take action to ensure that the noted problems are corrected. We are making four recommendations which will be included in the Inspector General recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Nepal require No Frills Consultants to (i) establish and implement written procedures for the proper recording of transactions and the periodic reconciliation of bank accounts; (ii) establish an adequate system of internal accounting controls to enable the preparation of accurate financial statements; and (iii) submit reconstructed Financial Statements for the expenditures incurred under the two contracts to enable USAID/Nepal to review and determine its reliability and accuracy.

Recommendation No. 2: We recommend that USAID/Nepal resolve the \$116,350 in questioned costs (\$8,905 unsupported) identified in the report and recover from No Frills Consultants any costs not allowable under the contracts.

Recommendation No. 3: We recommend that USAID/Nepal (i) require No Frills Consultants to recompute its overhead rate for the contracts with USAID/Nepal taking into consideration the resolution of questioned costs; and (ii) review the recomputed overhead rate to determine its reasonableness, and adjust the overhead amounts charged to the contracts accordingly.

Recommendation No. 4: We recommend that USAID/Nepal require No Frills Consultants to establish and implement written procedures for issuing formal documentation for hiring employees and to comply with local laws relating to the withholding of personal income taxes and the paying of pension fund contributions for its employees.

We appreciate the courtesies and cooperation the Mission and No Frills Consultants extended to Price Waterhouse and our staff during the course of this audit.

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

**AUDIT OF NO FRILLS CONSULTANTS
TWO YEARS ENDED DECEMBER 31, 1990**

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Price Waterhouse

September 26, 1991

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

Dear Sir,

AUDIT OF NO FRILLS CONSULTANTS TWO YEARS ENDED DECEMBER 31, 1990

This report presents the results of the financial audit of No Frills Consultants, Kathmandu for the two years ended December 31, 1990.

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 financial statements, the internal controls, and the compliance with laws and regulations, together with the financial statements and related findings and recommendations.

The comments received from NFC are summarized in Part II of the report and are presented as considered appropriate after each of the findings.

Yours faithfully,

Price Waterhouse

Price Waterhouse

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

PART I - INTRODUCTION

A. Background

USAID/Nepal engaged Price Waterhouse, New Delhi to perform a financial audit of No Frills Consultants, Kathmandu (NFC) for the two years ended December 31, 1990.

USAID/Nepal has been providing assistance to the Rapti Development Project since 1980 under the rural area development to implement geographically focused and time-based programs to increase agricultural, livestock and forestry production, and to strengthen local group and district institutions for managing development in these areas. NFC, primarily through support at the district level, provides assistance in the Rapti Project by implementing vegetable, fruit and cash crop (VFC) activities. The appointment of NFC by USAID/Nepal as consultants was for participating in the VFC program (contract 367-8150) and additionally to provide support services for conducting related surveys, studies, assessments and analysis in the agro-marketing fields (contract 367-8250).

Under these two contracts USAID/Nepal provided funds as hereunder :

<u>Contract No</u>	<u>Funds Obligated</u>	<u>Funds disbursed during two years to December 31, 1990</u>
	US \$	US \$
367-0155-C-00-8150-00	567,342	206,350
367-0249-C-00-8250-00	145,147	109,390
	-----	-----
	\$ 712,489	\$ 315,740
	=====	=====

B. Audit Objectives and Scope

The audit objectives were :

- To determine whether the Financial Statements of NFC for the two years to December 31, 1990 fairly present the revenues and expenditures under the terms of the contracts and to identify any costs which were not fully supported with adequate records or which were not allocable, reasonable or allowable in accordance with contract terms. Additionally, we were required to calculate an audited overhead rate for each of NFC's accounting periods in accordance with contract terms and applicable Federal Acquisitions Regulations. The base for calculating the overhead rate would be direct cost excluding program cost.
- To determine whether the NFC internal accounting controls are adequate for A.I.D. purposes.
- To report on compliance with applicable laws, regulations and contract 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 Audits contracted by A.I.D. - Financed Agreements".

The scope of our work for the audit comprised :

- confirmation of the contract funds received by NFC from USAID.
- an examination of the disbursements made by NFC to ensure that they are adequately supported and are allowable under contract terms.
- evaluation of internal accounting controls to determine the extent of testing required of the NFC records and recommendations for improvements, if any.
- testing of compliance with the applicable laws, regulations and contract terms by NFC.
- calculating an overhead rate for each of NFC's accounting periods using direct cost as the base and by excluding questioned costs noted.

The audit was conducted at Kathmandu during June 1991 and we examined, to the extent considered necessary, the financial statements and the books of accounts of NFC for the two year period under audit.

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

PART II - SUMMARY RESULTS OF AUDIT

NFC submitted to USAID/Nepal audited financial statements for each of the two years ended December 31, 1989 and 1990, as summarized by us in Part IV-A. The financial statements, based on the books and records of NFC, purported to report funds received and disbursed by NFC under the two contracts with USAID/Nepal. However, our examination revealed that :

- the financial statements did not fairly present NFC's receipts and disbursements as there were significant unexplained transactions, an undisclosed bank account and the reliability of information reported was questionable.
- the reimbursements claimed by NFC included material amounts of questioned costs (Finding 5) which impact the provisional overhead rate used under one of the contracts.

Consequently, we have expressed an adverse opinion on the financial statements (Part III A) and have been unable to determine the overhead rate for each of the accounting periods as required.

The NFC management did not establish a system of internal accounting controls to permit the preparation of accurate financial statements. As a result the level of control and the related inherent risks were such that we considered it necessary to perform extensive substantive tests of transactions and also seek confirmations from parties other than the NFC proprietor. The audit findings indicated that in the absence of proper explanations from the NFC proprietor and the availability of certain further evidential matter the internal accounting controls were not adequate for recording, processing, summarizing and reporting the transactions fairly. Therefore, we concluded that these reportable conditions resulted in more than a relatively low risk that errors or irregularities, in relation to the financial statements, could occur and not be detected in a timely manner.

The audit also disclosed instances of non-compliance with certain contract and local requirements (refer finding 7). Consequently, we have qualified our audit opinion in this regard (Part III C).

The findings discussed in Part V of the report indicate interrelated problems which impact the audit objectives to varying degrees. To correct the problems noted we have made 11 recommendations in the report.

In response to the draft report NFC provided lengthy explanations to the findings discussed in the report. However, these comments generally did not address the main issues being reported by us and consequently we have not included the full text of the NFC response, available with the Mission, as an annexure to the report. The NFC response has instead been summarized under Findings 1 to 7, with our comments wherever considered appropriate.

The Mission officials, after reviewing the NFC response, stated during a meeting with us that they would pursue the recommendations and questioned costs with NFC. The written response would however, be provided to the Regional Inspector General/Audit, Singapore subsequent to receipt of the final report and completion of the Mission's enquiries.

Price Waterhouse

NO FRILLS CONSULTANTS, KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

PART III-A

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of No Frills Consultants (NFC) as of December 31, 1989 and 1990, and the related statements of income and expenditures for the years then ended (Part IV). These financial statements are the responsibility of NFC management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

As stated in the Summary Results of Audit (Part II) and the detailed findings (Part V), the financial statements exclude one of the bank accounts and the related transactions of NFC, while material transactions which had been effected through another bank remained unreconciled with that bank account. Additionally, the system adopted by NFC to settle salary payments by giving advances, which also included settlement of balances for unrecorded purchases and sales of seeds and farm equipment, precluded us from determining whether the salaries had in fact been correctly paid or recorded. Generally accepted accounting principles require that an entity records all its transactions and performs periodic reconciliations with its bank accounts to confirm the accuracy and completeness of the records.

Due to the departures from generally accepted accounting principles identified above, we considered the records maintained by NFC as being unreliable for the preparation of financial statements which would fairly present its financial position as of December 31, 1989 and 1990. Also, in the absence of full and complete disclosure of the transactions, during the two years under audit, by the management of NFC we were unable to reasonably determine the effect of these matters, considered material, on the financial statements.

In our opinion, because of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of NFC as of December 31, 1989 and 1990, or the results of its operations for the years then ended.

This report is intended solely for the use of NFC 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
June 28, 1991

Pricewaterhouse

Price Waterhouse

**NO FRILLS CONSULTANTS, KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990**

PART III-B

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL ACCOUNTING CONTROLS

We have audited the financial statements of NFC, Kathmandu for the two years ended December 31, 1990 and have issued our report thereon dated June 28, 1991. We conducted our audit in accordance with the generally accepted auditing standards and the standards for financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of NFC for the years ended December 31, 1989 and 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The management of NFC 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 financial statements 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 receipts and payments as recorded with the bank accounts maintained.
- recording of all transactions in the books of account.
- maintaining proper and adequate books of account and records in support of the transactions recorded.

For all 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 financial statements.

The reportable conditions noted by us have been discussed in Part V of this report.

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 financial statements 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 necessarily disclose all reportable conditions that are also 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 Financial Statements may occur and not be detected within a timely period.

This report is intended solely for the use of NFC 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

Price Waterhouse

June 28, 1991

Price Waterhouse

NO FRILLS CONSULTANTS, KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

PART III--C

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

We have audited the financial statements of NFC for the two years ended December 31, 1990, and have issued our report thereon dated June 28, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations and contract provisions applicable to NFC is the responsibility of its management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of NFC compliance with certain provisions of laws, regulations and contract terms. 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 or contracts that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed material instances of non-compliance, as discussed in Part V, and the effects of which have not been corrected in the NFC financial statements.

We considered these instances of noncompliance in forming our opinion on whether the NFC financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and have issued an adverse opinion thereon.

Except as described in Part V, the results of our tests of compliance indicate that, with respect to the items tested NFC 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 NFC had not complied, in all material respects, with those provisions.

This report is intended solely for the use of NFC 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

Price Waterhouse

June 28, 1991

NO FRILLS CONSULTANTS, KATHMANDU
TWO YEARS ENDED DECEMBER 30, 1991

PART IV-A
BALANCE SHEET

(Nepalese Rupees)

	<u>As at December 31, 1990</u>	<u>As at December 31, 1989</u>
SOURCES OF FUNDS		
Proprietors Funds	1,587,584	1,946,393
Income and Expenditure Account - Surplus/(Deficit)	<u>264,661</u> 1,852,245	<u>(13,546)</u> <u>1,932,847</u>
APPLICATION OF FUNDS		
Fixed Assets - At cost	551,751	521,446
Less Accumulated Depreciation	<u>110,791</u>	<u>56,729</u>
	440,960	464,717
Current Assets, Loans and Advances		
- Cash and Bank Balances	116,034	11,543
- Deposits and Advances	250,280	248,578
- Claims receivable - USAID	<u>1,532,601</u>	<u>1,568,151</u>
	1,898,915	1,828,272
Less: Sundry Creditors	<u>487,630</u>	<u>360,142</u>
	<u>1,411,285</u>	<u>1,468,130</u>
	<u>1,852,245</u>	<u>1,932,847</u>
Equivalent approximately to	US\$ <u>52,920</u>	US\$ <u>55,225</u>

Notes to Financial Statements - Refer Part IV B.

NO FRILLS CONSULTANTS, KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

PART IV-A

INCOME AND EXPENDITURE ACCOUNT

	(Nepalese Rupees)	
	Year ended December 31, 1990	Year ended December 31, 1989
INCOME		
Reimbursements from USAID/N	5,198,827	4,416,560
Miscellaneous Income	<u>27,488</u>	<u>-</u>
(US\$149,325 approx)	5,226,315	4,416,560 (US\$126,19 approx.)
EXPENDITURE		
Salary and wages	2,113,778	1,571,377
Allowances	494,281	404,240
Travelling, Transportation and per diem	839,050	812,122
Office supply and support	564,951	505,067
Office utilities	50,838	45,532
Petrol and Lubricants	7,505	9,930
Repair and Maintenance	13,146	7,706
Professional Services	584,497	238,301
Public Relation and Refreshment	12,411	47,099
Computer rental and computer supply	7,120	12,112
Printing and Binding	48,761	20,326
Equipment supply	47,500	19,537
Secretarial Service	37,449	21,616
Program Funds	72,759	359,890
Depreciation	<u>54,062</u>	<u>56,729</u>
(US\$141,375 approx)	4,948,108	4,131,584 (US\$118,05 approx)
Surplus for the period	278,207	284,976
Deficit brought forward	<u>(13,546)</u>	<u>(298,522)</u>
Surplus/(Deficit) transferred to the Balance Sheet	<u>264,661</u>	<u>(13,546)</u>

Notes to Financial Statements - Refer Part IV B.

NO FRILLS CONSULTANTS, KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

PART IV-B

NOTES TO FINANCIAL STATEMENTS

1. The financial statements (Part IV-A) have been presented for information only to show what was submitted to the Mission and we have expressed an adverse audit opinion thereon (refer Part III-A).
2. No adjustments have been made to the financial statements for the effect of Findings 1 to 7 (Part V).
3. The total expenditure per Income and Expenditure Account and as stated in Appendix A.6 differs as follows:-

(Nepalese Rupees)

	<u>Year Ended</u> <u>December 31, 1990</u>	<u>Year Ended</u> <u>December 31, 1991</u>
Per Appendix A.6	5,041,904	4,209,152
Per Income and Expenditure Account	4,948,108	4,131,584
Fringe Benefits included in Appendix A.6	<u>93,796</u>	<u>77,568</u>

NO FRILLS CONSULTANTS, KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

PART V

FINDINGS AND RECOMMENDATIONS

FINDING 1: BANK ACCOUNT NOT DISCLOSED

CONDITION:

The accounting records of NFC ignore the receipts and payments appearing in the bank statements of Nepal Arab Bank Limited (Account No.2499), an account in the name of NFC, which as explained had been opened for the express purpose of depositing and encashing USAID funds/cheques but which was not made known to us at the time of commencement of the audit. This account, according to the bank statements had balances of NRs 29,036 and NRs 6,042 as at December 31, 1989 and 1990 respectively. Additionally, NFC has represented that during the two years under audit they did not engage in any other activity or operations other than the two contracts with USAID.

CRITERIA:

Normal accounting procedures and the contracts with USAID require that the accounting records reflect all transactions of an entity together with balance of funds in its bank accounts to show a fair financial position.

CAUSE:

NFC contended that the bank account, although used exclusively for depositing USAID cheques and on occasion encashing them, was ignored as all receipts from USAID were recorded in the NFC books of account as being receivable from its proprietor. Also, certain receipts and payments from this bank account were to be ignored as they represented personal transactions of the proprietor which need not be reflected in the accounting records.

EFFECT:

As we were unable to relate certain receipts and payments in the bank account to any supporting documents (refer Appendix A.1) we concluded that these transactions may represent activities, other than those relating to the contracts with USAID, which had not been reflected in NFC's records and the financial statements. Consequently, the questioned costs per Finding 5 and the overhead rate calculation per Finding 6 may suffer an impact as all of NFC overheads have been treated exclusively relating to the contracts with USAID. However, for the purpose of this report these activities have been ignored and the NFC overheads allocated exclusively to the contracts with USAID (refer Finding 6).

RECOMMENDATION:

NFC should maintain records including all its activities and bank accounts for the preparation of financial statements which fairly state its financial position.

NFC RESPONSE:

In its response NFC stated that

"The bank account operated by us during the two years of 1989 and 1990 was Nepal Bank Limited (A/c No.46). All the funds received from USAID/N have been recorded in our books of account as being receivable from Dr.B.N.Kayastha (Proprietor) and all appropriate adjustments have been made through his personal account. Also certain receipts and payments were not reflected in the accounting records as they represented personal transactions of the proprietor. As the funds were adjusted through the personal account of the proprietor, no credit account was maintained and reimbursements and interest payments were recorded in the books of account.

As the Normal accounting procedures and the contracts with USAID require that the accounting records reflect all transactions of an entity together with balance of funds in its bank accounts to show a fair financial position. We accept the finding 1 and will operate all the USAID contracts through Nepal Arab Bank Limited Account No.2499. And as recommended by audit we will maintain records reflecting all USAID/N contract(s) related activities for the preparation of financial statements which will fairly state our financial position. In the past Nabil Bank A/C No.2429 was mainly used for depositing and encashing USAID cheques. Now it will be the only account utilised for the USAID contracts".

In addition NFC provided explanations for the unexplained amounts included in Appendix A.1 of the report.

AUDITORS COMMENT:

In the absence of full disclosure by NFC of its activities, other than those relating to the contracts with the Mission, the overhead rate per Finding 6 may not be accurate. As a result, the Mission would need to be particularly careful in assessing a fair financial position of NFC, the accuracy of its records and the appropriate overhead rate.

FINDING 2 : BANK ACCOUNT NOT RECONCILED WITH ACCOUNTING RECORDS

CONDITION :

The NFC bank balance with Nepal Bank Limited (Account No.46) was not reconciled with the balance per records of NRs 7,977 and NRs 113,871 at December 31, 1989 and 1990 respectively. A reconciliation attempted by us as at December 31, 1990 revealed various unexplained amounts appearing in the records but not appearing in the bank statements, and vice versa. Further, the reconciliation as at December 31, 1990 disclosed a difference of NRs 124, 223 between the bank balance and the records, which also remained unexplained. Details of these unexplained transactions have been stated in Appendix A.2.

CRITERIA:

Normal accounting procedures require that bank accounts be periodically reconciled in order to ensure the accuracy and reliability of financial records. There should be adequate supervisory review and approval of bank reconciliations and reconciling items followed up and resolved in subsequent reconciliations.

CAUSE:

The NFC accounting staff explained that they were unable to prepare a reconciliation as they were not aware whether certain payments were made by cheque or cash by the proprietor. Also, certain receipts were recorded as funding contributions from the proprietor but which did not match the funds deposited in the bank.

EFFECT:

On the basis of the material amounts of transactions remaining unexplained we concluded that the NFC records were not reliable and the NFC financial statements prepared therefrom did not fairly present the financial position, expenditures, and the proprietors and bank account balances. Also, questioned costs of US \$12,450 have been noted in Appendix A.2.

RECOMMENDATION:

NFC should maintain accurate records and prepare bank reconciliation statements for the purpose of effecting appropriate adjustments to the financial statements and the costs claimed from USAID.

NFC RESPONSE:

In response to this finding NFC stated that

"In NFC accounting procedure payments were made both by cheque and cash by the proprietor as required. Certain receipts were recorded as funding contributions from the proprietor directly to the recipients even without depositing the funds in the bank. Such depositions were not recorded as credit amounts and their reimbursement and interests were not recorded. The situation made it difficult to reconcile the bank account with accounting records.

The situation was more complicated as some of the advances were made on cash and kinds, inputs and materials, program funds and advances, from Kathmandu as well as from Tulsipur and other locations from farmers to private dealers, etc.

We accept the finding 2 and will prepare a bank reconciliation statement as normal accounting procedures for USAID contract require that bank accounts be periodically reconciled in order to ensure the accuracy and reliability of financial records.

Thus, NFC will improve its accounting procedure and maintain accurate records from September 1, 1991 and prepare a bank reconciliation statement for the purpose of effecting appropriate adjustments, to the financial statements and the costs claimed from USAID."

NFC further provided explanations of the amounts noted in Appendix A.2 of the report without addressing the main issue of transactions appearing in the records but not passing through the bank account and vice versa. A full text of the NFC explanation appears hereunder:

"All the items are explained above and all of these are under USAID/N contract related NFC activities. However, they are being operated both by cash and cheque. Some of the advances were made by Dr.B.N. Kayastha directly without even going through the accountant. Similarly Mr.T.K. Pradhan provided advances from his own fund on behalf of Dr.B.N. Kayastha in some cases. This kind of transaction have been the main cause of confusion in most of the auditor's questioned costs. Therefore most of the analysis of costs appeared on pages 2 to 7 of Appendix A.2 in Auditor's reports are not questioned costs. There was simply a confusion on the transaction.

However, it is true that some of the payments have not passed through the bank account. They have been paid in cash in most cases and in some cases in kinds (inputs, tools, equipments, chemicals, seeds, saplings, planting materials processing equipment, storage materials, etc.).

Therefore we request you to reconsider the questioned costs for 1989 and 1990 per appendix A.5. If you have more questions or you need further explanation we will be very glad to do so."

AUDITORS COMMENT:

Although NFC has indicated acceptance of the finding its response suggests the existance of activities other than for USAID contracts (refer Finding 1) and therefore we believe the costs of US\$ 12,450 have been correctly questioned as unsupported. Additionally, explanations provided for the amounts listed in Appendix A.2 would need to be examined by the Mission for determining appropriate adjustments to the financial statements, the overhead rate and further questionable costs which may arise.

FINDING 3 : SALARY AND OTHER BENEFITS CLAIMED BUT NOT PAID OR SUPPORTED.

CONDITION:

Under one of its contracts with USAID (Contract No.8150), NFC claims salary and allowance payments. These amounts are reimbursed by the Mission on the basis of the approved NFC personnel policy and salary and time sheets signed by the respective employee. However, the accounting practice followed by NFC, in the case of field staff, is to credit the salary and allowance to the staff account and to settle the same against advances made from time to time. Upon enquiry it became evident that the advances made, also included settlement of monies due to/from the proprietor for purchases and sales of seeds and farm equipment by the employees on behalf of the proprietor but which were not reflected in the records. Also, no confirmations were available from the employees for the balances due to/from them as at December 31, 1989 and 1990. Details of salary and allowance claimed for such employees together with staff account balances which remained unconfirmed are stated in Appendix A.3.

Additionally, NFC has claimed fringe benefits under the contract at the rate of approx. 16.66 percent of salaries of long term employees and local support staff. The claim is based on the understanding that NFC, in accordance with the personnel policy approved by the Mission, would pay one month salary as Dasain festival bonus and one month salary for each year of service, as severance pay to its employees. However, as a normal practice no severance pay is paid or accrued in the financial statements.

CRITERIA:

The contract with USAID and OMB Circular A-122 require maintenance of adequate records to support all activities of an entity and claims made should be based on actual expenditure incurred in accordance with contract terms.

CAUSE:

NFC made claims for expenditure not incurred or paid and did not ensure correct accounting of salaries and other benefits.

EFFECT:

The financial statements did not disclose all the NFC transactions fairly and gave rise to certain questioned costs amounting to US \$ 44,860 (refer Appendix A.3).

RECOMMENDATION:

NFC should only claim costs which are incurred and maintain records which adequately support the costs and include all its activities.

NFC RESPONSE:

The full text of the NFC response is stated hereunder:

"We do not accept the Finding 3 as NFC has made all its salary claims based on actual expenditure incurred in accordance with contract terms. NFC has maintained adequate records to support all activities of an entity. (Please refer comments and explanation on Appendix A.3).

USAID reimburses the salary and allowances claimed by NFC for reimbursement after it is incurred on the basis of the approved NFC personal policy. NFC provides the salary and time sheets signed by the respective employee.

However, the accounting practice followed by NFC in the case of field staff is to credit the salary and allowances to the staff account and to settle the same against advances made from time to time.

Moreover, NFC also provided advances for purchases and sales of seeds, sapling and other planting materials as well as for farm tools and equipments, plant protection chemicals and equipments. NFC also provided advances for conducting approved programs on season and the field staff were reimbursed by the local development office after its budgets were available. Most of these transactions were not reflected in the records as they were not included in the contract. This has helped us to conduct the required services and support services on time to implement the VFC program.

Fringe Benefits claimed at present under the contract is at the rate of 16.66 percent of salaries of long-term staff employed under VFC program.

The claim is based on the understanding that NFC would pay one month salary as Dashains bonus and one month salary for each year of service as severance pay to these employees. So far, we have no provision for provident fund. If it is adopted the rate of fringe benefit will increase to 26.66 percent of salaries of long-term staffs:"

In addition, NFC provided reconciliations for the unconfirmed salaries, allowances and personal accounts detailed in Appendix A.3 of the report.

AUDITORS COMMENT:

As stated by NFC the accounting practice followed did not ensure that all its transactions were recorded in the books. The reconciliations of staff accounts provided include NR 1,316,920 (US\$ 37,600) as "other costs" for which no explanations have been given but which were reportedly claimed from the Mission. NFC has also not explained the severance pay claimed as a fringe benefit from the Mission but which was not paid to its employees. Therefore, in the absence of full disclosure of all its transactions and adequate explanations for the costs claimed the questioned costs per this finding, US\$ 44,860, remain unchanged.

FINDING 4 : PERSONNEL POLICIES UNCONFIRMED

CONDITION:

NFC obtained approval of its personnel policies from the Mission but did not issue letters of appointment or service agreements to most of its employees and consultants.

CRITERIA:

The personnel policies approved by the Mission, per normal accounting procedures, needed to be confirmed with letters of appointment or service agreements for determining the extent to which such policies were implemented under the two contracts.

CAUSE:

NFC decided not to enter into service agreements or issue letters of appointment as it was felt to be unnecessary by its proprietor.

EFFECT:

In the absence of staff account balance confirmations (refer Finding 3) and the letters of appointment or service agreements it was not possible to determine the extent to which the approved personnel policies were being implemented (refer Appendix A.4 for details).

RECOMMENDATION:

NFC should provide letters of employment and service agreements duly signed by the employees to confirm implementation of the approved personnel policies and obtain acknowledgement from the individual employees of salaries and allowances paid to them.

NFC RESPONSE:

NFC stated that

"We do not accept the finding 4 as NFC has obtained approval of its personnel policies from the USAID Mission for all the key staff members under USAID contract and have issued service agreements to all of its key staff members duly signed by the employees to confirm implementation of approved personnel policies (Please refer comments and explanation on Appendix A.4).

We have maintained and made available to the auditing staff the service agreements of all the key staff members based on the personnel policies approved by the USAID Mission and these policies were implemented under both the contracts.

The files of service contracts were maintained at our office. We had made available to the auditors all the service agreements of all the key staff under USAID contracts. However, some of the office staff worked on temporary basis as trainees and on day-to-day basis whom we did not issue service agreements.

All the long-term key staff of VFC program were provided with service agreement contract for 31 person months. Similarly the few key staff of marketing project were also issued service agreement contract for 6 months to 18 person months based on the contract requirement.

Mr.U.K. Karma, Mr.T.P.Pun, Mr.N.Acharya, Mr.T.K.Pradhan, Mr. V.P. Chaudhary, Mr. H.M. Shrestha, Mr. S.B. Shrestha, Mr.D.B. Budhathoki and Mr.S.M. Bhattarai are all key staff, of VFC therefore they have been provided with service agreement for 31 months of contract duly signed by the employees to confirm, implementation of the approved personnel policies by US Mission."

AUDITORS COMMENT:

NFC was provided ample opportunity to make available during the course of audit and at the time of the exit conference with Mission officials, the service agreements and contracts but none were made available. Additionally, no response has been provided regarding the acknowledgement from the individual employees of salaries and allowances paid to them.

In view of the nature of the response received from NFC the Mission would need to determine whether the approved personnel policies were implemented and also if the salaries and allowances, reportedly paid, ought to be also questioned.

FINDING 5 : QUESTIONED COSTS

CONDITION:

The audit revealed various questioned costs which were discussed with NFC and Mission officials. A listing of such costs is provided in Appendix A.5 indicating those costs which appeared to us to be potentially disallowable and which have also been verbally accepted by NFC as disallowable, and also certain other costs for which no proper explanation was provided.

CRITERIA:

In accordance with the audit objectives and the principles stated in Federal Acquisition Regulations costs claimed should be adequately supported, allowable, reasonable and approved.

CAUSE:

Certain disallowable, unsupported, unallocable and unreasonable costs considered appropriate by NFC, have been claimed from the Mission.

EFFECT:

NFC has received reimbursement of potential questioned costs amounting to US \$ 52,600 which also impact the determination of the overhead rate.

RECOMMENDATION:

NFC should provide adequate explanations for all questioned costs or arrange to reimburse the same to the Mission.

NFC RESPONSE:

The NFC response indicated complete disagreement with this finding as all questioned costs, including those which had earlier been agreed to, per Appendix A.5 were now considered to be allowable, properly supported and allocable to the USAID contracts. Explanations have been provided by NFC to support its position as regards the costs questioned, except for site workers wages of NR 73,345 and NR 52,600 during 1989 and 1990 respectively.

AUDITORS COMMENT:

The explanations provided by NFC are at complete variance with our findings and do not add to the information considered by us earlier. Consequently, we believe the Mission would need to examine the questioned costs further and determine their appropriateness.

FINDING 6 : OVERHEAD RATE DETERMINATION

CONDITION:

Due to the problems discussed in Findings 1 to 4 the overhead rate could not be reasonably determined in accordance with generally accepted accounting principles.

CRITERIA:

The audit objectives require determination of an overhead rate, as a provisional overhead rate has been used for reimbursements under Contract No.8150.

CAUSE:

Refer Findings 1 to 4.

EFFECT:

We were unable to comply with the audit objectives. However, taking into account all of the questioned costs per Finding 5 an overhead rate calculation has been included as Appendix A.6 for information only. The effect of unexplained transactions and other NFC activities per Appendices A.1 and A.2 have not been considered in this calculation.

RECOMMENDATION:

An overhead rate should be calculated by NFC based on financial records which report reliable information and include all NFC activities.

NFC RESPONSE:

In additon to the explanations provided under Finding 5 no response was made to this finding.

FINDING 7 : OTHER MATTERS

S.NO	CONDITIONS	CRITERIA	EFFECT	CAUSE	RECOMMENDATIONS	NFC RESPONSE
1	Time sheets are not approved by a supervisor.	NFC's personnel policy states that salaries are to be based on time sheets approved by a supervisor.	Internal control weakness and non-compliance with personnel policy.	Non-adherence to personnel policy approved by Mission.	Time sheets should be approved by a supervisor.	Accepted
2	All salary statements, travel/expense statements and vouchers are not verified by an independent person and approved by a supervisor.	Existence of internal checks is necessary for an effective control environment.	Internal control weakness which might result in unauthorized payments.	Inadequate division of duties.	Salary/travel/expense statements and vouchers should be verified should be verified by an independent person and approved by a responsible official.	Accepted
3	Delays in submission of time sheets and travel and other expense statements.	Accepted accounting practice requires that costs should be reported and accounted for in the period in which they are incurred.	Costs reported to USAID/N do not relate to the relevant period and consequently reimbursements are delayed.	Delays in receipt of time and expense statements from the sites.	Time and expense statements should be submitted to NFC's Kathmandu office with minimum delay.	Note 1
4	Provident Fund and Income Tax is not being deducted from the salaries of employees and NFC is not making a corresponding contribution to the Provident Fund.	Local laws require deduction of Tax and Provident Fund from salaries and an employers contributions to Provident Fund.	Non-compliance with local laws and regulations.	NFC is aware of these requirements but defaulted on compliance.	NFC should comply with local laws relating to deduction of tax at source and contributions of provident fund dues.	Note 2
5	Upon physical verification of USAID/N donated non-expendable assets, an Epson printer was not found in the NFC Kathmandu Office and the location was not recorded in the Fixed Assets Register.	Location of USAID/N donated non-expendable assets should be recorded in asset records.	Internal control weakness and non-compliance with requirement.	NFC explained that the printer was in the house of an agro-marketing specialist.	Location of all non-expendable assets should be recorded in the Fixed Assets Register.	Accepted

Notes:

1. The finding was found to be valid and limited working capital and delays in receipt of expense statements from remote sites were attributed as the main causes of delay.
2. NFC agreed to comply with local laws in the future but offered no explanation to the finding.

**NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990**

INDEX OF APPENDICES

- A.1 Bank account not disclosed
- A.2 Bank account not reconciled with accounting records
- A.3 Salary and other benefits claimed but not paid or supported.
- A.4 Personnel Policies Unconfirmed
- A.5 Questioned Costs
- A.6 Overhead Rate Determination

**NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990**

BANK ACCOUNT NOT DISCLOSED.

Unexplained withdrawals (Dr) and Deposits (Cr) in NABIL Bank Account No.2499

	<u>Dr.</u> <u>(Nepalese Rupees)</u>	<u>Cr.</u> <u>(Nepalese Rupees)</u>
<u>1989</u>		
15th January	45,000	46,583
18th January	220,000	213,731
19th February	140,000	139,522
26th October	500,000	648,228
23rd November	<u>300,000</u>	<u>-</u>
	<u>1,205,000</u>	<u>1,048,064</u>
<u>1990</u>		
2nd January	-	252,585
8th March	200,000	997,669
3rd June	30,000	-
3rd July	50,000	-
27th July	-	1,286,978
1st August	268,000	-
1st August	200,000	-
5th November	<u>35,000</u>	<u>-</u>
	<u>783,000</u>	<u>2,537,232</u>
Totals	NRs <u>1,988,000</u>	NRs <u>3,585,296</u>
	Approx. US\$ <u>56,510</u>	US\$ <u>102,440</u>

Notes:

- (a) Bank statements for the period 12th January, 1990 to 7th March, 1990 were not made available.
- (b) Withdrawals were checked with funds brought in by the proprietor into his personal account in NFC books and only those withdrawals not traced into his account have been listed as unexplained.

Similarly, unexplained deposits represent funds which could not be related to reimbursements made by the Mission.

- (c) Balance in account as per bank statement
NRs

31st December, 1989	29,036
31st December, 1990	6,042

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

BANK RECONCILIATION STATEMENT AS ON DECEMBER 31, 1990

NEPAL BANK LIMITED (ACCOUNT NO. 46)

		NRs.
Balance as per NFC records and per audited accounts		113,871
Add:		
1. Amounts paid per records but not debited by bank (page 3 of 7)	544,789	
2. Amounts credited by bank but not received per records (page 3 of 7)	<u>764,000</u>	1,308,789
Less:		
3. Amounts received per records but not credited by bank (page 4 of 7)	816,470	<u>1,422,660</u>
4. Amounts paid per bank but not per records (Page 7 of 7)	<u>634,934</u>	1,451,404
Balance per records should be		<u>(28,744)</u>
Balance as per bank statement		95,479
Difference per Finding 2 unexplained		<u>124,223</u>

Notes: Items 2, 3 and 4 indicate possible other NFC activities not disclosed during audit and hence ignored.

Amounts per Item 1 above, except as noted hereunder are treated as questioned costs under Finding 5 as the payments have not passed through the bank account. The analysis of such costs appears on Pages 2 to 7 of this Appendix.

Per Item 1 above		544,789
Advances:		
	50,000	
	44,000	
	<u>15,000</u>	<u>109,000</u>
Questioned costs for 1989 and 1990 per Appendix A.5		435,789
		<u>US \$ 12,450</u>

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

List of amounts paid per records in 1989 and 1990, but not debited by bank.

<u>Serial No.</u>	<u>Voucher No</u>	<u>Particulars</u>	<u>Amount</u>
	<u>1989</u>		
1	41	Salaries	
		Jamuna Kayastha	5,000
		R.P.Sharma	2,000
		G.B. Baniya	1,000
		K. Maharjan	1,000
		S.B. Shrestha	2,000
		M. Kamacharya	2,500
2	72	Kaji Mal Dangol	2,500
3	233	Other direct cost	8,865
4	234	Equipment and supplies	5,310
5	313	Secretarial services	774
6	367	Salaries Agri Marketing	8,661
7	369	Salaries May, 1989	30,500
8	373	Salaries M. Karkee	1,500
9	377	Salaries and Wages	2,975
10	517	Honerarium & Travel	12,118
11	555	Dr. Kayastha A/c	50,000
12	561	Other direct cost	1,980
13	591	Gautam Tulsi	4,000
14	611	Secretarial Service	1,615
15	617	Program Fund (U.Karma)	37,286
16	621	Other direct cost	16,200
17	636	Salaries & Travel	798
18	637	-do-	6,050
19	658	Other Direct Cost	10,000
20	659	Printing & Binding	10,000
21	665	Salaries Sept. 1989	28,500
22	667	Bonus	8,500

		C/Fwd	261,632

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

List of amounts paid per record in 1989 and 1990, but not debited by bank

<u>Serial No.</u>	<u>Voucher No</u>	<u>Particulars</u>	<u>Amount</u>
		B/Fwd	261,632
23	668	Secretarial Service	1,500
24	713	-do-	1,500
25	783	Salary	1,565
26	808	Salary	2,000
27	817	Secretarial Service	1,500
28	859	-do-	8,500
29	861	Agro Enterprises Seminar	16,500
30	888	Dhulikhel Mountain Resort	159,765
31	905	Agro Enterprises Seminar E.D.D. Poudel	5,000
32	927	-do-	5,000
33	929	Secretarial Services P. Ghimre	1,500
34	942	Professional Services (C. Karma)	5,184
35	943	Professional Service (C.Karma)	4,529
36	944	Personal Advance	44,000
	<u>1990</u>		
37	9	Sailes Kunwar	3,238
38	44	Advance to V.P.Choudhary	15,000
39	70	Printing and Binding	1,700
40	150	B.L. Mahajan Salary	3,000
41	351	Office Supply (S.M.Trading)	175
42	555	N.P.Gautam's salary	<u>2,000</u>
		Total	<u>544,789</u>

Amounts credited by bank but not received per records:

	<u>1989</u>	
1	Cash	140,000
2	Cash	4,000
3	Cash	120,000
	<u>1990</u>	
4	Cash	500,000
	Total	<u>764,000</u>

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

List of amounts received per records but not credited by bank

<u>Serial No.</u>	<u>Voucher No</u>	<u>Particulars</u>	<u>Amount</u>
	<u>1989</u>		
1	5	USAID Claim	139,522
	<u>1990</u>		
2	720 B	Cash deposit	130,000
3	656	-do-	2,260
4	631 B	-do-	150,000
5	47	-do-	394,688
		Total	Rs. <u>816,470</u>

BJ

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

List of amounts paid per bank but not per records.

<u>Serial</u> <u>No.</u>	<u>Payee</u>	<u>Cheque No.</u>	<u>Amount</u>
	<u>1989</u>		
1	Hira	050	20,000
2	Krishna Kumar	662	10,000
3	Lok Dairy	880	2,395
4	Pushpa	098	14,966
5	Soman	459	1,560
6	Darba	468	1,500
7	Ganesh	090	900
8	Pushpa	470	6,000
9	Duga Dutt	473	2,000
10	MR	254	400
11	Bishnu	272	1,980
12	L.K.M	275	4,000
13	G.B	253	900
14	S.B	258	2,000
15	Kumar	505	9,184
16	Kumar	508	12,000
17	Madan	513	1,575
18	Bush	512	550
19	-	878	5,500
20	B.B	897	470
21	Mercantile	898	14,175
22	Krishna	328	6,995
23	Bal	330	2,667
24	-	333	3,208
25	-	342	4,000
26	Bharatpur	-	138
27	Pushpa	474	4,060
28	T.N	830	3,000
29	Dhan	835	1,500
30	Gyan	837	39,386
		C/Fwd	<u>177,009</u>

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

List of amounts paid per bank but not per records. (Contd.,)

<u>Serial No.</u>	<u>Payee</u>	<u>Cheque No.</u>	<u>Amount</u>
	B/Fwd		177,009
31	Bishnu	845	668
32	Badri	376	150,000
	<u>1990</u>		
33	Pushpa	384	38,000
34	T.N.Shrestha	739	9,117
35	Pushpa	738	1,690
36	T.N.S	748	5,000
37	Krishna	17229	4,750
38	Tak Bahadur	224	3,000
39	Kushi Shanti	231	70
		232	250
40	A Rimal	571	6,610
41	Soninda	570	10,560
42	Pushpa	728	8,400
43	Mercantile Traders	572	20,000
44	K.B.S	739	2,500
45	S. Thapa	554	6,050
46	Dulikhel Mountain	741	28,000
47	-	748	32,400
48	T.B. Thapa	043	4,000
49	Jammuna	076	5,000
50	-	082	345
51	Pushpa	094	3,000
52	Tulsi	096	1,100
53	Govinda	097	851
54	Rajendra	376	5,000
55	Govinda	380	6,000
56	G.Shrestha	385	3,400
57	N. Shreshta	388	3,970
58	Tek Bahadur	387	7,115
59	Krishnaee	013	560
60	M. Karkee	390	8,200
61	S.K.	392	1,500
62	Mercantile Traders	400	12,500
	C/Fwd		<u>566,615</u>

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NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

List of amounts paid per bank but not per records. (Contd..)

<u>Serial</u> <u>No.</u>	<u>Payee</u>	<u>Cheque No.</u>	<u>Amount</u>
	<u>1990</u>		
		B/Fwd	566,615
1	D.D. Pandel	585	5,068
2	S.K	852	1,738
3	PIS Mahat	860	3,000
4	G.K	730	53,713
5	Mohan Sharma	684	300
6	Not known	041	4,500
			<u>634,934</u>

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NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

1. Unconfirmed Salaries, Allowances and Personal Accounts.

Name	<u>Salary and Allowances</u>		<u>Receivable/(Payable) Balance in Personal A/c</u>	
	1989	1990	1989	1990
<u>NFC site staff</u>				
U.Karma	87,615	109,647	31,545	(7,478)
T. Pun	99,738	102,024	(53,557)	(72,685)
N. Acharya	83,115	109,647	(47,715)	(96,929)
T.K.Pradhan	141,900	168,240	(100,681)	43,805
V.P. Chaudhary	99,738	102,024	35,251	4,258
H.M. Shrestha	83,115	-	(29,938)	(31,762)
S.B. Shrestha	29,800	37,800	23,302	(9,717)
D.B.Budhathoki	62,100	96,834	(44,385)	(33,891)
S.H.Bhattarai	-	106,725	18,000	(29,938)
	<u>687,121</u>	<u>832,941</u>		
2. <u>Fringe Benefits</u>				
Claimed	77,568	93,796		
Paid	50,653	70,692		
	<u>26,915</u>	<u>23,104</u>		
Total Questioned Costs	714,036	856,045		
US \$	<u>20,400</u>	<u>24,460</u>		

NO FRILLS CONSULTANTS - KATHMANDU
TWO YEARS ENDED DECEMBER 31, 1990

Personnel policies unconfirmed.

Name	Staff Account Balances as at December 31		
	1989	1990	
B. Pradhanang	8,700	2,738	VFC Consultant
M. Karki	-	20,000	Agro Marketing Specialist
Kaji Man Daugol	11,500	11,500	NFC local support staff.
Santa Ram Kayastha	7,100	4,500	-do-
Asha Kaju Thako	18,900	10,000	-do-
Chandra. Bdr. Karki	5,930	5,930	NFC Consultant
Dr. Ramesh Bahadur Munankani	-	33,051	Agro Marketing Specialist
Dr. Krishna Bdr. Napit	-	2,400	Agro Enterprises Specialist
Binod Pd. Dhakal	-	3,500	Agro Marketing Surveyor
Aditya Kr. Jha	-	20,092	Agro Marketing Researcher
Ganesh Baniya	1,300	-	NFC Local Support staff.
Mukunda Kermacharya	56	-	Agro Marketing Research Assistant
Ganesh Mansingh Adhikari	(500)	-	
Tek Bdr. Shrestha	(30,000)	-	

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Questioned Costs
(Nepalese Rupees)

	Page Ref.	Direct		Indirect		Total	
		1989	1990	1989	1990	1989	1990
Disallowable costs	(3 of 5)	64,129	437,264	146,625	60,432	210,754	497,696
Unsupported	(4 of 5)	11,500	10,150	120,000	120,000	131,500	130,150
Unallocable	(5 of 5)	70,137	141,433	228,588	536,277	298,725	677,710
Unreasonable	(5 of 5)	-	-	60,000	60,000	60,000	60,000
		<u>145,766</u>	<u>588,847</u>	<u>555,213</u>	<u>776,709</u>	<u>700,979</u>	<u>1,365,556</u>
Per Appendix A.2		324,898	6,338	100,778	3,175	425,676	10,113
Per Appendix A.3		714,036	856,045	-	-	714,036	856,045
		<u>1,184,700</u>	<u>1,451,830</u>	<u>655,991</u>	<u>779,884</u>	<u>1,840,691</u>	<u>2,231,714</u>
		=====	=====	=====	=====	=====	=====
Total		<u>1,184,700</u>	<u>1,451,830</u>	<u>655,991</u>	<u>779,884</u>	<u>1,840,691</u>	<u>2,231,714</u>
		=====	=====	=====	=====	=====	=====
US \$		<u>33,850</u>	<u>41,480</u>	<u>18,740</u>	<u>22,280</u>	<u>52,590</u>	<u>63,760</u>

Questioned Costs

V F C Contract			Agro Marketing Contract			NFC Overheads		
1989	1990	Remarks	1989	1990	Remarks	1989	1990	Remarks
<u>NR</u>	<u>NR</u>		<u>NR</u>	<u>NR</u>		<u>NR</u>	<u>NR</u>	
1. Disallowable Costs								
			18,690	-	Excess salary claimed due to application of enhanced reimbursement rates prior to effective date.	1,500*	-	Salary paid for other contracts
						5,112*	-	Salary paid for Agro Marketing contract without USAID/M approval.
			18,791	28,180	Salaries claimed for working 7 days a week though the contract provides for 6 days a week.	18,906	-	Overtime payments included in allowances, disallowed in NFC's personnel policy.
				7,490	Rs.99% and Rs.6,495 paid for Voltguards, included in "equipment & supplies" and "Computer Rentals & supplies" respectively which should have been capitalised.	36,460*	7,832*	Refreshment expenses in the nature of entertainment expenses disallowed as per contract and OMB.Circular A-122
						6,000	-	Cost of carpets included in office supply and support, which should have been capitalised.
Carried forward			35,481	35,670		67,976	7,832	

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V F C Contract			Agro Marketing Contract			NFC Overheads		
<u>1989</u> <u>NR</u>	<u>1990</u> <u>NR</u>	<u>Remarks</u>	<u>1989</u> <u>NR</u>	<u>1990</u> <u>NR</u>	<u>Remarks</u>	<u>1989</u> <u>NR</u>	<u>1990</u> <u>NR</u>	<u>Remarks</u>
Brought forward			35,481	35,670		67,978	7,832	
			6,448	7,923	Entertainment expenses included in "Secretarial Services" and Agro Seminar in 1989 and 1990 respectively.	5,302*		Cost of Magazines included in Office supply and support, not related to NFC's activities.
			196*	29,562*	"Printing and Binding" costs incurred without USAID/N approval.	73,345	52,600	Site workers wages included in salaries towards personal services rendered for site-coordinators.
			-	48,220*	Printing costs of Dhulikhel Seminar profiles included in "Consultancy charges", as the seminar budget had been exhausted.	-	-	
			-	159,885	Salaries of Dr.S.Prabasi for services rendered prior to obtaining USAID/N approval.	-	-	
			22,004	156,004	Travel away from Kathmandu without USAID/N approval.	-	-	
			<u>64,129</u>	<u>437,264</u>		<u>146,625</u>	<u>60,432</u>	

V F C Contract			Agro Marketing Contract			NFC Overheads		
1989	1990	Remarks	1989	1990	Remarks	1989	1990	Remarks
<u>NR</u>	<u>NR</u>		<u>NR</u>	<u>NR</u>		<u>NR</u>	<u>NR</u>	
2. Unsupported costs						120,000	120,000	Rent paid @ Rs.10,000 per month to Mrs.J Kayastha but title of ownership not verifiable included in "office supply & support".
				10,150	Unsupported air travel for 5 persons from Kathmandu to Biratnagar and back.	-	-	
			11,500	-	Unsupported Agro Seminar Expenses.	-	-	
			<u>11,500</u>	<u>10,150</u>		<u>120,000</u>	<u>120,000</u>	
3. Unallocable costs			5,668	13,276	Photocopying, Stationery and Computer repair expenses included under "Equipment and Supplies".			
			-	14,425	Purchase of Computer discs and paper included under "Equipment and Supplies".			
			-	27,550	Cost of photocopy paper and toner included under "Secretarial support".			
			1,550	-	Computer repair charges included under "Computer Rental and Supplies".			
Carried forward			<u>7,238</u>	<u>55,251</u>				

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V F C Contract			Agro Marketing Contract			NFC Overheads		
<u>1989</u> <u>NR</u>	<u>1990</u> <u>NR</u>	<u>Remarks</u>	<u>1989</u> <u>NR</u>	<u>1990</u> <u>NR</u>	<u>Remarks</u>	<u>1989</u> <u>NR</u>	<u>1990</u> <u>NR</u>	<u>Remarks</u>
Brought forward			7,238	55,251				
37,859	62,312	Expenses for photo copying, stationery computer spares and servicing and copier service charges charged to "Direct Costs".	130	17,570	Photocopy costs included in Printing & Binding costs.	228,588*	536,277*	Fees paid to professional consultants for services unrelated to the VFC and Agro Marketing programs.
6,173	-	Stationary costs not related to conducting programs included in program funds.	18,737	6,300	Photocopy costs included in Seminar Expenses			
<u>44,032</u>	<u>62,312</u>		<u>26,105</u>	<u>79,121</u>		<u>228,588</u>	<u>536,277</u>	

4. Unreasonable costs

60,000* 60,000* Salary paid to Mrs.J. Kayastha not evidenced by work performed.

* Agreed to by NFC as a disallowable, unallocable or unreasonable cost during the course of audit.

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Overhead Rate Calculation - 1989

Nepalese Rupee

Sl.No.	Cost component	Total cost claimed	Questioned costs	Allowable costs	Allowable Direct costs	Allowable Indirect costs
1.	Salaries	1,571,377	958,260	613,117	316,900	296,217
2.	Allowances	404,240	27,406	376,834	342,000	34,834
3.	Travel Transport and per Diem	812,122	40,970	771,152	718,608	52,544
4.	Program Funds	94,245	43,459	50,786	50,786	-
5.	Other Direct costs	275,462	74,904	200,558	200,558	-
6.	Office supply & Support	229,605	131,302	98,303	-	98,303
7.	Office Utilities	45,532	-	45,532	-	45,532
8.	Maintenance & Repairs	7,706	-	7,706	-	7,706
9.	Professional Services	238,301	238,301	-	-	-
10.	Petrol & Lubricants	9,930	-	9,930	-	9,930
11.	Refreshments	47,099	36,460	10,639	-	10,639
12.	Depreciation	56,729	-	56,729	-	56,729
13.	Printing and Binding	20,326	10,326	10,000	10,000	-
14.	Equipment and Supplies	19,717	10,998	8,719	8,719	-
15.	Secretarial support & Services	25,716	23,337	2,379	2,379	-
16.	Computer supplies and rentals	6,832	1,550	5,282	5,282	-
17.	Consultant Support	-	-	-	-	-
18.	Agro Enterprises Seminar	266,645	216,503	50,142	50,142	-
19.	International Travel	-	-	-	-	-
20.	Fringe Benefits	77,568	26,915	50,653	50,653	-
		<u>4,209,152</u>	<u>1,840,691</u>	<u>2,368,461</u>	<u>1,756,027</u>	<u>612,434</u>
		=====	=====	=====	=====	=====

Notes : i) Total cost claimed NR 4,209,152, includes direct costs Rs.2,940,727 and indirect costs Rs.1,268,425.

$$\text{Overhead Rate} = \frac{\text{Indirect costs}}{\text{Direct Cost Base (excluding Program funds NR's 94,245)}} = \frac{612,434}{2,848,482} = 21.52\%$$

ii) In accordance with OMB Circular No.A-122 the direct costs questioned during audit have been included in the direct cost base used for calculating the overhead rate.

iii) As mentioned in Finding 6 the overhead rate calculation presented above is for information only.

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Overhead Rate calculation - 1990

Nepalese Rupee

Sl.No.	Cost component	Total cost claimed	Questioned costs	Allowable costs	Allowable Direct costs	Allowable Indirect costs
1.	Salaries	2,113,778	1,141,844	371,934	507,492	464,442
2.	Allowances	494,281	-	494,281	494,281	-
3.	Travel Transport and per Diem	755,698	166,154	589,544	460,034	129,510
4.	Program Funds	-	-	-	-	-
5.	Other Director costs	368,719	82,312	306,407	306,407	-
6.	Office supply & Support	196,232	120,175	76,057	-	76,057
7.	Office Utilities	50,838	-	50,838	-	50,838
8.	Maintenance & Repairs	13,146	-	13,146	-	13,146
9.	Professional Services	536,277	536,277	-	-	-
10.	Petrol & Lubricants	7,505	-	7,505	-	7,505
11.	Refreshments	12,411	7,832	4,579	-	4,579
12.	Depreciation	54,062	-	54,062	-	54,062
13.	Printing and Binding	49,411	49,411	-	-	-
14.	Equipment and Supplies	47,050	28,696	18,354	18,354	-
15.	Secretarial support & Services	37,449	27,550	9,899	9,899	-
16.	Computer supplies and rentals	7,120	6,495	625	625	-
17.	Consultant Support	48,220	48,220	-	-	-
18.	Agro Enterprises Seminar	72,257	14,223	58,034	58,034	-
19.	International Travel	83,654	-	83,654	83,654	-
20.	Fringe Benefits	93,796	23,104	70,692	70,692	-
		<u>5,041,904</u>	<u>2,232,293</u>	<u>2,809,611</u>	<u>2,009,472</u>	<u>800,139</u>
	Additional Disallowance:					
	Misc. Income		27,488	(27,488)	-	(27,488)
	Seminar Fees		19,730	(19,730)	(19,730)	-
		<u>5,041,904</u>	<u>2,279,511</u>	<u>2,762,393</u>	<u>1,989,742</u>	<u>772,651</u>
		=====	=====	=====	=====	=====

Notes: (i) The additional disallowance is in respect of funds received by NFC in the course of performance under USAID contracts.

(ii) Total cost claimed NR 5,041,904 includes direct costs Rs.3,378,129 and indirect costs Rs.1,663,774.

$$\text{Overhead Rate} = \frac{\text{Indirect costs} \times 100}{\text{Direct Cost Base}} = \frac{772,651 \times 100}{3,378,129} = 22.87\%$$

(excluding Program funds
NR's Nil)

(iii) In accordance with OMB Circular No.A-122 the direct costs questioned during audit have been included in the direct cost base used for calculating the overhead rate.

(iv) As mentioned in Finding 6 the overhead rate calculation presented above is for information only.

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Finding 5 : Questioned Costs

Please find attached herewith all the explanations for all the questioned costs raised by the auditing report.

- (a) Disallocable costs
Contract No. 367-0249-C-00-8250-00
Contract Agro-Marketing
Contract signed and effective date August 2, 1988

In this contract monthly rates were fixed for the services of the contractor's employees. Accordingly we claimed for reimbursement for the month of Aug, Sept, Oct and Nov. of 1988. The financial Management of USAID was confused with the rate and demanded for clarified rate which required contract amendment. The contract was amended on April 10, 1989. The reasons for confusion in FM/USAID were on the following points:

1. Both Agro-enterprise specialist and Agro-marketing specialist started working on part time basis as needed;
2. There were many holidays during September and October as they fell in festival season. It was difficult for FM/USAID to decide on the monthly rate.
3. Project needed to recruit short-term specialists for less than a month.

All those were source of confusion to FM/USAID.

FM/USAID withheld the payment till the amendment was signed in April 10, 1989. Therefore the reasons given in auditing draft report for excess salary claimed for Rs. 18,690 is not acceptable as the effective date was August 2, 1988.

In contract amendment dated April 10, 1989 monthly rates were deleted and hourly rates and daily rates were inserted. The reimbursement was based on hourly rates or daily rates for the services rendered by the contractor's employees.

The reason given for the salaries claimed for working 7 days a week does not hold true as the reimbursement claim is based on daily rate. Therefore, the questioned costs of Rs. 16,791 in 1989 and Rs. 28,180 in 1990 do not arise.

In contract the two line items include voltgaurds and supplies for computer as well as for others. This is a allowable cost in both line items. Therefore Rs. 995 and Rs. 6,495 for voltgaurds and supplies for computers must not be questioned costs.

Entertainment expenses included in "Secretarial Services and "Agro-Seminar" respectively costing Rs. 6448 in 1989 and Rs. 7,923 in 1990 are all allocable costs.

In February 10, 1989 a workshop was organized at Hotel Sherpa to discuss on the Agro-Marketing Research Methodology with the professional groups at Kathmandu, Nepal. The workshop was conducted successfully and the expense on tea and lunch was provided through the USAID fund under the contract line item under the heading of secretarial services. Since the expense was not an entertainment expense, it was rather working facilities provided to the participants of the workshop.

Similarly a one day workshop discussion was held at Hotel Himalaya on to discuss the major findings of Indo-Nepal Trade Study. The participants involved in discussion were provided with tea and dinner facilities through USAID fund under the contract. Thus, both of those expenses were not entertainment expenses. These expenses are allowable.

In this contract the workplans were prepared in coordination with AMIS and USAID, and many publications and reports were expected. The workplans were approved. Therefore additional USAID/N approval was not necessary for publications of reports and handouts. Therefore, the amounts Rs. 196 in 1989 and Rs. 29,562 in 1990 were allowable costs. We mentioned that we did not have separate USAID/N approval for each printing and finding as they were in the work-plan prepared in collaboration and approval of USAID/N.

Similarly in Dhulikhel Seminar, Profiles, Procedures Strategies and Information were prepared in collaboration with USAID/N, NCBA and ADB/N. The profiles and case studies were prepared for the seminar, as well as strategy paper, export import information, credit procedure, agro-enterprises inventory were also added to the seminar preparation and it was decided in the meeting involving USAID/N, NCBA, ADB/N and NFC. Therefore, such costs are not disallowable. They were adjusted to the budget line items.

The services of Dr. S. Prabasi for 44 days was decided along with USAID. He provided his service while Dr. George Truitt of NCBA visited Nepal as a short-term consultant on Agro-Technology Strategy for the establishment of Agro-enterprise Center (AEC) at FNCCI. But the contract for his service was delayed mainly because of the necessity to have approval of USAID Mission Director on his daily rate as it was higher than the NFC rate.

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NFC has conducted only those travels away from Kathmandu that were planned and indicated in work plan which was approved by USAID/N. Thus the travels away from Kathmandu did not require additional approval from USAID/N. Therefore, expenses incurred on travels are allowable and must not be a questioned costs.

Thus the disallowable costs indicated in question costs Appendix A-5 for Agro. Marketing contract are not the disallowable costs. They are all allowable costs. It was a simple problem in understanding the reasons. If necessary we can explain it further and satisfy your requirement too consider them as allocable costs.

We believe that the questions raised on salary of Rs. 1,500 and Rs. 5,112 should be NFC overheads and must be related to NFC activities. Therefore, they are allowable costs to NFC overheads.

Overtime payments are allowed in NFC personnel policy for Computer Operator, Typists, Messengers and Administrative & Financial Assistants. However, overtime payments are not allowed to VFC staff and NFC technicians.

We consider refreshment served in official meetings, in staff meetings, and to visitors as allowable costs. As much as we know most of these refreshment expenses are of that nature. Therefore, we included them in NFC overheads.

Cost of carpets should have been capitalized, we accept the finding.

We accept that the Cost of magazines included in office supply and support may not be related to NFC's activities.

(b) Unsupported Costs

Unsupported Agro-Seminar expenses indicated as the questioned costs in Agro-Marketing contract for 1989 was a cost agreed upon as the program was prepared in collaboration with USAID/N in our regular meeting.

Similarly the unsupported question costs for 1990 was mainly for air travel to Biratnagar and back for Topographical mapping staff and VIDEO Cameramen. This was also decided in collaboration with USAID/N in our regular meetings.

Thus both of these expenses of Rs. 11,500 in 1989 and Rs. 10,150 in 1990 are not unsupported costs. They were planned & decided in the meetings attended by USAID/N, ADB/N and NFC.

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The NFC overhead costs paid for rent are supported by contract agreement and title of the ownership. Therefore they are not unsupported costs.

(c) Unallocable Costs

Photocopying, Stationary and Computer repair expenses included under the line items "Equipment and Supplies and Computer Rental and Supplies" in 1989 of Rs. 5,688 and Rs. 1,550 total Rs. 7,238 to our best knowledge were utilized for Agro-Marketing contract and they are allocable costs to the contract.

Similarly, Rs. 13,276, Rs. 14,425 & Rs. 27,550 for purchase of computer Diskets and paper, cost of photocopy paper and tonner and photocopy, stationary and computer repair expenses included in equipment and supplies and "Secretarial Support" like items were utilized for the performance of the contract output. Therefore to our best knowledge they are allocable costs to this contract. The details of these expenses are not well maintained. However, the major items are known and it could be worked out in detail if it is necessary.

Similarly photocopy costs included in seminar expenses and in printing and binding are all allocable costs.

In VFC contract Rs. 6,173 in 1989 was included in program fund as they were stationary costs related to conducting program. It was in relation to ginger workshop at Tulsipur in collaboration with PIP, USAID/N, PCO and NFC. The stationary were purchased at Kathmandu for the ginger workshop participants.

Similarly Rs. 37,859 in 1989 and Rs. 62,312 in 1990 were the expenses for photocopying, stationary, computer spares and servicing and copier service charges under VFC contract. They were directly charged to "direct cost" line items of the contract.

These are allocable costs charged to direct costs as they were related to VFC program. Even though most of these expenses were made at Kathmandu they were related to field work. As the computer and photocopy mechanics are in Kathmandu NFC office.

Therefore, we hope all the questions costs must be allocable costs related to VFC contract as well as Agro-Marketing contract.

Fees paid to professional consultants for services directly not related to the V-C and Agro. Marketing programs are NFC

overheads. They are definitely not allocable to direct costs but allocable to NFC overhead

- (d) There are no direct evidence of work performed by Mrs. Januna Kayastha for the paid salary. However, she has been active all the time in the firm management, public relations and coordination. She has been the active member always in the discussion about the women's role in the firm as well as in the work conducted by the firm. She has been very helpful in Agro. business concepts of the firm. Therefore, we do not fully agree it as an unreasonable costs to pay salary to her.

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APPENDIX II

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