



MEMORANDUM

DATE: March 14, 2018

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

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

SUBJECT: Audit of USAID Resources Managed by Centre for Health Solutions in Kenya Under Cooperative Agreement AID-615-A-13-00006, January 1, 2015, to December 31, 2016 (Report No. 4-615-18-058-R)

This memorandum transmits the final audit report on USAID Resources Managed by Centre for Health Solutions in Kenya (CHS). The CHS contracted with the independent certified public accounting firm Ernst & Young LLP, 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 an external quality control review. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on CHS's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

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 CHS's internal controls; (3) determine whether CHS complied with award terms and applicable laws and regulations (4) conduct an audit on the indirect cost rate; and (5) reviewed the implementation status of the prior period recommendations.

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.

To answer the audit objectives, the audit firm (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 CHS as incurred from January 1, 2015, to December 31, 2016; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to CHS'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; and (5) reviewed the implementation status of the prior period recommendations. CHS spent \$13,106,646 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 \$540,129² in ineligible questioned costs; three material weaknesses in internal control; and two instances of material noncompliance. In addition to the findings included in the audit report, we also deem findings 3.3.2, 3.4.1, and 3.5.1 included in the management letter as material weaknesses in internal control. The audit firm reported other matters involving internal control and immaterial instances of noncompliance in a separate management letter.

During our desk review, we noted several minor issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller, dated March 14, 2018.

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

Recommendation 1. Determine the allowability of \$540,129 in ineligible questioned costs on pages 29 and 30 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Centre for Health Solutions - Kenya corrects the six material weaknesses in internal control detailed on pages 22 to 25 of the audit report and pages 13, 15, and 18 of the management letter.

Recommendation 3. Verify that Centre for Health Solutions - Kenya corrects the two instances of material noncompliance detailed on pages 28 to 30 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.

The OIG does not routinely distribute independent public accounting reports beyond the

² \$551,525 (total ineligible per FAS) minus \$11,396 (paid by Kenya Government).

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").