



## MEMORANDUM

**DATE:** March 22, 2018

**TO:** USAID/Zambia, Mission Director, Patrick Diskin

**FROM:** Regional Inspector General/Pretoria, John Vernon /s/

**SUBJECT:** Audit of USAID Resources Managed by Churches Health Association of Zambia Under Agreement 611-A-16-00003, December 9, 2015 to December 31, 2016 (Report No. 4-611-18-076-R)

This memorandum transmits the final audit report on USAID resources managed by Churches Health Association of Zambia (CHAZ) under agreement AID-611-A-16-00003. CHAZ contracted with the independent certified public accounting firm Ernst & Young, Lusaka, Zambia to conduct the audit. The audit firm stated that the contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards except that the audit firm did not have external peer review and a continuing education programs. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on CHAZ's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, was initiated before that date and follows the Guidelines.

<sup>2</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 fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate the CHAZ's internal controls; (3) determine whether CHAZ complied with award terms and applicable laws and regulations; and (4) perform an audit of the indirect cost rate if the recipient had been authorized to charge indirect costs to USAID using provisional rates.

To answer the audit objectives, Ernst & Young (1) audited the fund accountability statement for the award 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 CHAZ as incurred from December 9, 2015, to December 31, 2016; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to CHAZ's ability to report financial data consistent with the assertions embodied in each account of the fund accountability statement; (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 fund accountability statement; (4) determined that the review of the indirect cost rate was not applicable. CHAZ spent \$3,034,926 in USAID funds during the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for \$106,082 in ineligible questioned costs; three significant deficiencies in internal control; and three instances of material noncompliance.

During our desk review, we noted one minor issue which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller, dated March 22, 2018.

To address the issues identified in the report, we recommend that USAID/Zambia:

**Recommendation 1.** Determine the allowability of \$106,082 in ineligible questioned costs identified on pages 16 to 18 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that Churches Health Association in Zambia corrects the three significant deficiencies in internal control detailed on pages 31 to 33 of the audit report.

**Recommendation 3.** Verify that Churches Health Association corrects the three instances of material noncompliance detailed on pages 36 to 39 of the audit report and the additional three instances of noncompliance related to questioned costs outlined on pages 22 to 28.

We ask that you provide your written notification of actions planned or taken to reach management decision. We appreciate the assistance extended during the engagement.

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”).