

14 APR 1995

**Regional Inspector General for Audit
Singapore**

**Audit of
New ERA (P) Ltd's Subcontract with Devres Inc.
under USAID/Nepal's Rapti Development Project**

**Audit Report No. 5-367-95-017-N
July 31, 1995**



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BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.**



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 31, 1995

TO: Frederick Machmer, Mission Director, USAID/Nepal

FROM: Richard C. Thabet, RIG/A/Singapore *Richard C. Thabet*

SUBJECT: Audit of New ERA (P) Ltd's Subcontract with Devres Inc.
under USAID/Nepal's Rapti Development Project
Report No. 5-367-95-017-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm, KB Chitracar & Co.) for your action. The audit covered the period from January 1, 1991 through February 28, 1995. During these periods, New ERA (P) Ltd. reported that it received a total of \$946,328 and spent \$955,211.

The audit objectives were to:

- Determine whether New ERA (P) Ltd's Fund Accountability Statement presents fairly the costs incurred under the terms of the sub-contract with Devres, Inc.
- Determine whether the overhead rates are properly calculated and costs are allowable, allocable and necessary.
- Report on New ERA's compliance with applicable laws, regulations, and terms of the subcontract.

The audit report concluded that:

- Except for \$3,587 in questioned costs, the Fund Accountability Statement presents fairly, in all material respects, the receipts and expenditures incurred under the subcontract;
- The indirect cost computation was properly computed except for an amount of \$3,587 (see above) which exceeded the indirect cost rate ceiling.

- New ERA (P) Ltd. complied in all material respects with applicable laws, regulations, terms of the subcontract for items tested. With respect to items not tested, nothing came to the auditors attention that caused them to believe that New ERA (P) Ltd. had not complied, in all material respects, with those provisions.

We are making the following recommendation which will be included in the Inspector General's audit recommendation follow-up system:

Recommendation No. 1: We recommend that USAID/Nepal resolve the questioned costs totaling \$3,587 (all ineligible) and recover any amounts determined to be unallowable.

We appreciate the courtesies and cooperation USAID/Nepal and New ERA (P) Ltd. extended to the auditors 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 recommendation.

Attachment: a/s

**NEW ERA (P) LTD.
RAPTI DEVELOPMENT PROJECT
USAID GRANT AGREEMENT NO. 367-0155**

**AUDIT REPORT
FOR THE PERIOD : JAN 1, 1991 TO FEB 28, 1995**

**KB CHITRACAR & CO.
CHARTERED ACCOUNTANTS**

New ERA (P) Ltd.
Rapti Development Project
USAID Grant Agreement No. 367-0155

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June 19, 1995

Mr. Richard C Thabet
USAID R/G/A
Singapore

This report presents the results of our financial audit of the New ERA (P) Ltd's Rapti Development Project pertaining to USAID Grant Agreement No. 367-0155-C-8104 sub-contract with Devres Inc. for the period January 1, 1991 through February 28, 1995.

Background of the Project

USAID/Nepal has been providing assistance to the Rapti Development Project since 1980 to increase agricultural and forestry production in the Rapti Zone, a poor and under-developed area in Nepal. The project is designed to strengthen local group and district institutions for managing development and for sustaining benefits through local resource mobilization. As part of these efforts for providing technology transfer, local group and private enterprise development, and institution building USAID/Nepal contracted with Devres Inc. in 1988, a U. S. based corporation, to provide the required technical assistance for an amount of approximately US \$ 3.8 million. One of the sub-contractors appointed by Devres Inc. under this contract was New ERA (P) Limited, a corporation registered in Nepal, which provides consultancy services in the fields of agriculture, forestry and other development activities. Under the sub-contract New ERA provides specific technical services and administrative support to the project. There has been seven amendments to the sub-contract, the last one being on February 8, 1995. There is no counterpart contribution in this project. The project is completed on April 18, 1995. Total budget for this project since February 1988 to April 1995 is US \$ 1,740,865.00. Fund transfers from Devres Inc. during the period under review January 1, 1991 to February 28, 1995 was US \$ 923,077.03

Audit Objectives and Scope of Work

This is a financial audit to examine and express an opinion on the Fund Accountability Statement of New ERA under its sub-contract with Devres Inc. for the period January 1, 1991 through February 28, 1995.

The objectives of this audit are to determine whether;

- The Fund Accountability Statement of New ERA fairly presents the costs incurred covering the period of the audit in accordance with generally accepted accounting principles and the terms of the sub-contract with Devres Inc.
- The overhead rates for the years under audit are properly calculated using an equitable methodology, after ascertaining that costs used to calculate the overhead rate are correctly classified and are allowable, allocable and necessary.
- New ERA has complied with the applicable laws, regulations, and terms of the contract.

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We have conducted a financial audit of New ERA sub-contract with Devres Inc. for the period January 1, 1991 through February 28, 1995. The Fund Accountability Statement comprises the Income & Expenditure Statement for the period January 1, 1991 through February 28, 1995, and the Notes to the accounts.

The scope of our work included the following general procedures:

- Holding meetings with Rapti Development Project officials;
- Reviewing the Grant agreement and appropriate amendments, OMB circulars, USAID handbook regulations, periodical reports prepared by Rapti Development Project, reports of previous audits;
- Obtaining an understanding of the accounting, administrative and internal control systems of Rapti Development Project;
- Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statement;
- Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit; and
- Testing the effectiveness of administrative controls applied by Rapti Development Project's management to ensure compliance with applicable laws, regulations and agreement terms.

Audit Results

(a) Opinion on the Fund Accountability Statement

In our opinion, the Fund Accountability Statement presents fairly, in all material respects, the Income, expenditure and closing balances of fund from Devres Inc. for the period ended February 28, 1995 as they pertain to the fund transferred from Devres Inc. However, costs amounted to US \$ 1514.21, which were not allowable under the terms of the sub-contract details has been given in Annex - I. We have checked the calculation of overhead rates and found \$ 2,073.03 in questioned (all ineligible) overhead, which represents the difference between the amount claimed based on provisional rates and the audited rates calculated in this report.

(b) Opinion on Compliance

Our tests for compliance with agreement terms, applicable laws and regulations of selected transactions and records of New ERA indicated that, for the items tested, New ERA principally complied with those provisions of its sub-contract terms, as well as applicable laws and regulations, for the period under our review. Certain instances of non-compliance were however noted, and the total of questioned costs US \$ 3,587.24, which was mentioned above. The management has agreed to refund the same.

With respect to transactions and records not tested by us, nothing came to our attention that caused us to believe that New ERA had not complied, in all material respects, with agreement terms, applicable laws or regulations.

Comments on Findings and Recommendations

New ERA has generally agreed to our findings set out in our report. There are no audit recommendation except the recovery of questioned costs already agreed by the management amounting to US \$ 3,587.24 as mentioned above.

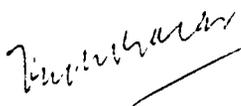
Prior Audit Recommendations

New ERA resolved all the prior audit recommendations, except one relating to tax. Substantial progress was made in compliance with local tax regulation although full compliance was not achieved as we have noted in the management letter

Acknowledgment

We would like to express our gratitude for the assistance given to us by the management and staff of New ERA, Papti Development Project during the course of our audit.

Yours sincerely



KB Chitracar & Co.
Chartered Accountants

**New ERA (P) Ltd
USAID Rapti Development Project 367-0155
Sub Contract with Devres Inc.**

**INDEPENDENT AUDITORS' REPORT
ON THE FUND ACCOUNTABILITY STATEMENT**

June 19, 1995

Mr. Richard C Thabet
USAID R/G/A
Singapore

We have audited the accompanying Fund Accountability Statement comprising the Income and Expenditure Statement of the New ERA (P) Ltd (Rapti Development Project) for the period January 1, 1991 through February 28, 1995, and the Notes to the Accounts. The Fund Accountability Statement is the responsibility of the New ERA's Management. Our responsibility is to express an opinion on the statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit of the fund accountability statement in accordance with Government Auditing standards, issued by the Comptroller General of the United States. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. 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 provides a reasonable basis for our opinion.

The Fund Accountability Statement includes certain disallowable costs, US \$ 1514.21 which have been questioned by us and excess overheads of US \$ 2073.03 claimed by New ERA based on provisional overhead rate in its sub-contract as compared to the overhead rates calculated by us.

In our opinion, except for the effects of such adjustments, if any, as might be necessary for the questioned costs and the excess overheads claimed, the Fund Accountability Statement referred to in the first paragraph above presents fairly, in all material respects, the receipts and expenditures of New ERA as it relates to the sub-contract during the period under audit in conformity with generally accepted accounting principles.

This report is intended solely for the use of New ERA 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.


KB Chitracar & Co.
Chartered Accountants

USAID Grant 367-0155
New ERA (P) Ltd., Sub-Contract with Devres Inc.
Rapti Development Project

Income and Expenditure Statement
For the period January 1, 1991 to February 28, 1995

Particulars	US \$	NPR	Questioned Costs Ineligible	
			US \$	NPR
<u>Income</u>				
Net receipts from Devres Inc. against Invoices	923,077.03	41,959,637.49		
Exchange Gain deducted from various invoices.	<u>23,250.81</u>	<u>-</u>		
Total	<u>946,327.84</u>	<u>41,959,637.49</u>		
<u>Expenditure</u>				
<u>Direct Cost</u>				
Salaries	268,559.66	12,102,029.72		
Allowances	111,416.79	4,695,364.95		
Fringe benefits	101,965.56	5,124,222.38	1,499.72	73,537.78
Travel and transportation	85,119.95	3,833,079.93		
Other direct costs	114,647.41	5,173,827.80	14.49	710.00
Technical support fund	14,361.42	702,233.06		
Local supports cost	99,752.25	4,530,471.52		
Procurement	<u>8,732.05</u>	<u>406,476.50</u>		
Total Direct Cost	<u>804,555.09</u>	<u>36,567,705.86</u>		
<u>Indirect Cost</u>				
Overhead	73,264.45	3,716,559.81	2,073.03	101,675.47
Fixed fee	<u>77,391.64</u>	<u>3,141,148.61</u>		
Total billing during the period	955,211.18	43,425,414.28		
Bills receivable as on 01/01/1991	<u>53,129.79</u>	<u>1,611,929.00</u>		
Total receivable during the period	1,008,340.97	45,037,343.28		
Balance Receivable as on 2/28/95	<u>62,013.13</u>	<u>3,077,705.79</u>		
Total	<u>946,327.84</u>	<u>41,959,637.49</u>	<u>3,587.24</u>	<u>175,923.25</u>

Notes in page 6 & 7 form integral part of this statement.

USAID Grant 367-0155
NEW ERA (P) Ltd., Sub-Contract with Devres Inc.
Rapti Development Project

Notes to the Accounts
For the period January 1, 1991 to February 28, 1995

Significant accounting policies

1. The fund accountability statement, expressed in Nepalese Rupee and US Dollars, is prepared in accordance with the historical convention.

Component unit of New ERA (P) Ltd

2. The fund accountability statement presents only the transactions and balances of New ERA as they pertain to the subcontract with Devres Inc. for the Rapti Development Project and is not intended to present fairly the income, expenditure, assets and liabilities of New ERA as a whole.

Rates of exchange

3. The rates of exchange to translate NPR expenditures into US Dollar were the rates prevalent at month ends. Exchange gain (loss) upon conversion of US Dollars receipts were adjusted periodically from subsequent claims at the rate applied for the invoice in which the adjustment was made.
4. The rates of exchange to translate NPR questioned costs into US Dollar were the rates applied at month-ends in which actual expenses were incurred.
5. Exchange gain which has not been adjusted against invoices since September 1992 amounted to NPR 137,449.35, which was equivalent to US\$ 2,753.94 at the rate on 02.28.95. However, the adjustment will be made at the rate applied for final invoice and the actual amount in US Dollar may differ.

Bills Receivable

6. Bills receivable as on 12.31.90 as per prior period audited statement was wrongly stated to be US\$ 54,292.00, as the difference of US\$ 1,162.26 was already adjusted for exchange gain in that period. The correct balance of US\$ 53,129.79 was taken as bills receivable as on 01.01.1991 in the fund accountability statement.

Guest House

7. House rent and utilities of the guest house at Tulsipur were borne by the project but proper system of control was not in place to ensure that incomes from the guest house were properly accounted for and deposited in the guest house bank account. Guest house tariff were not scientifically fixed in order to cover the costs of operations. Balance of fund with the guest house was handed over to the other contractor of USAID operating in Tulsipur.

Overhead

8. An audited overhead rate has been calculated for each of New ERA's accounting years based upon the percentage of New ERA's total indirect cost after deduction of unallowable costs on the total direct salaries cost charged to all projects including Rapti Development Project undertaken by New ERA in each of the years.

Overhead rates for the first two months of 1995 are not audited as the accounts of New ERA was not closed for the short period and the rate determined for 1994 is taken as applicable for the period as well. Audited and provisional rate are as follows;

<u>Period</u>	<u>Audited rate</u>	<u>Provisional and Ceiling rate</u>
01.01.91 - 12.31.91	35.14%	35%
01.01.92 - 12.31.92	41.30%	35%
01.01.93 - 02.18.93	34.03%	35%
02.19.93 - 12.31.93	34.03%	38%
01.01.94 - 12.31.94	48.07%	38%
01.01.95 - 02.28.95	48.07%	38%

Details of the computation are given in Annexure - II.

9. In 1993 overhead was claimed at the provisional rates of 35% for the period from 01.01.03 to 02.18.93 and 38% for the period from 02.19.93 to 12.31.93. Since actual overhead rate for 1993 was determined to be 34.03%, which was less then the provisional rates, New ERA should refund US \$ 2,073.03.

Questioned costs

10. NEW ERA claimed certain expenses amounting to US\$ 1,541.21, detailed in Annexure - I, which are not allowable under the sub-contract and Federal Acquisition Regulations. Therefore this amount should be refunded.

Schedule of Questioned Cost

	Account Charged	NRs.	US \$	Nature of expenses and reason for question
a.	Fringe benefit	43,019.67	877.95	As per personnel policy, dasain bonus is payable based upon salary rate applicable on September 1, but the bonus paid in 1993 was based upon revised rates applicable after that date.
b.	Fringe benefit	30,518.11	621.77	Deepak Raj Chapa was employed since 1988. and was given full benefits except insurance. He was retired in February 1993. Insurance Policy for the consultant was effective from March 1, 1992. He was entitled to insurance premium only at the rate of 8% of his basic salary from March 1992 to February 1993. Premium was paid by calculating the rate on total salary from 1988. Insurance premium in excess of the limit for the period insured is unallowable.
c.	Other direct cost	710.00	14.49	Greeting cards and business cards are unallowable as per FAR 31-205-14.
	Total	74,247.78	1,514.21	

NEW ERA PVT. LTD
SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
FOR THE YEARS ENDED DECEMBER 31

Indirect Costs	1991			1992			1993			1994		
	Total	Unallowable	Indirect Cost Pool	Total	Unallowable	Indirect Cost Pool	Total	Unallowable	Indirect Cost Pool	Total	Unallowable	Indirect Cost Pool
Personnel Cost	848,352.98	-	848,352.98	1,038,032.29	-	1,038,032.29	960,811.02	-	960,811.02	1,019,746.93	-	1,019,746.93
Fringe Benefits	278,889.77	-	278,889.77	524,662.62	-	524,662.62	388,893.40	-	388,893.40	765,516.60	-	765,516.60
Professional & Meeting Fee	35,365.00	-	35,365.00	49,361.50	-	49,361.50	89,000.00	-	89,000.00	190,831.41	31,827.00	159,004.41
Travel Cost	203,911.40	-	203,911.40	212,781.64	-	212,781.64	226,210.96	1,010.00	225,200.96	238,427.28	475.00	237,952.28
Occupancy	227,206.80	-	227,206.80	305,515.48	-	305,515.48	330,438.60	-	330,438.60	370,748.91	57.00	370,691.91
Supplies & Services	124,774.84	1,280.00	123,494.84	216,206.80	2,515.00	213,691.80	172,532.98	788.00	171,744.98	204,416.76	300.00	204,116.76
Communication	129,234.33	-	129,234.33	193,239.66	-	193,239.66	88,628.83	-	88,628.83	130,548.23	5,080.55	125,467.68
Professional Development	41,866.96	4,384.00	37,482.96	64,156.53	14,302.00	49,854.53	181,422.10	10,320.00	171,102.10	51,818.35	-	51,818.35
Depreciation	225,414.26	-	225,414.26	206,265.35	-	206,265.35	320,645.73	-	320,645.73	305,201.00	-	305,201.00
Staff Welfare	103,040.46	47,453.36	55,587.10	85,571.41	44,548.49	41,022.91	89,810.35	32,047.00	57,763.35	147,479.71	140,799.16	6,680.55
Miscellaneous	62,284.86	33,354.50	28,930.36	116,287.72	85,164.11	31,123.61	184,784.61	135,038.56	49,746.05	30,707.38	20,713.48	9,993.90
Total Rs.	2,280,341.66	86,471.86	2,193,869.80	3,012,080.99	146,579.60	2,865,551.39	3,033,178.58	179,203.56	2,853,975.02	3,455,442.56	199,252.19	3,256,190.37

Direct salaries

RDP	2,923,163.83	2,932,838.17	2,926,117.71	2,818,630.04
Other New ERA Project	<u>3,319,634.62</u>	<u>4,005,498.60</u>	<u>5,460,762.87</u>	<u>3,954,756.51</u>
Total Rs.	<u>6,242,798.45</u>	<u>6,938,336.77</u>	<u>8,386,880.58</u>	<u>6,773,386.55</u>

Indirect Cost Rate

35.14%

41.30%

34.03%

48.07%

**New ERA (P) Ltd
Rapti Development Project**

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

June 19, 1995

Mr. Richard C Thabet
USAID R/G/A
Singapore

We have audited the Fund Accountability Statement of New ERA (P) Ltd's Rapti Development Project for the period January 1, 1991 through February 28, 1995 and have issued our report thereon dated June 19, 1995.

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 Fund Accountability Statement is free of material misstatement.

Compliance with sub-contract terms, laws and regulations applicable to Rapti Development Project is the responsibility of New ERA's management. As part of obtaining reasonable assurance about whether the financial reports are free of material misstatement, we performed tests of New ERA's compliance with certain provisions of sub-contract terms, laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, New ERA complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that New ERA had not complied, in all material respects, with those provisions.

However, we noted certain other instances of minor noncompliance which are mentioned in the management letter.

This report is intended solely for the use of New ERA 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.



KB Chitracar & Co.
Chartered Accountants