



MEMORANDUM

DATE: March 13, 2019

TO: USAID/Kenya and East Africa, Mission Director, Mark Meassick

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

SUBJECT: Financial Audit of USAID Resources Managed by Centre for Health Solutions in Kenya Under Agreement AID-615-A-13-00006, January 1, 2017, to December 31, 2017 (Report No. 4-615-19-052-R)

This memorandum transmits the final audit report on USAID resources managed by Centre for Health Solutions (CHS). CHS contracted with the independent certified public accounting firm Ernst and 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 GAGAS, except that the audit firm did not have continuing professional education and external peer review programs. 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' internal controls; (3) determine whether CHS complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; and (5) review the implementation status of 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, Ernst and Young LLP (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, 2017, to December 31, 2017; (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 prior period recommendations. CHS reported expenditures of \$6,286,520 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 \$256,148 in ineligible questioned costs. In addition, the audit firm reported two material weaknesses and six significant deficiencies in internal control; and two instances of material noncompliance. However, the two material weaknesses in internal control and one instance of material noncompliance were reported in the prior period. As such, OIG will not make recommendations to address these findings. Consequently, we will make recommendations to address six significant deficiencies in internal control and one instance of material noncompliance. The audit firm also issued a management letter.

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

Recommendation 1. Determine the allowability of \$256,148 in ineligible questioned costs on pages 12 and 34 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Centre for Health Solutions corrects the six significant deficiencies in internal control detailed on pages 26 to 31 of the audit report.

Recommendation 3. Verify that Centre for Health Solutions corrects the one instance of material noncompliance detailed on page 35 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”).