



MEMORANDUM

DATE: June 5, 2018

TO: USAID/Kenya and East Africa, Mission Director, Tina Dooley-Jones

FROM: Regional Inspector General/Pretoria, Rob Mason /s/

SUBJECT: Agency Contracted Audit of Locally Incurred Costs of USAID Resources Managed by The Nature Conservancy in Kenya Under Multiple USAID Agreements, September 29, 2015, to June 30, 2017 (Report No. 4-615-18-007-N)

This memorandum transmits the final audit report on The Nature Conservancy's (TNC) locally incurred costs under Cooperative Agreements AID-615-A-15-00012, The Effective Biodiversity Conservation and Livelihood Improvement by Community Conservancies in the Masai Mara Region, and AID-615-A-15-00013, Community Conservancy Policy Support and Implementation Program. USAID/Kenya and East Africa contracted with the independent certified public accounting firm Deloitte & Touché, Nairobi, Kenya, 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 (GAGAS).

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 continuing professional education and external peer review programs that fully satisfied the requirements set forth in GAGAS. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on TNC's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

¹ 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 TNC's internal controls; (3) determine whether TNC complied with award terms and applicable laws and regulations; (4) determine whether the indirect cost rates charged to the awards were correct and reasonable; and (5) determine whether TNC complied with applicable tax laws, including exemptions, for goods and services it acquired.

To answer the audit objectives, Deloitte & Touché (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 TNC as incurred from September 29, 2015, to June 30, 2017; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to TNC'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 indirect costs were not locally incurred; and (5) reviewed the submission of value-added tax (VAT) refund claims and the status of VAT refunds . TNC spent \$1,690,463² in USAID funds for locally incurred costs during the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and locally incurred costs under the award for the period audited except for \$53,116 in ineligible questioned costs and five instances of material noncompliance.

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

Recommendation 1. Determine the allowability of \$53,116 in ineligible questioned costs on pages 23 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that The Nature Conservancy corrects the five instances of material noncompliance detailed on pages 36 to 45 of the audit report.

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”).

² Total costs incurred per fund accountability statement (\$2,058,984) less \$368,521 indirect costs incurred in the United States and excluded from the audit scope.