



## MEMORANDUM

**DATE:** November 10, 2020

**TO:** USAID/Kenya and East Africa, Acting Mission Director, Heather Schildge

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

**SUBJECT:** Financial Audit of USAID Resources Managed by Northern Rangelands Trust in Kenya Under Cooperative Agreement AID-615-A-15-00009, January 1 to December 31, 2019 (Report No. 4-615-21-009-R)

This memorandum transmits the final audit report on USAID resources managed by Northern Rangelands Trust (NRT) in Kenya. NRT contracted with the independent certified public accounting firm Deloitte & Touche, 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 and an external peer review that fully satisfied 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 NRT's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

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 NRT's internal controls; (3) determine whether NRT 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.

To answer the audit objectives, Deloitte & Touche (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 NRT as incurred from January 1 to December 31, 2019; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to NRT'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

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<sup>1</sup> 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.

determined which of those, if not observed, could have a direct and material effect on the fund accountability statement; (4) determined the review of the indirect cost rate is not applicable; and (5) reviewed the implementation status of the prior period recommendations. NRT reported expenditures of \$5,219,192<sup>2</sup> 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. The audit firm identified \$1,709 in total ineligible questioned costs, no material weaknesses in internal control and six instances of material noncompliance. Three of the material noncompliance findings relate to recommendations made in prior year and one related to non-USAID funding. We will thus not make recommendations for material noncompliance findings 4.2.1, 4.2.2 4.2.5, and 4.2.6. Also, since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation for finding 4.2.3 to recover questioned costs. Nevertheless, we suggest that USAID/Kenya and East Africa determine the allowability of the \$1,709 in questioned costs and recover any amount determined to be unallowable. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID/Kenya and East Africa determine if the recipient addressed the issues noted. The audit firm issued a 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 memo to the controller, dated November 10, 2020.

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

**Recommendation 1.** Verify that Northern Rangelands Trust corrects the instance of material noncompliance detailed on page 42 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision.

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").

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<sup>2</sup> Total expenditures of \$5,515,192 less expenditures of \$300,000 related to a United States Forest Service grant.