USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

FINANCIAL AUDIT OF THE DEPARTMENT OF HEALTH SERVICES, GOVERNMENT OF NEPAL, UNDER USAID STRATEGIC OBJECTIVE GRANT AGREEMENT, PROJECT NO. 367-02A1 IMPLEMENTATION LETTER NO. 35, FOR THE PERIOD FROM JULY 16, 2001 TO JULY 15, 2002

AUDIT REPORT NO. 5-367-05-007-N
May 9, 2005

MANILA, PHILIPPINES

Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

May 9, 2005

MEMORANDUM

TO: USAID/Nepal Director, Donald B. Clark

FROM: RIG/Manila, John M. Phee

SUBJECT: Financial Audit of the Department of Health Services, Government of Nepal, Under USAID Strategic Objective Grant Agreement, Project No. 367-02A1 Implementation Letter No. 35, for the Period from July 16, 2001 to July 15, 2002; Audit Report No. 5-367-05-007-N

Please find attached one copy of the subject agency-contracted audit report for the period from July 16, 2001 to July 15, 2002. This audit was contracted by USAID and was conducted by the accounting firm CSC & Co.

The USAID Regional Inspector General in Manila reviewed the report and found that the audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The report, however, disclosed that CSC & Co. did not have a satisfactory continuing education program and an external quality control review program.

The purpose of the grant is to assist the Government of Nepal to achieve reduced fertility and improved maternal and child health. The audit covered program revenues and costs of $780,617 (same amounts) for the period from July 16, 2001 to July 15, 2002.

The objectives of the audit were to: (1) express an opinion on whether the Fund Accountability Statement was presented fairly, in all material respects; (2) evaluate the recipient's internal control structure; (3) determine whether the recipient complied with agreement terms and applicable laws and regulations; and (4) determine whether the recipient has taken adequate corrective action on prior audit report recommendations.

CSC & Co. concluded that except for the effects of the questioned costs of $71,100 ($65,017 ineligible and $6,083 unsupported), the Fund Accountability Statement (FAS) presents fairly, in all material respects, program revenues and costs incurred under the grant agreement for the period audited. The questioned costs pertained primarily to: (1) travel, rent, and other expenses not related to the project; (2) Value Added Tax explicitly prohibited by the agreement; and (3) expenses not supported with adequate documentation.

U.S. Agency for International Development
PNB Financial Center, 8th Floor
Roxas Blvd, 1308 Pasay City
Manila, Philippines
www.usaid.gov

The auditors identified eight reportable internal control conditions, one of which was associated with the unsupported questioned costs.[1] The remaining seven reportable internal control conditions related to the recipient not: (1) maintaining a separate accounting records of the USAID funds; (2) maintaining an advance account ledger for its donors; (3) having a rental agreement for rented vehicles; (4) maintaining vehicle log books; (5) clearly specifying the purpose of travel in the travel order; (6) stamping "paid" on supporting documents; and (7) maintaining a separate record of inventory purchased and adequately monitoring medicine consumption. In addition, the auditors noted 14 instances of material noncompliance, six of which were associated with the questioned costs. The remaining material noncompliance issues include findings such as: (1) procurements made without obtaining quotations; (2) unliquidated advances to employees which were paid by USAID; and (3) delay in issuing Implementation Letter No. 35 causing delay in budget availability and to the reimbursement process.

While the auditors generally met the requirements of the Guidelines, we noted the following conditions which the auditors should address in subsequent audits to more fully comply with the Guidelines. The auditors did not question in the FAS costs totaling $14,086 (NRs 1,095,570) related to procurements made without obtaining quotations (page 28, Finding No. 11) and unliquidated advances to employees which were paid by USAID (page 25, Finding No. 5). We considered these costs to be unsupported; thus, we are making a recommendation for these costs. Further, the report did not include a Cost-Sharing Schedule (CSS) and an auditors' report on the CSS. At our request, the Mission explained that the auditors reviewed this requirement but overlooked to prepare a separate schedule. The auditors subsequently provided the CSS and a report thereon, and identified no questioned costs in the CSS.

The auditors reported that the recipient generally agreed with the above audit findings. With regards to the management comments that declared the validity of some of the questioned costs, the auditors stated that they had clarified to the recipient that these costs remained questioned until the supporting documents are available to justify the management's claim. Also, the auditors noted that the recipient had not taken corrective actions on most of the prior audit recommendations; however, we received documentation that the recipient had taken final actions on all the recommendations subsequent to the issuance of the final audit report.

Based on the above, we are making the following recommendations which will be included in USAID's Consolidated Audit Tracking System (CATS), and which will therefore require management decisions by USAID/Nepal.

Recommendation No. l: We recommend that USAID/Nepal determine the allowability and recover, as appropriate, questioned costs of $71,100 ($65,017 ineligible and $6,083 unsupported) identified in the Fund Accountability Statement on pages 8 and 9 and further detailed in Internal Control Finding No. 3 on page 15 and in Compliance Finding Nos. 1, 2, 3, 4, 7 and 8 on pages 22, 23, 24, 26, and 27 of the report.

[1] The auditors' report on internal control identified nine findings. However, the internal control finding details identified eight findings only, i.e., excluding the finding on excess payments because this finding was already considered as a noncompliance finding.

Recommendation No. 2: We recommend that USAID/Nepal determine the allowability and recover, as appropriate, unsupported questioned costs of $14,086 detailed in Compliance Finding Nos. 5 and 11 on pages 25 and 28 of the report.

Recommendation No. 3: We recommend that USAID/Nepal ensure that the Department of Health Services, Government of Nepal corrects eight reportable internal control conditions identified on page 12 and further detailed on pages 13 thru 19 of the report.

Recommendation No. 4: We recommend that USAID/Nepal ensure that the Department of Health Services, Government of Nepal establishes controls to correct 14 material instances of noncompliance identified on page 21 and further detailed on pages 22 thru 30 of the report.

Please advise us within 30 days of the actions planned or taken to implement these recommendations. Please note that a determination of final action will be made by the Bureau of Management's Office of Management Planning and Innovation (M/MPI/MIC). We appreciate the cooperation and assistance USAID/Nepal extended to the auditors during the course of the audit.

Attachment: a/s

HMG/Dept of Health Services
USAID/NEPAL
Project No. 367-02A1 (IL No 35)
Audit Report and Accounts
For the year ended 15 July 2002

RECEIVED
FEB 04 2005
RIG/MANILA

CSC & Co.
an associated firm of PricewaterhouseCoopers

USAID/Nepal
Strategic Objective Grant Agreement
(No. 367-02A1)

IL 35

Financial Audit 2001/02

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Management Letter

CSC & Co

an associated firm of PricewaterhouseCoopers

CSC & Co
Chartered Accountants
1955, Tanka Prasad Ghumti Sadak
Babar Mahal
PO Box: 4861, Kathmandu, Nepal
Tel : +977-1-4259414, 4268798
Fax : +977-1-4244255
E-mail: csc@ntc.net.np

December 17, 2004

The Controller
USAID/ Nepal
Rabi Bhawan
Kathmandu
Nepal

Audit Report: Strategic Objective Grant Agreement, Project Aid NO. 367-02A1- IL 35

Dear Sir/ Madam:

We are pleased to submit our report on the results on financial audit of the above USAID grant agreement for the period 16 July, 2001 to 15 July 2002 for IL 35 of Project No 367-02A1.

A. Project Background

USAID/Nepal signed the Strategic Grant Agreement (SOAG) Project No. 367-02A1 agreement with the Government of Nepal on September 5, 1995 to provide total estimated grant of US$30 Million through September 4, 2002. SOAG Amendment No. 11 dated August 6, 2002 revised the total estimated USAID contribution to USD 110,000,000 and the completion date to September 30, 2006.

Funds are provided to the Government of Nepal through Implementation Letters (IL) which details the work plans and budget based on the Nepalese fiscal year for specific program.

The purpose of SOAG is to assist the His Majesty's Government of Nepal (HMG) to achieve reduced fertility and improved maternal and child health. USAID will support HMG's efforts to reduce fertility, quality and use of voluntary family planning and reproductive health services coupled with efforts to enhance child survival, reduce maternal mortality and increase female literacy.

B. Audit Objectives and Scope

The objectives of this financial audit are to:

- Express an opinion on whether the fund accountability statement for the USAID funded programs and projects presents fairly in all material respects, project revenues received and costs incurred for the period audited in conformity with the terms of the agreements and generally accepted accounting principles applicable to the recipient.

- Evaluate and obtain a sufficient understanding of the recipient's internal control structure related to the USAID-funded programs and projects , assess control risk and identify reportable conditions , including material internal control structure weaknesses.

- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms and applicable laws and regulations related to USAID –funded programs and projects. And identify all material instances of noncompliance and all indications of illegal acts.

- Determine if the recipient has taken adequate corrective action on prior audit report recommendations.

Our audit covered the expenditures disbursed for the period 16 July, 2001 to 15 July, 2002 for IL 35.

The scope of our work included the following general procedures:

1. Holding meetings with DOHS and USAID officials;

2. Examination of documents supporting fund receipts and disbursements in accordance with the agreement between USAID/ Nepal and the HMG of Nepal;

3. Obtaining an understanding of the accounting, administrative, internal control system of DOHS;

4. Review of contracts, pertinent documents, other applicable rules and regulations relating to USAID program and work plan and budget for the period under review;

5. Devising and performing appropriate tests on the transactions presented in the Fund Accountability Statement;

6. 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; and

7. Testing the effectiveness of the controls applied by DOHS's management to ensure compliance with applicable laws, regulations and agreement terms.

We selected 13 sample districts in addition to 5 central level offices for audit. The total amount of audit sample is Rs 30.78 million out of total expenditure of Rs 60.71 million which comes to 50.70% of the total expenditure.

C. Audit Result

The following are the results of our audit:

Fund Accountability Statement

The results of our tests disclosed the following material questioned costs as detailed in the fund accountability statement: (1) USD 65,414.36 in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) USD 6,082.98 in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.

In our opinion, except for the effects of the questioned costs of USD 71,497.34, the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Notes to Fund Accountability Statement.

System of Internal Control

Our study and evaluation of the internal control structure disclosed following reportable conditions.

1. Separate accounting records of the USAID fund not maintained
2. Separate Ledger for Advance from USAID source not maintained
3. Lack of supporting documents
4. No agreement for vehicle hiring
5. Vehicle log books not properly maintained
6. TADA – Purpose of travel not mentioned
7. Supporting documents not defaced with " PAID" stamp
8. Weaknesses in Inventory Management System

Compliance with Agreement Terms, Applicable laws and Regulations

The results of our compliance tests disclosed the following material instances of noncompliance.

1. Unrelated expenses claimed
2. Travel expenses and daily allowances not related to the project have been claimed
3. Office rent and unrelated project expenses have been paid from vehicle rent budget
4. Value Added Tax has been claimed as expenses.
5. Unsettled Advance not disclosed in Reimbursement claim
6. Reimbursement System
7. Excess expenditure charged
8. Deposits in Government Revenue/Expenses
9. Excess quantity of medicine procured
10. Contractual benefits from third party not availed

11. Financial Administration Rules not followed in Procurement
12. Budget Allocation not made as per Work Plan
13. Expenses charged to unrelated budget line
14. VDC's representatives were not presented in FCHV Training

D. Management Letter

We have issued a management letter to the DOHS on 17 December, 2004 incorporating the nonmaterial instances of the internal control and noncompliance matters noted by us during the course of our audit. Copy of the management letter is attached with this letter.

E. Status of Prior Audit Recommendations

Our review of the prior year audit recommendations disclosed that the situation has not improved this year and most of the earlier comments continue to be repeated during the year. The status is as follows:

Observation No	Audit comments	Current Status
Questioned Costs	Total Questioned Costs	Yet to be settled with USAID.
Internal Control		
1	Expenditures were recorded without proper supporting documents.	Situation not improved.
2	Advance ledgers for donor funds not maintained.	Status not changed.
3	Separate accounts of USAID not maintained.	Status not changed.
4	Supporting documents not cancelled with "Paid" stamp.	Status not changed.
5	No agreement for vehicle hiring.	Status not changed.
6	Vehicle logbook not properly maintained.	Status not changed.
7	Weakness in monitoring of medicine consumption.	Status not changed.
8	Procurement not done as per financial procedure	Status not changed.
9	Weak control over advance administration	Status not changed.
10	Delay in reimbursement claim.	Status not changed.
Compliance with Agreement Terms and Applicable Laws and Regulations		
1.1	Travel expenses and daily allowance not relating to the project amounting to Rs 182,093.64 paid to staff	Situation not improved.
1.2	Payment for Office rent and unrelated project expenses.	Situation not improved.
1.3	Other Unrelated project expense charged to USAID fund	Situation not improved.
2	VAT paid for procurement of goods and services charged to USAID fund.	Situation not improved.
3	Excess expenditure charged.	Situation not improved.
4	Deposit in Government revenue.	Situation not improved.
5	Expenses related o prior year charged.	Situation improved.
6	Un-cleared advance charged to USAID fund.	Situation not improved.
7	Reporting by HMG not done in prescribed format.	Situation improved.

F. Summary of Management Response

The management of DoHS has generally agreed to our findings and recommendations on the issues set our in our report as well as the management letter. Management comments are provided on the respective issues reported by us. The management comments that emphasized validity of some of the questioned costs and their relation to the project were further discussed during the exit conference on 8 December 2004 and it was clarified that the costs will remain questioned until the supporting documents are available to justify the management's claim.

G. Acknowledgement

We would like to record our appreciation for the cooperation extended by all the concerned officials of the Department of Health Services, District Health Offices and USAID/Nepal during the course of our audit.

Madan K. Sharma
CSC & Co
Chartered Accountants

CSC & Co
Kathmandu
Chartered Accountants

CC:
The Director General
Department of Health Services, Teku , Kathmandu, Nepal

CSC & Co
an associated firm of PricewaterhouseCoopers

CSC & Co
Chartered Accountants
1955, Tanka Prasad Ghumti Sadak
Babar Mahal
PO Box: 4861, Kathmandu, Nepal
Tel : +977-1-4259414, 4268798
Fax : +977-1-4244255
E-mail: csc@ntc.net.np

USAID/Nepal
Strategic Objective Grant Agreement
(No. 367-02A1)

IL 35

Independent Auditor's Report on
Fund Accountability Statement

The Controller
USAID/ Nepal
Rabi Bhawan
Kathmandu
Nepal

We have audited the accompanying Fund Accountability Statement of Department of Health Services (DoHS) relating to USAID Grant Agreement No. 367-02AI for the period 16 July 2001 to 15 July 2002 under IL 35. The fund accountability statement is the responsibility of DoHS's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit of the fund accountability statement in accordance with generally accepted auditing standards and U.S. 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.

We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.6 of U.S. Government Auditing Standards. However, our current program provides for at least 80 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.33 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in Nepal. We believe that the effects of this departure from U.S. Government Auditing Standards is not material because we participate in the PricewaterhouseCoopers worldwide internal quality control review program which requires our office to be subjected, at least once in every three years, to an extensive quality control review by partners and managers from other affiliate offices.

The results of our tests disclosed the following material questioned costs totaling to USD 71,100.29 as detailed in the fund accountability statement: (1) USD 65,017.31 in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) USD 6,082.98 in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.

In our opinion, except for the effects of the questioned costs discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note to Fund Accountability Statement.

In accordance with U.S. Government Auditing Standards, we have also issued our reports dated December 17, 2004, on our consideration of Department of Health Service's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of Department of Health Services and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Madan K. Sharma
Partner
CSC & Co.
Chartered Accountants

CSC & Co. Kathmandu Chartered Accountants

Date: December 17, 2004

Strategic Objective Grant Agreement
Project Aid No. 367-02A1
Implementation Letter 35

Fund Accountability Statement
For the period 16 July 2001 to 15 July 2002

Budget Code	Items	Budget NRs	Budget Us$	Actual NRs	Actual US$	Question Cost				Reference (findings and Notes)
						Ineligible		Unsupported		
						NRs	US$	NRs	US$	
	Income									
	Fund Received from USAID			**60,716,386.74**	**780,616.95**					
	Expenditure									
	Family Health Division									
1.03	TA/DA	2,789,000.00	35,857.55	2,380,602.41	30,606.87	216,203.53	2,779.68	8,070.75	103.76	*Annex1 (1.1.1.1, 1.1.1.2)*
1.05	Food	1,324,000.00	17,022.37	1,109,096.50	14,259.40	-	-	104,250.00	1,340.32	*Annex1 (1.1.2.1)*
2.02	Telephone	210,000.00	2,699.92	184,417.26	2,371.01	55,163.29	709.22	2,077.31	26.71	*Annex1 (1.1.3.1, 1.1.3.2)*
2.04	Rent	2,200,000.00	28,284.91	1,823,357.20	23,442.49	112,500.00	1,446.39	-	-	*Annex1 (1.1.4.1)*
2.06	Office Supplies	13,000.00	167.14	10,000.00	128.57	-	-	-	-	
2.07	Other Supplies	87,000.00	1,118.54	74,793.00	961.60	675.00	8.68	-	-	*Annex1 (1.1.5.1)*
2.08	Printing	315,000.00	4,049.88	314,994.00	4,049.81	87,145.00	1,120.40	-	-	*Annex1 (1.1.6.1)*
2.10	Fuel Vehicle	2,062,000.00	26,510.67	1,808,105.08	23,246.40	240,625.50	3,093.67	11,200.00	144.00	*Annex1 (1.1.7.1, 1.1.7.2)*
2.11	Fuel Other	1,589,000.00	20,429.42	1,223,454.27	15,729.68	75,338.00	968.60	-	-	*Annex1 (1.1.8.1, 1.1.8.2)*
2.12	Medicine	12,714,000.00	163,461.04	10,536,360.43	135,463.62	107,061.50	1,376.47	987.00	12.69	*Annex1 (1.1.9.1, 1.1.9.2)*
2.13	Miscellaneous	1,093,000.00	14,052.46	802,393.57	10,316.19	115,810.22	1,488.95	2,330.00	29.96	*Annex1 (1.2.1.1, 1.2.1.2)*
3.30	Other Grant	400,000.00	5,142.71	300,149.68	3,858.96	66,117.68	850.06	-	-	*Annex1 (1.2.2.1, 1.2.2.2)*
	Sub-total	**24,796,000.00**	**318,796.61**	**20,567,723.40**	**264,434.60**	**1,076,639.72**	**13,842.12**	**128,915.06**	**1,657.43**	
	National Health Training Center									
1.02	Allowance	18,787,000.00	241,540.24	15,262,099.88	196,221.39	245,339.00	3,154.27	900.00	11.57	*Annex1 (2.1.1, 2.1.2)*
1.03	TA/DA	1,667,960.00	21,444.59	1,649,360.87	21,205.46	89,140.80	1,146.06	100,000.00	1,285.68	*Annex1 (2.2.1, 2.2.2)*
2.03	Service Other	720,876.00	9,268.14	720,746.50	9,266.48	18,810.00	241.84	-	-	*Annex1 (2.3.1)*
2.06	Office Supplies	519,000.00	6,672.67	513,548.79	6,602.58		-	-	-	
2.08	Printing	934,801.00	12,018.53	934,801.00	12,018.53	-	-	-	-	
2.10	Fuel Vehicle	14,363.00	184.66	14,363.00	184.66	-	-	-	-	
2.13	Miscellaneous	5,035,000.00	64,733.86	3,733,922.88	48,006.21	104,928.00	1,349.04	130.00	1.67	*Annex1 (2.4.1, 2.4.2)*
	Sub-total	**27,679,000.00**	**355,862.69**	**22,828,842.92**	**293,505.31**	**458,217.80**	**5,891.20**	**101,030.00**	**1,298.92**	

	National Health Education Information and Communication Center									
1.02	Allowance	300,000.00	3,857.03	166,789.81	2,144.38	12,000.00	154.28	-	-	*Annex1 (3.1.1)*
1.03	TADA	750,000.00	9,642.58	538,287.36	6,920.64	5,917.00	76.07	-	-	*Annex1 (3.2.1)*
2.03	Service Other	6,339,000.00	81,499.10	6,339,000.00	81,499.10	1,831,725.31	23,550.08	-	-	*Annex1 (3.3.1)*
2.06	Office Supplies	75,000.00	964.26	62,130.79	798.80	5,957.00	76.59	-	-	*Annex1 (3.4.1)*
2.08	Printing	2,975,000.00	38,248.91	2,950,262.09	37,930.86	1,397,870.00	17,972.10	-	-	*Annex1 (3.5.1)*
2.13	Miscellaneous	75,000.00	964.26	57,133.18	734.55	4,465.77	57.42	-	-	*Annex1 (3.6.1)*
	Sub-total	**10,514,000.00**	**135,176.14**	**10,113,603.23**	**130,028.33**	**3,257,935.08**	**41,886.54**	**-**	**-**	
	Nuturition Program									
1.03	TA/DA	5,202,000.00	66,880.95	4,532,728.35	58,276.27	79,550.75	1,022.77	6,967.00	89.57	*Annex1 (4.1.1, 4.1.2)*
2.03	Service Others	2,190,000.00	28,156.34	1,588,137.60	20,418.33	78,477.75	1,008.97	236,222.00	3,037.05	*Annex1 (4.2.1, 4.2.2)*
	Sub-total	**7,392,000.00**	**95,037.28**	**6,120,865.95**	**78,694.60**	**158,028.50**	**2,031.74**	**243,189.00**	**3,126.63**	
	Diarrhoeal Diseases Control Program									
2.03	Service Other	600,000.00	7,714.07	452,319.51	5,815.37	21,680.00	278.73	-	-	*Annex1 (5.1.1)*
	Sub-total	**600,000.00**	**7,714.07**	**452,319.51**	**5,815.37**	**21,680.00**	**278.73**	**-**	**-**	
	Logistic Management Division									
2.08	Printing	850,000.00	10,928.26	633,001.24	8,138.35	84,545.56	1,086.98	-	-	*Annex1 (6.1.1)*
	Sub-total	**850,000.00**	**10,928.26**	**633,001.24**	**8,138.35**	**84,545.56**	**1,086.98**	**-**	**-**	
	Grand Total	**71,831,000.00**	**923,515.04**	**60,716,356.25**	**780,616.56**	**5,057,046.66**	**65,017.31**	**473,134.06**	**6,082.98**	
	Balance Due to excess reimbursement than claimed			30.49	0.39					

USAID/Nepal
Strategic Objective Grant Agreement Activity
(No. 367-02AI)

IL 35

Notes to Fund Accountability Statement
for the period July 16, 2001 to July 15, 2002

Significant Accounting Polices and Notes

1. The Fund Accountability Statement has been prepared in accordance with historical cost convention on cash basis.

2. The amount of fund received from USAID shown as income in the Fund Accountability Statement represents the amount reimbursed by USAID against submission of statement of expenditures by the Department of Health Services (DOHS). During the year, Rs. 30.49 equivalent to USD 0.39 was reimbursed in excess of the request and the same has been shown as balance in the fund accountability statement.

3. Income and Expenditure recorded in the Fund Accountability Statements are related to USAID share of project expenses. Counterpart funding for the project by the government is not included in the Fund Accountability Statement.

4. Nepalese Rupees in Fund Accountability Statements have been converted in to US dollars t the year-end by applying weighted average rate calculated on the basis of exchange rates prevailing on the dates of reimbursements. Accordingly exchange rate so arrived at and applied is 1 US$ = NRs 77.78.

5. Statements of Expenditure (SOE) received from district offices were compiled by Department of Health Services and submitted to USAID for reimbursement.

6. The following amounts have been considered as questioned costs by the audit:

Particulars	Amount Rs	Amount US$
Lack of Supporting documents	373,134.06	6,082.98
Travel expenses and daily allowance not related to the project	638,722.08	8,211.91
Payment for office rent and unrelated project expenses	109,000.00	1,401.39
Unrelated project expenses	3,674,391.85	47,240.83
Value Added Tax (VAT)	593,259.98	7,627.41
Excess expenditure charged	32,993.75	424.19
Deposit in government revenue	8,679.00	111.58
Total	**5,430,180.72**	**71,100.29**

CSC & Co

an associated firm of PricewaterhouseCoopers

CSC & Co
Chartered Accountants
1955, Tanka Prasad Ghumti Sadak
Babar Mahal
PO Box: 4861, Kathmandu, Nepal
Tel : +977-1-4259414, 4268798
Fax : +977-1-4244255
E-mail: csc@ntc.net.np

USAID/Nepal
Strategic Objective Grant Agreement
(No. 367-02A1)

IL 35

Independent Auditor's Report on
System of Internal Control

The Controller
USAID/ Nepal
Rabi Bhawan
Kathmandu
Nepal

We have audited the accompanying Fund Accountability Statements of Department of Health Services (DOHS) relating to USAID Grant Agreement No. 367-02AI for the period 16 July 2001 to 15 July 2002 under IL 35.

Except for not having a fully satisfactory continuing education program and/or not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards issued by the Comptroller General of the United States of America. 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.

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

In planning and performing our audit of the fund accountability statements of DOHS for the period 16 July 2001 to 15 July 2002, we obtained an understanding of the internal control structure. With respect

to internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion of the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in design or operation of internal control structure that, in our judgment, could adversely affect the recipient's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement. Our findings as set out in pages 13 to 16 of this report are titled as follows:

1. Separate accounting records of the USAID fund not maintained
2. Separate Ledger for Advance from USAID source not maintained
3. Lack of supporting documents
4. Excess payment
5. No agreement for vehicle hiring
6. Vehicle log books not properly maintained
7. TADA – Purpose of travel not mentioned
8. Supporting documents not defaced with " PAID" stamp
9. Weaknesses in Inventory Management System

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement 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, we believe that none of the reportable conditions described above is a material weakness.

We also noted other matters involving internal control and its operation that we have reported to the management of DOHS in a separate letter dated December 17, 2004.

This report is intended for the information of Department of Health Services and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Madan K. Sharma
Partner
CSC & Co.
Chartered Accountants

CSC & Co Kathmandu Chartered Accountants

Date: December 17, 2004

Strategic Objective Grant Agreement
(No 367-02A1)
IL 35
Financial Audit 2001-02
Findings and Recommendations on Internal Control

1. Separate accounting records of the USAID fund not maintained

Condition

In all district offices and central level offices (except in NHEICC) accounting records are not maintained separately for the USAID resources. A single set of books of account of the program (with HMG Budget line) has been maintained for all the donors. The voucher contains only the total expenditure of a particular budget account but does not specify the amount charged to USAID and other donors/HMG source. The expenditure is segregated as USAID related or other wise at time of recording in the budget sheet or at the time of preparation of monthly statement of expenditure on ad hoc basis. We observed that the expenses are normally charged firstly to the donor fund according to the budget allocation and the remaining balance of expenditures is charged to the HMG/N budget. Due to this practice, it is very difficult to verify the authenticity of the expenditure claimed against a particular donor fund.

Criteria

Separate accounts of the donor funds need to be maintained as per the agreement. If a common set of books of account is unavoidable, the expense charged to USAID/other donor should be clearly segregated and mentioned in the payment voucher. The accounting system should be able to identify expenditure related to donor fund activities from basic accounting records and accordingly the financial statement should be prepared.

Cause

The district offices do not have clear instruction to maintain separate donor accounts and the need and importance of segregating expenditures related to various donor findings. The accounting staff followed the system based on their own knowledge. The program is scattered in many districts but the district accounting staff have not been properly trained/refreshed to maintain proper records to meet USAID. Moreover, the financial section in most offices is over burdened with a limited manpower responsible for handling several HMG and donor accounts.

Effect

The system of maintaining books of account is not uniform in all offices and supporting documents also could not be identified in some cases. There is probability of charging expenditures not related to the project activities or the donor or vice versa. Consequently, financial reports submitted to the donors may not be correct. The supporting documents also could not be identified in some cases

Recommendation

The payment voucher should clearly mention the amount charged to individual donor and on that basis expense ledger, statement of expenditure should be prepared. The field offices should be given clear instruction on the maintenance of books of account for the donor funded projects/activities.

Periodical refresher training/workshop will help to improve the situation which will also provide a forum to the district accountants to share the difficulty faced and lessons learnt. This will also help

fulfill training need of the newly transferred staff, as the accounting staffs are normally transferred after every two years of service in one office.

Management Comment
No separate ledger has been maintained so far but expenses are incurred for the stipulated program under specific budget heads and reflected in the monthly financial statement expenses according to the source. In future, effort shall be made to maintain separate ledger for USAID fund.

2. Separate Ledger for Advance from USAID source not maintained

Condition
HMG receives funds for health service activities from various donors. Advances are provided for project activities but most offices visited by us maintained only one advance ledger and did not maintain separate advance ledgers for different donor funds. There is no system of identifying donor fund in the single advance ledger. As a result, it was very difficult to identity the outstanding advance related to USAID fund. The statement of the outstanding advance is also submitted to USAID while requesting for reimbursement we found that in most of the cases the advance is shown as NIL as all advances are being considered from HMG source. However, we noticed that some of the advances were provided from USAID source but these were not identified as USAID source.

Criteria
Separate accounting records of different funding sources should be maintained by the project entities. It is also necessary to maintain a separate advance ledger for each donor so that an outstanding advance at the year-end can be identified and reported to concerned donor.

Cause
The concerned offices ignored the requirement of maintaining separate advance ledger of each donor and DOHS also did not instruct the requirement clearly.

Effect
Advance provided for the project activities from USAID fund and remained outstanding till the reporting period was not reported as advance but claimed reimbursement as project expenditure.

Recommendation
A separate advance ledger should be maintained for each donor fund. The project office should adjust the advance outstanding at the year-end and report only net expenditure to the USAID.

Management Comment
Instructions are given to maintain separate advance ledger showing the source of the fund now onwards. Further, instructions have been issued to settle all the advances at the year end and maintain source wise details of unsettled advances if there is any outstanding at the year end.

3. Lack of supporting documents

Condition

The supporting evidences for following expenditures were not available for our verification:

Budget Head	FAS Ref. No		Amount	
	S.N	Annex no.	Rs	US$
Food for client	1.1.2.1	1	104,250.00	1340.32
TADA	1.1.1.2	1	8,070.75	103.76
Telephone	1.1.3.2	1	2077.31	26.71
Fuel vehicle	1.1.7.2	1	11,200.00	144.00
Medicine	1.1.9.2	1	987.00	12.69
Miscellaneous	1.2.1.2	1	2,330.00	29.96
Allowance	2.1.2	1	900.00	11.57
TADA	2.2.2	1	100,000.00	1,285.68
Miscellaneous	2.4.2	1	130.00	1.67
TADA	4.1.2	1	6,967.00	89.57
Service Others	4.2.2	1	236,222.00	3,037.05
Total			**473,134.06**	**6,082.98**

Criteria

Proper supporting evidences should be enclosed and retained with vouchers while making payment of expenditures.

Cause

The concerned staff did not pay proper attention in complying with payment procedures.

Effects

Expenses booked without proper supporting evidences are disallowable.

Recommendation

All the supporting evidences should be collected and attached with the respective vouchers.

Management Comment

Payments are made by different offices on the basis of necessary supporting documents. Those accounts were audited by Office of the Auditor General (OAG) only and there is no comment on those amounts from the OAG. As there exists possibility of misplacement of documents in the process of keeping the records after the audit from OAG, we request to allow the above amounts.

4. No agreement for vehicle hiring

Condition

While hiring the vehicles for the period of VSC camps no formal contracts were entered into with the vehicle owners specifying the rate, other terms and conditions. The hiring is done in most of the cases on verbal understanding and the evidence attached to support the payment is in the form of a receipt on a plain piece of paper.

Criteria

An agreement should be signed with the service provider specifying the rate and other terms of the service to avoid any dispute as well as to properly substantiate the expenditures.

Cause

The concerned staff overlooked this requirement.

Effect

In the absence of the written agreement, it is difficult to verity the rate and the term and conditions of service.

Recommendation

The project office should ensure that the service agreement should be signed before receiving the service. The terms and conditions of the service should be clearly mentioned in the agreement.

Management Comment

According to the provision of Government financial rules contract worth Rs 100,000 can be given without entering into any formal contract but instructions will be given to hire the vehicles after entering into formal contract.

5. Vehicle log books not properly maintained

Condition

The purpose of visit, destination, name of the users and fuel used are not properly recorded in the vehicle logbooks in most of the field offices. There were also instances that logbooks have not been approved and in some offices, logbooks were also not available for verification. In three offices (FP Central, NHTC Central and DHO Lalitpur) log book of office vehicles were not made available for our verification and in the cases of rented vehicles no logbook was maintained in all cases.

Criteria
Logbook is a tool in controlling vehicle movement and fuel consumption. The approved format of the logbook should be properly completed and approved by the concerned staff.

Cause
The drivers have not been maintaining the logbooks properly. The concerned staff did not check the logbook before fuel requisition is approved.

Effect
Vehicle may be misused for unrelated purposes/activities.

Recommendation
The respective columns of the logbooks should be completed as and when the vehicle is used and the concerned staff should review and approve it. Fuel requisition should be approved only after checking the logbook.

Management Comment
Payment for the fuel is made after maintaining the logbook. Instructions has been issued to maintain the logbook file properly from now onwards.

6. TADA – Purpose of travel not mentioned

Condition
While scrutinizing the TADA bills at various District Health Offices and Central level offices, we found that travel order did not clearly mention the purpose of visit and simply mentioned as "supervision" or "inspection" or "follow-up" in the travel order. Hence, it could not ensured whether those travels pertained to USAID funded program.

Criteria
While authorizing a travel order the concerned official should ensure that the travel order is properly filled specifying number of days of travel and the purpose of the visit.

Cause
Non-compliance on the part of official authorizing the travel order.

Effect
The relevance of the travel expenses could not be verified in the absence of properly filled travel order.

Recommendation
Travel order should be properly filled specifying the purpose of the travel.

Management Comment
Travel and daily expenses are incurred under integrated health concept. As these expenses are helpful for the implementation of USAID program activities, it is requested to allow those expenses. Further, arrangements will be made to mention the purpose of travel while incurring such expenses.

7. Supporting documents not defaced with " PAID" stamp

Condition
The supporting documents have not been cancelled with "Paid" stamp to prevent double payment.

Criteria
Cancellation of supporting documents as soon as the payment is made is one of the internal control systems measure adopted to avoid double payment.

Cause
The field offices are not aware of such procedures and they do not have any instruction in this regard.

Effect
There is a risk of making double payment.

Recommendation
"Paid " stamp should be affixed on all supporting documents as soon as payments are made.

Management Comment
Generally the paid invoices are defaced with " Paid" stamp. Necessary instruction will be given in respect of missing stamps.

8. Weaknesses in Inventory Management System

Condition
We have noticed following weaknesses in inventory management system:

a) Movement of items purchased from USAID fund could not be verified as the separate record of inventory purchased from USAID fund has not been maintained.

b) In most of the district offices, medicine purchased for family planning camps were issued to the name of respective camp in-charge on the same date of the purchase. Neither a record of actual consumption based on physical progress has been maintained nor there is a system to tally medicine consumed with the number of cases sterilized. Further, in case of two districts, the surplus medicines were returned to store only in the subsequent financial year. Verbally it was explained that the surplus medicines are used in subsequent period but these are not recorded separately.

Criteria
The records of inventory purchased out of USAID fund and its consumption should be maintained separately.

Cause
The district offices have not been given instruction by DOHS to maintain separate record of purchase and consumption of inventory funded by USAID grant.

Effect
The consumption of medicine may not match with the physical progress. The closing balance of the inventory procured out of the USAID fund may not be known.

Recommendation

Separate inventory records of USAID fund should be maintained and the consumption of medicine should be monitored. The closing balance of the inventory of USAID funding should be reported to the USAID.

Management Comment

Inventory records are maintained as per the prevailing laws and receipts and payments are recorded accordingly. Instruction has been issued to maintain separate Inventory ledger for the inventories procured from USAID fund.

CSC & Co

an associated firm of PricewaterhouseCoopers

CSC & Co
Chartered Accountants
1955, Tanka Prasad Ghumti Sadak
Babar Mahal
PO Box: 4861, Kathmandu, Nepal
Tel : +977-1-4259414, 4268798
Fax : +977-1-4244255
E-mail: csc@ntc.net.np

USAID/Nepal
Strategic Objective Grant Agreement
(No. 367-02A1)

IL 35

Independent Auditor's Report on
Compliance with Agreement Terms, Applicable laws and regulations

The Controller
USAID/ Nepal
Rabi Bhawan
Kathmandu
Nepal

We have audited the accompanying Fund Accountability Statements of Department of Health Services (DOHS) relating to USAID Grant Agreement No. 367-02AI for the period 16 July 2001 to 15 July 2002 under IL 35.

Except for not having a fully satisfactory continuing education program and/or not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with the agreement terms and laws and regulations applicable to DOHS is the responsibility of DOHS's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of DOHS's compliance with certain provisions of agreement terms and 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.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our compliance

tests disclosed the following material instances of noncompliance, which are detailed in pages 22 to 30 and the effects of which are shown as questioned costs in DOHS's 2002 fund accountability statement.

1. Unrelated expenses claimed
2. Travel expenses and daily allowances not related to the project have been claimed
3. Office rent and unrelated project expenses have been paid from vehicle rent
4. Value Added Tax has been claimed as expenses.
5. Outstanding Advance not disclosed in Reimbursement claim
6. Reimbursement Claim System not effective.
7. Excess expenditure charged
8. Deposits in Government Revenue/Expenses
9. Excess quantity of medicine procured
10. Contractual benefits from third party not availed
11. Financial Administration Rules not followed in Procurement
12. Budget Allocation not made as per Work Plan
13. Expenses charged to unrelated budget line
14. VDC's representatives were not presented in FCHV Training

We considered these material instances of noncompliance in forming our opinion on whether *DOHS's* 15 July 20002 fund accountability statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Notes to Fund Accountability Statement to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated December 17, 2004.

We noted certain immaterial instances of noncompliance that we have reported to the management of DOHS in a separate letter dated December 17, 2004.

This report is intended for the information of Department of Health Services and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Madan K. Sharma
Partner
CSC & Co.
Chartered Accountants

CSC & Co Kathmandu Chartered Accountants

Date: December 17, 2004

Strategic Objective Grant Agreement
(No 367-02A1)
IL No 35
Findings and Recommendations on Compliance with Agreement Terms and Applicable Laws and regulations

1. Unrelated Project Expenses claimed

Condition

The following amounts have been found as booked into the USAID fund though these were not related to the approved program funded by the USAID:

Budget Head	FAS Ref. No		Amount	
	S.N	Annex no.	Rs	US$
Telephone Trunk	1.1.3.1	1	55,163.29	709.22
Other Supplies	1.1.5.1	1	675.00	8.68
Printing	1.1.6.1	1	87,145.00	1,120.40
Fuel Vehicle	1.1.7.1	1	240,625.50	3,093.67
Fuel others	1.1.8.1	1	75,338.00	968.60
Medicine	1.1.9.1	1	107,061.50	1,376.47
Miscellaneous	1.2.1.1	1	115,810.22	1,488.95
Other Grant	1.2.2.1	1	66,117.68	850.06
Service Others	2.3.1	1	5,810.00	74.70
Miscellaneous	2.4.1	1	104,928.00	1,349.04
Service Other	3.3.1	1	1,342,510.89	17,260.36
Office Supplies	3.4.1	1	5,957.00	76.59
Printing	3.5.1	1	1,364,370.00	17,541.40
Miscellaneous	3.6.1	1	4,465.77	57.42
Service Others	4.2.1	1	76,734.00	986.55
Service Others	5.1.1	1	21,680.00	278.73
Total			**3,674,391.85**	**47,240.83**

Criteria

The expenditure chargeable to USAID fund are only those, which have been stated in the agreement and approved work plan.

Cause

The expenses were charged to USAID fund due to inadequate budget provision in other source of fund and also lack of understanding of agreement provision.

Effect

Expenditure has been wrongly claimed for reimbursement from USAID which is not allowable.

Recommendation

The expenditure not chargeable to USAID fund is disallowable and should be refunded to USAID.

Management Comment:

District Health Offices have been established to execute the programs in integrated manner of the various programs. Hence the payment for the expenses of one program sometimes had been made from other programs. Now onwards the offices are strictly instructed to incur expenditure within the program hence requested for the approval of the amount as exceptional case.

2. Travel expenses and daily allowance not related to the project

Condition
The following travel expenses and daily allowances were paid to staffs for traveling in relation to activities not related to the USAID funded program:

FAS Ref. No		Amount	
S.N.	Annex. No.	Rs	US$
1.1.1.1	1	207,524.53	2,668.10
2.2.1	1	89,140.80	1,146.06
3.2.1	1	5,917.00	76.07
4.1.1	1	79,550.75	1,022.77
2.1.1	1	244,589.00	3,144.63
3.1.1	1	12,000.00	154.28
	Total	**638,722.08**	**8,211.91**

Criteria
USAID fund should be used only for program related activities.

Cause
The concerned staff ignored the purpose of the field visits.

Effect
Expenses not related to the program activities are disallowable expenditures.

Recommendation
The project accountant should be pay proper attention in charging expenses USAID fund and ensure that only the program related activities are paid out of the USAID fund. The above disallowable expenditure should be refunded.

Management Comment
Travel and daily expenses are incurred under integrated health concept. As these expenses are helpful for the implementation of USAID program activities, it is requested to allow those expenses. Further, arrangements will be made to mention the purpose of travel while incurring such expenses.

3. Payment for office rent and unrelated project expenses

Condition
There was no budget provision for office rent under USAID fund. However, the following expenses were charged to USAID fund. Similarly unrelated vehicle hire was also charged to it.

FAS Ref. No		Amount	
S.N.	Annex. No.	Rs	US$
1.1.4.1	1	109,000	1,401.39

Criteria
Office rent should be charged to HMG/N fund and vehicle hire expenses related to other program should be charged to concerned other donor fund.

Cause
The concerned offices charged such expenses to USAID fund due to insufficient budget provision under HMG/N and other donor fund.

Effect
Expenditure not related and not budgeted under USAID funding is disallowed.

Recommendation
HMG/N should provide adequate budget to meet its counterpart funding and unrelated program cost should not be charged to USAID. The above amounts charged to USAID fund should be refunded to USAID.

Management Comment
Vehicle rentals are paid from the rental budget line. At the time of Family Planning Camp, due to shortage of spaces to provide adequate services, houses are rented to provide better care to the client. As the instructions have been given to incur expense only for hiring the vehicles now onwards, it is requested to allow the expense for this time.

4. Value Added Tax (VAT) claimed as expenses

Condition
Following amounts of VAT were paid along with the costs of goods and services procured for the USAID funded programs and was charged to USAID fund:

D. Budget Head	FAS Ref. No		Amount	
	S.N.	Annex. No.	Rs	US$
Service Others	2.3.1	1	13,000.00	167.14
Service Others	3.3.1	1	489,214.42	6,289.72
Printing	3.5.1	1	33,500.00	430.70
Printing	6.1.1	1	57,545.56	739.85
Total			593,259.98	7,627.41

Criteria
As per Section B.4. (c) 3. of the Standard provisions of the agreement, the VAT paid out of USAID fund should be refunded to USAID.

Cause
The concerned staff ignored the provision of the agreement.

Effect
VAT amount charged to USAID is disallowed.

Recommendation
The amount paid as Vat should be refunded back to USAID

Management Comment
VAT has been paid out of USAID fund by considering the VAT inclusive amount as total price due to the ignorance on the part of the accountant about the VAT in those years. Now onwards instruction has been issued to pay such taxes from HMG source only.

5. Unsettled Advance not disclosed in Reimbursement claim

Condition
We noticed that the unsettled advances were charged to USAID and not disclosed in the statement of reimbursement claim. The instances noted by us during the course of our audit are:

E. Budget Head	FAS Ref. No		Amount	
	S.N.	Annex. No.	Rs	US$
TADA	2.2.2	1	100,000.00	1,285.68
Total			100,000.00	1,285.68

Criteria
Unsettled advance is not a reimbursable expenditure from USAID.

Cause
The concerned staffs did not settle the advance timely and the requirement of USAID was overlooked while claiming reimbursement.

Effect
Expenditures have been inappropriately disclosed in the accounts and are not allowable.

Recommendation
The evidence of advance settlement should be made available for verification otherwise the same should be refunded to USAID.

Management Comment
According to the government accounting policy advance is also treated as expenditure and accordingly the same was requested for reimbursement. It was explained by the concerned office that those advances were taken for the program purpose but could not be settled it time due to the transfer of the concerned staff. Instructions have been given to show outstanding advance, if any, according to the source.

6. Reimbursement System

Condition
We reviewed the documentation system for claiming reimbursement from USAID. We have following observations:

a) DOHS claimed reimbursement of expenditures to USAID only after the end of F/Y starting from 10th Oct. 2002, which is about 3 months after the Year-end date (i.e. 15th July 2002) through 13th Jan 2003.

b) The Implementation Letter 35 was signed only on December 5, 2001. Thus IL35 was issued after 5 months of the beginning of the fiscal year causing delay in budget availability and ultimately caused chain effect to the reimbursement process.

c) The statement of un-cleared advance submitted along with SOE does not disclose the funding source and all advances are being considered as relating to HMG fund. However, it was noticed that some of the advances were provided from USAID funding but these were not disclosed. This resulted in reimbursement of unsettled advances as well.

Criteria
Proper accounting records should be maintained for timely claiming the reimbursement and the statement of unsettled advances should be segregated donor wise.

Cause
Delay in formalizing the IL and requesting reimbursement. Also, inadequate accounting system in relation to unsettled advances.

Effect
a) Delay implementation and reimbursement claim.
b) Unsettled advances also charged to the USAID fund.

Recommendation
a) IL should be formalized well in advance.
b) Reimbursement should be claimed in time.
c) The claim for reimbursement should not include the amounts of unsettled advances.

Management Comment
Claim for reimbursement of the central level expenditures are made in time but due to the delay in consolidation the claim for reimbursement in case of district level expenditures are delayed. Attention will be given to make timely reimbursement request as recommended by you. Arrangements will be made to deduct the unsettled advances from the amount of reimbursement claim.

7. Excess expenditure charged

Condition
Following amounts of excess expenditure were charged to USAID fund:

Budget Head	FAS Ref. No		Amount	
	S.N.	Annex. No.	Rs	US$
Rent	1.1.4.1	1	3,500.00	45.00
Allowance	2.1.1	1	750.00	9.64
Service Others	4.2.1	1	1,743.75	22.42
Printing	6.1.1	1	27,000.00	347.13
		Total	**32,993.75**	**424.19**

Criteria
Payment should be made after careful scrutiny of the invoice to avoid any such excess payment.

Cause
Overlooked by the concerned staff.

Effect
USD 401.72 excess charged to USAID fund.

Recommendation
Concerned staff should be cautious while making payment to avoid such excess payment in future.

Management Comment
Payment in excess of bills and receipts and the excess paid amount will be recovered.

8. Deposits/adjustment in Government Revenue/Expenses

Condition
The amount refunded/recovered out of the earlier payment made from USAID fund was deposited into Government Revenue or credited to HMG funded expenses.

Budget Head	FAS Ref. No		Amount	
	S.N.	Annex. No.	Rs	US$
TADA	1.1.1.1	1	8,679.00	111.58

Criteria
Any refund of the amount charged to USAID earlier requires to be refunded to or adjusted in USAID fund.

Cause
The concerned staff ignored the impact of wrong adjustment.

Effect
USAID has been charged excess expenditure than the actual.

Recommendation
Such excess charged amount is disallowable and should be refunded to USAID.

Management Comment
The recommendations will be checked and the accounts will be adjusted.

9. Excess Quantity of Medicines procured

Condition
There was budget provision for medicines at the rate of Rs. 240 per case of VSC. We observed that the medicine purchased was substantially more than the actual number of VSC cases performed. It was explained that medicine was purchased on the basis of estimated target but actual achievement were lower and in such case the surplus medicines were used in subsequent programs.

Districts	Cases	Rate	Required Amount		Actual Expenditure	
			Rs	US$	Rs	US$
DHO Lalitpur	1692	240	407,040.00	5,233.22	1,159,734.70	14,910.44
DPHO Rupandehi	658	240	157,920.00	2,030.34	239,824.00	3,083.36
		Total	**564,960.00**	**7,263.56**	**1,399,558.70**	**17,993.80**

Criteria
The cost should also match with the physical progress at a reasonable level so that the effective cost of Medicine per case remains within budgeted rate.

Cause
Procurement made on the basis of unrealistic estimation of the probable VSC cases to be performed.

Effect
Substantially excess amount charged to USAID fund and the actual achievement was lower than the achievement expected from the use of the USAID resources.

Recommendation
Proper planning should be made and basis for estimation should be realistic. Effort should be made to keep the average expenditure the budgeted limit in relation to the number of cases performed.

Management Comment

Instruction will be issued to ensure that the cost estimates are realistic.

10. Contractual benefits from third party not availed

Condition:
National Health Education Information and Communication Center entered into an agreement with Image Channel TV for Rs.14,92,000.00 for broadcasting various information about diseases and vaccines. According to clause number 10 of the agreement, Image Channel was to provide Free Air time amounting to Rs 271,272.72. However the same was not made available by Image Channel.

Criteria:

NHEICC should avail of the benefits from agreement with its suppliers.

Cause:

Management did not take any action to avail of the benefits provided under the agreement.

Effect:

NHEICC deprived of benefit entitled from agreement resulting in a loss up to Rs. 271,271.

Recommendation:

The same should be recovered from Image Channel in cash or kind.

Management Comment:
Instructions will be given as per the recommendation.

11. Financial Administration Rules not followed in Procurement

Condition
At the central level, in most of the cases, the requisite quotations were obtained and tender was also invited. But in some cases those requirements was not followed. For instance NHEICC entered agreement with Connection Advertising & Marketing Ltd. for producing 15 minutes' radio programs to be aired 86 times at the rate of Rs. 10,524 per broadcast plus 10% VAT totaling to Rs. 995,570.40 directly without calling any quotation.

At district level, except in Lalitpur, medicines were procured directly by breaking the procurement in smaller lots (less than Rs 100,000 per lot) to avoid the requirement of quotation.

Criteria
Financial Administration Rules 2056 requires sealed quotations for procurement exceeding Rs. 100,000 and up to Rs. 10,00,000.

Cause
There is no procurement plan and the procurement is done on an ad hoc basis to resolve the current crisis. Unplanned procurement results emergency procurement.

Effect
Competitiveness of the price paid could not be verified.

Recommendation
It is important to prepare a procurement plan so that goods are procured in a planned way, in a timely manner and at competitive price. Procurements should be done as per the financial rules of HMG/N.

Management Comment
Necessary instruction will be issued to formulate annual procurement plan at the beginning of the financial year. Further, instruction has been issued to make purchases in excess of Rs.100,000 in accordance to the government financial policy.

12 Budget Allocation not made as per Work Plan

Condition

a) The Red Book Budget for the National Health Training Center allocated Rs.304, 000 under the head daily allowance. As per the work plan, the same was to be paid to the participants of various training at the rate of Rs.400/person for the traveling day. Since the purpose of this expense falls under the nature of traveling allowance, the same should have been budgeted under the head TADA.

b) The Work plan provides the red book budget of CDD Program for "Monitoring, Supervision and Epidemic" activities. However, budget has been allocated under the head Service Other (2.03) and District offices used such budget for other purposes like Transportation cost, Fuel etc.

c) The work plan provides budget for complication treatment under the budget head Other Grant (3.03) and the expenditures under this head is to be done only at the central level. However, during budget allocation Rs 97,000 was allocated to different districts and payment to Doctors, nurses and other staffs were made from this amount for conducting VSC.

Criteria
The budget should be allocated as per the agreed work plan.

Cause
Budgeted allocated without considering the provisions mentioned in the agreed work plan.

Effect
Expenses made in contrary to the agreed work plan are not allowed.

Recommendation
Expenditure should be made in conformity with agreed work plan. Disallowed expenses should be refunded to USAID.

Management Comment
Instructions have been given to follow the work plan while making the expenditure.

13. Expenses charged to unrelated budget line

Condition
NHEICC charged cost of printing of Hand Pamphlet totaling Rs. 99,000 vide JV 347/2059-2-10 to Service Other (2.03) instead of charging it under Printing (2.08).

Criteria
Government budget line should be strictly adhered to in booking expenses.

Cause
Charged to unrelated budget line due to inadequacy of budget in concerned head.

Effect
Unrelated expenses affected achievement of the activities specified in the work plan and misstated the expenditure under specific budget line.

Recommendation
Government budget line should be adhered to.

Management Comment

Instructions will be issued requiring to make the expenditure as per the budget line.

14. VDC's representatives were not presented in FCHV Training

Condition
Various trainings were organized in health posts and VDCs. However, neither VDC representatives were present at the time of training nor training participants' names were attested.

Criteria
The work plan requires the VDC chairman, Vice chairman, members should be invited in the training program.

Cause
The provisions of agreement were not communicated to the DPHOs.

Effect
The confirmation of participation of FCHV by local community could not be ensured, Similarly, the participation of local community could not be achieved.

Recommendation
The provisions of work plan should be complied with.

Management Comment
The recommendations will be implemented.

Annex 1 Questioned Costs

Strategic Objective Grant Agreement
Project Aid No. 367-02A1
Implementation Letter 35

Annex 1

For the period 16 July 2001 to 15 July 2002

		Questioned costs						
		Ineligible		Unsupported				
Ref.	Particulars	Npr.	US $	Npr.	US $	Districts	V. N.	Remarks
1	Family Planning							
1.1.1	TA/DA							
1.1.1.1	Unrelated Expenses	1,500.00	19.29			Makwanpur	16	Visit to the " Supplies Mgmt. Office " for bringing goods
		1,500.00	19.29			Makwanpur	25	Travel for FCHV activity
		5,230.00	67.24			Makwanpur	31	Travel for admin. Activity
		16,188.50	208.13			Central	65	Travel for admin. Activity
		6,513.00	83.74			Central	85	Travel for admin. Activity
		1,527.06	19.63			Rupandehi	2	Travel to Kathmandu for Vehicle servicing.
		1,756.47	22.58			Rupandehi		Travel to Kathmandu.
		468.50	6.02			Dhanusa	16	Administrative travel
		11,819.75	151.96			Dhanusa	25	Administrative & accounts travel
		3,518.50	45.24			Dhanusa	64	TADA paid to staffs participating in second half yearly analysis meeting.
		10,371.00	133.34			Dhanusa	60	Paid to staffs traveling for other purposes.
		7,500.00	96.43			Dhanusa	57	Paid to the participants of Mother Groups meetings
		104,963.50	1,349.49			Dang	29,31	Paid as incentives to Doctors, nurses and other staff for participating in the outreach camp.
		1,394.00	17.92			Kanchanpur	67	Relating to construction works
		1,849.00	23.77			Kanchanpur	66	Relating to formation of Mother group
		2,161.00	27.78			Kanchanpur	69	Relating to transportation of FCHV Kit Box
		471.00	6.06			Kanchanpur	70	Relating to FCHV program supervision.

		8,679.00	111.58			kailali	192	Deposited into Government revenue a/c on 2059.4.13
		6,221.00	79.98			kailali	169	TA relating to accounting purpose
		747.00	9.60			DHO Morang	34	TADA for KFW Medicine distribution
		658.50	8.47			DHO Jhapa	28	Not related with FP. Paid for transportation form Biratnagar, but there was no record to verify the Drugs receipt at delivery point.
		1,547.00	19.89			DHO Jhapa	28	For FCHV Training and Refresher Review
		285.00	3.66			DHO Jhapa	28	For follow up, not related with the faimly planning Program.
		10,517.00	135.21			DHO, Jhapa	34	TADA for DO's transfer from Jhapa to Bhopur
		5,817.75	74.80			Seti Hospital	22	TADA given for travels of official job.
		3,000.00	38.57			Janakpur Hospital	17	TADA or travels to KTM for settlement of audit queries (Beruzoo).
	Sub Total	**216,203.53**	**2,779.68**					
1.1.1.2	Unsupported Expense			8070.75	103.76	Janakpur Hospital	53	JV and Supporting not available.
	Sub Total			**8,070.75**	**103.76**			
1.1.2	**Food for client**							
1.1.2.1	Unsupported Expenses			4,225.00	54.32	Chitwan	10&11	Facet not available
				2,475.00	31.82	Chitwan	25	Facet not available
				1,000.00	12.86	Lalitpur	92	Only Rs. 4000 settled out of total advance of Rs. 5000.
				96,550.00	1,241.32	Janakpur Hospital	22,28,61 and 62	Facet not available for whole amount.
	Sub total			**104,250.00**	**1,340.32**			
1.1.3	**Telephone/Trunk**							
1.1.3.1	Unrelated Expenses	8,000.00	102.85			Chitwan	64	Official Telephone Bill paid
		10,000.00	128.57			Makwanpur	2	Official Telephone Bill paid
		7,163.29	92.10			Rupandehi		Official Telephone Bill paid
		10,000.00	128.57			Nawalparasi	18	Official Telephone Bill paid
		10,000.00	128.57			Dhanusa	27	Official Telephone Bill paid
		10,000.00	128.57			Dang	28	Official Telephone Bill paid

	Sub total	**55,163.29**	**709.22**					
1.1.3.2	Unsupported Expenses			77.31	0.99	DHO, Jhapa	49	Bill available only for Rs. 636.69 out of Rs. 714.00
				2,000.00	25.71	Janakpur Hospital	46	JV and supporting not available
	Sub total			**2,077.31**	**26.71**			
1.1.4	**Rent**							
1.1.4.1	Unrelated Expenses	47,400.00	609.41			Chitwan	85	Expenditure pertaining to Child Health Division for Polio and Mop-up program
		40,000.00	514.27			Lalitpur	28	Rent for transportation of medicine to various HP and SHP .
		7,400.00	95.14			Lalitpur	72	Payment of house rent
		14,200.00	182.57			Kailali	189	Purpose of use of vehicle not mentioned in log book.
		3,500.00	45.00			DHO, Jhapa	38	Excess payment.
	Sub total	**112,500.00**	**1,446.39**					
1.1.5	**Other Supplies**							
1.1.5.1	Unrelated Expenses	675.00	8.68			Kailali	31	Purchase of water filter
	Sub total	**675.00**	**8.68**					
1.1.6	**Printing**							
1.1.6.1	Unrelated Expenses	4,325.00	55.61			Chitwan	67	Printing of Statistical Form, Employee Position Register Form
		10,000.00	128.57			Makwanpur	6	Printing of Store entry form and Requisition form
		24,900.00	320.13			Lalitpur	19	Printing of Letter Pad, Purchase order, Requisition form, store entry form, TADA claim sheets etc
		2,800.00	36.00			Lalitpur	38	Printing of Journal Vouchers
		21,825.00	280.60			Lalitpur	39	Printing of Travel Order form , Bank Statement Form etc.
		12,295.00	158.07			Lalitpur	49	Printing of Staff ID , Health Volunteer's ID etc.

		8,000.00	102.85	Kanchanpur	73	Printing of Journal Vouchers, Purchase orders, GRN etc
		3,000.00	38.57	DHO Morang	31	Printing expenses for receipt Pad. Not related with the family planning program.
	Sub total	**87,145.00**	**1,120.40**			
1.1.7	**Fuel Vechiles**	3,360.00	43.20	Chitwan	58	Fuel used for Nutrition,T.B,FCHV meeting Admin. Work etc.
1.1.7.1	Unrelated Expenses					
		11,499.00	147.84	Chitwan	81	Fuel used for Admin work, T.B program, Disastrous Disease ad etc.
		11,541.00	148.38	Chitwan	18	Fuel used for Polio ,Vaccine , Mop-up etc.
		6,646.50	85.45	Chitwan	28	Fuel used for Admin work, supervision and other unrelated activity
		7,802.00	100.31	Chitwan	35	Fuel used for FCHV meeting , Polio, Vaccine
		25,769.00	331.31	Makwanpur	26	Fuel used for TB meeting , NID Program, Vaccine Program , Admin. Work etc.
		25,942.00	333.53	Makwanpur	33	Transportation of District Chiefs for HMG activity
		10,762.00	138.36	Makwanpur	40	Fuel used for Mop-up, vaccine , official supervision , admin. Work etc.
		24,565.50	315.83	Rupandehi	31	Fuel used for official supervision during the month of Mangsir when no camps were conducted.
		24,442.00	314.25	Rupandehi	41	Fuel used for official supervision.
		30,000.00	385.70	Nawalparasi	10	Fuel used for official supervision during the month of Shrawan to Mangsir when no family planning camps were conducted.
		22,766.00	292.70	Nawalparasi	24	Fuel used for official supervision during the month of Ashad when no family planning camps were conducted.
		8,897.00	114.39	Dang	26	Fuel used for Admin work, supervision and other unrelated activity
		8,677.00	111.56	Dang	24	Fuel used for Admin work, supervision and other unrelated activity

		8294	106.63			kailali	189	Fuel used for Governmental activity
		9662.5	124.23			Seti Hospital	24	Fuel used for Governmental activity
	Sub Total	**240,625.50**	**3,093.67**					
1.1.7.2	Unsupported Expenses			11,200.00	144.00	Chitwan	69	Bills and logbook not attached.
	Sub Total			**11,200.00**	**144.00**			
1.1.8	**Fuel Others**							
1.1.8.1	Unrelated Expenses	26,013.00	334.44			Chitwan	85	Expenditure pertaining to Child Health Division for Polio and Mop-up program
		10,893.00	140.05			Nawalparasi	24	Fuel used for official purpose during the month of Ashad when no family planning camps were conducted.
		3,024.00	38.88			Kathmandu	27	Excess paid than the allowable limit.
		7,782.00	100.05			Kathmandu	45	Excess paid than the allowable limit.
		15,670.00	201.47			Kanchanpur	76	Purchase of Tube lights, Candles , Bulbs etc.
		566.00	7.28			Mechi Hospital	4	Related to Immunization and TB program.
		11,390.00	146.44			Seti Hospital	5, 24, 32	Out of 1020 liter kerosene purchased, 350 litre only issued to FPP unit and rest used for other than FPP.
	Sub total	**75,338.00**	**968.60**					
1.1.8.2	Unsupported Cost							
	Sub total							
1.1.9	**Medicine**							
1.1.9.1	Unrelated Expenses	32,767.50	421.28			Chitwan	74	Purchase of Doctors Gown, Patient Gown, and other garments not covered by work plan
		3,300.00	42.43			Lalitpur	3	Purchase of Pregnancy Kit
		25,324.00	325.58			Nawalparasi	24	Medicines for purpose other than permanent sterilization procured
		8,170.00	105.04			kanchanpur	25	Purchase of garments (mask, client gown, staff gown ,) not covered by work plan

		20,400.00	262.28			kanchanpur	42	Purchase of autoclave and 4-burner stove , not covered by work plan
		17,100.00	219.85			Lalitpur	33	Erythromycin purchased , and no store entry for the same
	Sub total	**107,061.50**	**1,376.47**					
1.1.9.2	Unsupported Expenses			987.00	12.69	Dhanusa	35	No supporting attached.
	Sub total			**987.00**	**12.69**			
1.2.1.1	**Miscellaneous**							
1.2.1.1	Unrelated Expenses	6,098.00	78.40			Chitwan	49	Refreshment expenditure at office
		4,996.00	64.23			Chitwan	9	Refreshment expenditure at office
		6,500.00	83.57			Chitwan	22	Refreshment expenditure at office
		8,015.00	103.05			Chitwan	39	Refreshment expenditure at office
		5,000.00	64.28			Lalitpur	27	Official Photocopy and Refreshment expenses
		5,400.00	69.43			Lalitpur	51	Official tea and snacks
		4,500.00	57.86			Lalitpur	56	Official tea and snacks
		5,098.22	65.55			Rupandehi	4,7,8	Tea and snacks at office.
		6,000.00	77.14			Kathmandu	45	Paid for Introductory Workshop
		5,000.00	64.28			Dhanusa	57	Paid for Mother's Group Workshop
		11,259.00	144.75			Dang	2,3,6	Official tea and snacks
		8,000.00	102.85			Kailali	194	Official tea and snacks
		10,000.00	128.57			Kailali	169	Official tea and snacks
		4,040.00	51.94			Kailali	165	Official tea and snacks
		6,660.00	85.63			Kanchanpur	80	Official tea and snacks
		5,000.00	64.28			Kanchanpur	85	Official tea and snacks
		1,500.00	19.29			DHO Morang	2	Office Tea and coffee
		2,875.00	36.96			DHO Morang	43	Purchase of sweet and other items
		4,979.00	64.01			DHO Morang	60	No detail when and why money spent for tea and coffee
		3,120.00	40.11			Janakpur Hospital	16	Official tea and snacks
		1,770.00	22.76			Janakpur Hospital	21	Official tea and snacks

	Sub total	**115,810.22**	**1,488.95**					
1.2.1.2	Unsupported Expenses							
				130.00	1.67	Makwanpur	11	Laundry expenses . Actual cases 855 but paid for 868 cases @Rs.10
				2,200.00	28.28	Makwanpur	22	Laundry expenses . Actual cases 780, but paid for 1000 cases @Rs.11
	Sub total			**2,330.00**	**29.96**			
1.2.2	**Other grant**							
1.2.2.1	Unrelated Expenses							
		66,117.68	850.06					payment made under this head is against the work plan in all the districts.
	Sub total	**66,117.68**	**850.06**					
2	**NHTC**							
2.1	**Allowance**							
2.1.1	Unrelated Expenses	23,350.00	300.21			Chitwan	12	Relating to "Health Management Information System" training
		14,500.00	186.42			Chitwan	16	Relating to "Health Post In charge's Abhimukhikaran Training " , not covered by work plan
		9,040.00	116.23			Chitwan	17	Relating to "Health Post In charge's Abhimukhikaran Training " , not covered by work plan
		44,740.00	575.21			Makwanpur	18	Expenses relating to Half yearly meeting of " Trained Birth Attendant " , not covered by work plan
		37,509.00	482.24			Nawalparasi	8	Paid to the participants of TBA training
		76,000.00	977.11			Kavre	7	Expenses relating to "H.P in charges orientation training"
		9,600.00	123.43			Morang	1	Paid for TBA Training
		29,850.00	383.77			Morang	13	Claim for 5days but actually can claim for 3 days only
		750.00	9.64			DHO, Jhapa	24	Excess Payment
			-					
	Sub total	**245,339.00**	**3,154.27**					
2.1.2	Unsupported Expenses		-					

				900.00	11.57	Central	319	Reason unidentifiable
	Sub total			**900.00**	**11.57**			
2.2	**TA/DA**							
2.2.1	Unrelated Cost	28,242.00	363.10			Central	366	Travel relating to Admin. Work
		37,082.00	476.75					TA/DA paid to staff and charged to USAID fund but the programme is not related.
		14,965.00	192.40			Morang	13	Claim for 5days but can claim for 3 days only
		8,851.80	113.81			DHO, Jhapa	N/A	No voucher was prepared to booked this expenses and during the period there was no program.
	Sub total	**89,140.80**	**1,146.06**					
2.2.2	Unsupported Expenses							
				100,000.00	1,285.68			The amount remains as unsettled advance in the name of Sunsari Hospital Inarwa since past 16 months.
	Sub total			**100,000.00**	**1,285.68**			
2.3	**Service other**							
2.3.1	Unrelated Expenses							
		5,810.00	74.70			Central	262	Postage expenses not allowed
		13,000.00	167.14			Central	314	Vat paid
	Sub total	**18,810.00**	**241.84**					
2.4	**Miscellaneous**							
2.4.1	Unrelated Expenses	4,140.00	53.23			Chitwan	9	Relating to " Trained Birth Attendant" training
		3,525.00	45.32			Chitwan	12	Relating to "Health Management Information System" training
		2,125.00	27.32			Chitwan	16	Relating to "Health Post In charge's Abhimukhikaran Training " , not covered by work plan

		2,625.00	33.75			Chitwan	17	Relating to "Health Post In charge's Abhimukhikaran Training " , not covered by work plan
		2,894.00	37.21			Makwanpur	2	Official Tea and Snacks
		1,000.00	12.86			Makwanpur	10	Official Tea and Snacks
		11,517.00	148.07			Makwanpur	18	Relating to " Trained Birth Attendant" training
		2,000.00	25.71			Makwanpur	19	Official Tea and Snacks
		4,500.00	57.86			Makwanpur	20	Official Tea and Snacks
		7,489.00	96.28			Rupandehi	31	Official Tea and Snacks
		6,643.00	85.41				29,30	Expenses for TBA training
		8,250.00	106.07				6	Expenses relating to TBA training program
		11,500.00	147.85				7	Expenses relating to "H.P in charges orientation training"
		2,835.00	36.45			Morang	13	Claim for 5dyas but can claim 3 days only
		5,000.00	64.28			DHO, Jhapa	28	Not related with FCHV program, spend for IDC member introduction program
		4,049.00	52.06			DHO, Jhapa	26	No information why , when and where this budget was spent.
		4,516.00	58.06			DHO, Jhapa	16	Spent for office tea and coffee
		250.00	3.21			DHO, Jhapa	15	Not related with this program
		20,070.00	258.04			DHO, Dang	2, 8	Tea and Snacks expenses for official purposes and Sudeni Training Program
	sub total	**104,928.00**	**1,349.04**					
2.4.2	Unsupported Expenses			130.00	1.67	Dhanusa	11	Advance not settled
	Sub total			**130.00**	**1.67**			
3	**NHEICC**							
3.1	**Allowance**							
3.1.1	Unrelated Expenses	4,000.00	51.43			Kailali	8	Expenses relating to "health education exhibition " not covered by work plan
		4,000.00	51.43			Kavre	2,6,7	Expenses relating to "Meeting held on discussing the role of journalism in the successful execution of health programs

		4,000.00	51.43	Dang	9	Training allowance provided on Gender Awareness Training.
	Sub total	**12,000.00**	**154.28**			
3.2	**TA/DA**					
3.2.1	Unrelated Expenses	5,000.00	64.28	Kailali	4	Expenses relating to "School health education & Road Drama " not covered by work plan
		917.00	11.79	Dang	9, 11	TADA provided to staffs attending Gender related training
	Sub total	**5,917.00**	**76.07**			
3.3	**Service Others**					
3.3.1	unrelated Expenses	300,000.00	3,857.03	Central	439	Public awareness program conducted in Kathmandu and Bhaktapur districts not allowed by work plan and also evidence weren't sufficient to support the expenses
		9,000.00	115.71	Central	347	Vat Paid
		346,120.00	4,449.99	Central	360	Health education corner installed on occasion of Buddha Jayanti , not covered by work plan
		55,957.76	719.44	Central	264	Press release by MOH on the current terror situation in Nepal and coping up with the same by the health personnel . It also includes Vat Rs.5087.26
		4,500.00	57.86	Central	266	Vat Paid
		4,516.00	58.06	Central	270	Vat Paid
		13,200.00	169.71	Central	273	Infinity charges paid to Mercantile , also includes Vat Rs.1200
		144,460.80	1,857.30	Central	278	Vat Paid
		9,200.00	118.28	Central	279	Expenses relating to repairs and postage
		199,400.00	2,563.64	Central	355	Health awareness stall installed during Shivaratri at Pashupatinath , not covered by work plan
		27,000.00	347.13	Central	287	Vat Paid

		71,176.88	915.11	Central	290	Press release by MOH on the current terror situation in Nepal and coping up with the same by the health personnel . It also includes Vat Rs6470.63
		5,440.00	69.94	Central	297	Vat Paid
		69,470.16	893.16	Central	300	Rs.8910 relating to Tender advertisement and the rest relating to Press release by MOH on current terror situation in Nepal and coping up with the same by Health personnel
		25,278.00	324.99	Central	320	Postal expenses , inclusive of Vat Rs.2290
		9,090.00	116.87	Central	332	Vat Paid
		46,305.00	595.33	Central	334	Vat Paid
		21,000.00	269.99	Central	275	Official photocopy expenses
		21,000.00	269.99	Central	231	Official photocopy expenses
		117,800.00	1,514.53	Central	128	Vat Paid to Image Channel TV for broadcasting.
		8,100.00	104.14	Central	193	Vat paid to New Shristi Advertising
		18,000.00	231.42	Central	198	Vat paid to Koshi FM
		7,670.62	98.62	Central	213	Vat paid to Gorkha Patra Sansthan
		42,685.00	548.79	Central	215	Vat paid to Nepal Television
		4,050.00	52.07	Central	225	Vat paid to Cinesansar
		9,025.00	116.03	Central	232	Vat paid to Astha Films
		31,572.00	405.91	Central	235	Vat paid to connection Advertisement & Marketing
		210,708.09	2,709.03	Central	128	Discount not availed of.
	Sub total	**1,831,725.31**	**23,550.08**			
3.4	**Office Supplies**					
3.4.1	unrelated Expenses	1,000.00	12.86	Makwanpur	20	Official stationery purchased
		1,000.00	12.86	Kailali	6	Official stationery purchased
		1,000.00	12.86	Kanchanpur	43	Official stationery purchased
		1,000.00	12.86	Kavre	2,6,7	Expenses relating to "Meeting held on discussing the role of journalism in the successful execution of health programs
		957.00	12.30	DHO, Morang	16	Purchase office Stationary

CSC & Co

an associated firm of PricewaterhouseCoopers

CSC & Co
Chartered Accountants
1955, Tanka Prasad Ghumti Sadak
Babar Mahal
PO Box: 4861, Kathmandu, Nepal
Tel : +977-1-4259414, 4268798
Fax : +977-1-4244255
E-mail: csc@ntc.net.np

December 17, 2004

The Director General
Department of Health Services
Teku , Kathmandu
Nepal

Subject: **Management Letter**
Financial Audit of USAID Resources Managed by DoHS under IL No. 35

Dear Sir,

We have audited the accompanying Fund Accountability Statement of Department of Health Services (DoHS) relating to USAID Grant Agreement No. 367-02AI for the period 16 July 2001 to 15 July 2002 under IL 35. We have submitted our audit report to the Controller, USAID on December 17, 2004 with a copy to you. The reportable conditions of matters relating to internal control system and material instances of noncompliance have been presented in our audit report to the USAID. This Management Letter contains our findings and recommendations on the nonmaterial instances of the internal control and noncompliance matters noted by us during the course of our audit.

The findings presented by this management (provided in Attachment 1 to this letter) have been considered by us as nonmaterial for the purpose of reporting to USAID. However, we consider that the matters need timely attention and action by the management in order to ensure that such matters do not rise to the level of material issues but improved in the future.

We have discussed our findings with the management, which has generally accepted our recommendations. Management comments are incorporated on each recommendation.

We would like to thank the officers and staff of DoHS for extending their cooperation in carrying out the audit.

Yours sincerely,

Madan Krishna Sharma
Partner

CSC & Co Kathmandu Chartered Accountants

CC: The Controller, USAID Nepal
Rabi Bhawan, Kathmandu, Nepal

Attachment 1

Strategic Objective Grant Agreement
(No 367-02A1)
Financial Audit of IL 35
Management Letter

1. Delays in Inventory Procurement

Condition

National Health Education Information and Communication Center (NHEICC) had invited tender for printing of various Poster pamphlets, magazines and calendar with last submission date of 2058-7-17. Among the bidders, the least cost bidder M/s Milan Printers and Traders Pvt. Ltd. was selected and an agreement was entered for Rs. 30,85,672 on 2058-8-13. As per the terms of the agreement, the office issued a letter specifying the deadline for delivery of materials within 2058-10-29 followed by several reminding letters with corresponding deadlines for delivering the materials. The latest letter was issued in 2059-2-22 requesting to deliver the materials within 2059-3-15. However, the supplier provided the materials in 6 different lots from 2059-3-10 to 2059-3-22 and no action was taken for such a significant delay in delivery.

Criteria

Inventory procurement should be made effective to ensure the procurement in time.

Cause

Proper planning for procurement were not prepared in advance and the contract with the supplier did not mention punitive clauses for delayed delivery.

Effect

Proper utilization of education materials procured under that agreement as intended by the program objectives could not be ensured due to delayed supply.

Recommendation

Inventory procurement should be made on time to avoid any delay in the completion of the project. Contract with the supplier should specify the consequences for delay.

Management Comment

Goods are received according to the contract. Arrangement will be made to levy fines as per the provision of government financial rules, in case the goods are not delivered as per the contract.

2. Difference in account balance

Condition

The total expenditure under USAID fund as per DPHO Kailali financial statement stands at Rs 1,059,916. But in the consolidated accounts in the central accounts the figure stands at Rs 1,054,816 resulting in a difference of Rs. 5,100.

Criteria
The balance in consolidated account should be in conformity with the balance in the audited statements of the district

Cause
Casting error during consolidation.

Effect
Under reporting of the expense by Rs 5,100.

Recommendation
The difference needs to be sorted out.

Management Comment
The account will be reconciled after investigating the matter.

3. Withholding Tax deducted by applying lower rate

Conditions
DHO Kathmandu deducted withholding tax from the trainers' allowance Rs. Rs. 66,000 under the National Health Training Program at the rate of 10% instead of 15% (JV9/2059/2/31).

Criteria
The Finance Act 2058 prescribed rate of 15% of withholding tax on such payment.

Cause
Overlooked by the paying authority while making the payment.

Effect
Resulted short deduction of Rs. 3,300

Recommendation
Tax should be deducted from source following the rate prescribed by the prevailing Income Tax laws.

Management Comment
Now onwards, tax will be deducted as per the Income Tax Act

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