



MEMORANDUM

DATE: March 19, 2020

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

FROM: USAID OIG Africa Regional Office, Assistant Director, Matthew Rathgeber /s/

SUBJECT: Financial Audit of USAID Resources Managed by Population Services Kenya Under Multiple Awards, January 1 to December 31, 2018 (Report No. 4-615-20-046-R)

This memorandum transmits the final audit report on USAID resources managed by Population Services Kenya (PSK) under: (1) Health Communications and Marketing Project (AID-615-A-16-00005) and (2) Afya Halisi subaward under JHPIEGO (RFA-615-17-000002). PSK contracted with the independent certified public accounting firm Ernst & Young, Nairobi, Kenya, to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards (GAGAS). However, it did not have continuing professional education (CPE) and external peer reviews that fully satisfy the requirements of GAGAS. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on PSK'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 PSK's internal controls; (3) determine whether PSK complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; (5) review the implementation status of the prior period recommendations; and (6) determine if PSK complied with local tax laws.

To answer the audit objectives, Ernst & Young (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 PSK as incurred from January 1 to December 31, 2018; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to PSK's ability to report financial data consistent with the assertions embodied in each account of the fund

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.

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; (5) reviewed the implementation status of the prior period recommendations; and (6) determined if Population Services Kenya complied with local tax laws. PSK reported expenditures of \$16,969,602 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 \$429,095 in total questioned costs (\$390,697 ineligible and \$38,398 unsupported), three material weaknesses in internal control, and one instances of material noncompliance. Two of the three material weaknesses in internal controls, findings 6.1 and 6.2, as well as the one instance of material noncompliance are repeat findings and will not be included in our recommendations.

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 March 19, 2020.

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

Recommendation 1. Determine the allowability of \$429,095 in questioned costs (\$390,697 ineligible and \$38,398 unsupported) on pages 20 and 24 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Population Services Kenya corrects the one material weakness in internal control detailed on page 36 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”).