



# OFFICE OF INSPECTOR GENERAL

## U.S. Agency for International Development

### MEMORANDUM

**DATE:** March 23, 2023

**TO:** USAID/Kenya and East Africa, Mission Director, David Gosney

**FROM:** USAID OIG Africa Regional Office, Audit Director, Robert Mason /s/

**SUBJECT:** Financial Audit of USAID Resources Managed by Mission for Essential Drugs and Supplies in Kenya Under Multiple Awards, January to December 31, 2021 (Report No. 4-615-23-002-N)

This memorandum transmits the final audit report on USAID resources managed by Mission for Essential Drugs and Supplies (MEDS) under the following awards:

Award Name (Type)	Award Number	Period Audited	Prime Implementer
USAID Supply Chain Strengthening (contract)	72061521C0003	Jun. 29 – Dec. 31, 2021	
USAID Jamii Tekelezi (subaward)	72061521CA00009	Apr. 1 – Dec. 31, 2021	Christian Health Association of Kenya (CHAK)
USAID Imarisha Jamii (subaward)	72061521CA00003-SR-03	Mar. 3 – Dec. 31, 2021	AMREF Health Africa in Kenya
USAID Global Health Supply Chain (subaward) – closeout	AID-OAA-I-15-00004	Jan. 1 – Sep. 30, 2021	Chemonics International Inc.

USAID/Kenya and East Africa contracted with the independent audit firm Deloitte & Touche LLP, Nairobi, Kenya to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards. However, it did not have an external peer review or a continuing professional education program that fully satisfy the standards' requirements. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MEDS' schedule of expenditures of USAID awards; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

<sup>1</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to (1) express an opinion on whether the schedule of expenditures of USAID awards for the period audited, was presented fairly, in all material respects; (2) evaluate MEDS' internal controls; (3) determine whether MEDS complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; and (5) review the implementation status of the prior period recommendations.

To answer the audit objectives, Deloitte & Touche LLP (1) audited the schedule of expenditures of USAID awards including the budgeted amounts by category and major items and the revenues received from USAID for the period covered by the audit and the costs reported by MEDS as incurred from January 1 to December 31, 2021; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to MEDS' ability to report financial data consistent with the assertions embodied in each account of the schedule of expenditures of USAID awards; (3) identified the award terms and pertinent laws and regulations and determined which of those, if not observed, could have a direct and material effect on the schedule of expenditures of USAID awards; (4) determined that the review of the indirect cost rate was not applicable; and (5) reviewed the implementation status of the prior period recommendations. MEDS reported expenditures of \$1,839,266 in USAID funds during the audited period.

The audit firm concluded the schedule of expenditures of USAID awards presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for \$112,212 in total questioned costs (\$87,496 ineligible and \$24,716 unsupported), of which \$21,908 (\$19,165 ineligible and \$2,743 unsupported) related to the subawards. The audit firm identified no material weaknesses in internal control; and ten instances of material noncompliance. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID/Kenya and East Africa determine if the recipient addressed the issues noted. The audit firm also issued a management letter.

During our desk review, we noted several areas for improvement which the audit firm should address in future audit reports. We presented these areas in a memo to the controller, dated March 23, 2023.

To address the issues identified in the report, we recommend that USAID/Kenya and East Africa:

**Recommendation 1.** Determine the allowability of \$90,304 in questioned costs (\$68,331 ineligible, \$21,973 unsupported) on pages 22 and 35 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that Mission for Essential Drugs and Supplies corrects the five instances of material noncompliance detailed on pages 53 to 65 of the audit report.

**Recommendation 3.** Verify that Mission for Essential Drugs and Supplies provides Christian Health Association of Kenya and AMREF Health Africa with copies of the audit report for their review to 1) determine the allowability of the \$2,766 questioned costs (\$23 ineligible; \$2,743 unsupported) for Christian Health Association of Kenya; and \$19,142 ineligible questioned costs for AMREF Health Africa and recover any amount that is unallowable; and 2) take any corrective action regarding the instances of material noncompliance identified in relation to the

subawards detailed on pages 53 to 59, and 62 to 75 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").