



MEMORANDUM

DATE: May 22, 2019

TO: USAID/Zambia, Mission Director, Patrick Diskin

FROM: USAID OIG Africa Regional Office, Assistant Director, Louis Duncan, Jr. /s/

SUBJECT: Financial Audit of USAID Resources Managed by Churches Health Association of Zambia Under Cooperative Agreement AID-611-A-16-00003, January 1 to December 31, 2017 (Report No. 4-611-19-079-R)

This memorandum transmits the final audit report on USAID resourced managed by Churches Health Association of Zambia (CHAZ). CHAZ contracted with the independent certified public accounting firm Deloitte & Touché, 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 (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 that fully satisfy 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 CHAZ'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 CHAZ's internal controls; (3) determine whether CHAZ complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; and (5) review 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, Deloitte and 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 CHAZ as incurred from January 1 to December 31, 2017; (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; and (5) reviewed the implementation status of the prior period recommendations. CHAZ reported expenditures of \$5,755,500 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. Notwithstanding, the audit firm identified \$117,042 in ineligible questioned costs (\$116,041 attributed to CHAZ and \$1,001 attributed to a subrecipient). The audit firm also reported one significant deficiency and one material weakness in internal control and seven instances of material noncompliance. Although we are not making a recommendation for the significant deficiency in internal control noted in the report, we suggest that USAID/Zambia determine if CHAZ addressed the issue noted. In addition, the material weakness in internal control and one instance of material noncompliance are repeat findings and we will not make recommendations to address them. Moreover, two instances of material noncompliance related to a subrecipient. Consequently, we will make a recommendation to address four instances of material noncompliance.

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 memo to the controller, dated May 22, 2019.

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

Recommendation 1. Determine the allowability of \$116,041 in ineligible questioned costs on pages 20 and 36 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Churches Health Association of Zambia corrects the four instances of material noncompliance detailed on pages 36 and 39 to 42 of the audit report.

Recommendation 3. Verify that Churches Health Association of Zambia provides the subrecipient a copy of findings raised in the report for its review and appropriate action regarding the allowability of \$1,001 in ineligible question costs detailed on pages 20 and 25 of the audit report and the two instances of material noncompliance detailed on pages 37 and 38 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”).