



MEMORANDUM

DATE: April 16, 2018

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

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

SUBJECT: Audit of Locally Incurred Costs of USAID Resources Managed by Project for Appropriate Technology in Health in Kenya Under Cooperative Agreement AID-623-A-11-00002, January 1, 2011, to December 31, 2016 (Report No. 4-623-18-006-N)

This memorandum transmits the final audit report on Locally Incurred Costs of USAID resources managed by Project for Appropriate Technology in Health (PATH). USAID/Kenya & East Africa contracted with the independent certified public accounting firm Ernst & Young LLP (EY), 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 quality control 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 PATH'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 the fund accountability statement; (2) evaluate PATH's internal control structure related to USAID-funded programs; (3) determine whether PATH complied, in all material respects, with agreement terms and applicable laws and regulations related to USAID funded program; (4) conduct an audit on indirect costs rate; (5) determine whether PATH has taken adequate corrective actions on

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.

recommendations in prior audit reports; and (6) perform tests to specifically determine whether PATH has complied with Government of Kenya (GOK) taxation laws specifically in the area of GOK taxation of goods and services acquired by PATH.

To answer the audit objectives, EY (1) audited the fund accountability statement for the locally incurred award costs 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 PATH as incurred from January 1, 2011, to December 31, 2016; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to PATH'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 to the audit; (5) reviewed the implementation status of the prior period recommendations and concluded that there were no prior period audits or recommendations; and (6) performed tests to determine whether PATH has complied with Government of Kenya (GOK) taxation laws. PATH spent \$164,927,130 in locally incurred 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 \$3,624,147 in ineligible questioned costs identified in the fund accountability statement and \$58,841 in ineligible questioned cost sharing contributions; one material weakness and one significant deficiency in internal control; and four instances of material noncompliance. The audit firm also issued a separate management letter dated March 2, 2018.

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

Recommendation 1. Determine the allowability of \$3,624,147 in ineligible questioned costs on pages 12 and 15 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Project for Appropriate Technology in Health corrects the one material weakness and one significant deficiency in internal control detailed on pages 19 to 21 of the audit report.

Recommendation 3. Verify that Project for Appropriate Technology in Health corrects the four instances of material noncompliance detailed on pages 24 to 29 of the audit report.

Recommendation 4. Determine the allowability of \$58,841 in ineligible questioned cost sharing contributions identified on pages 24, 25, and 31 of the audit report and take any corrective action deemed necessary under ADS 303.3.10.

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”).