



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

MEMORANDUM

DATE: June 28, 2022

TO: USAID/Zambia, Mission Director, Sheryl Stumbras

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

SUBJECT: Financial Closeout Audit of USAID Resources Managed by Churches Health Association of Zambia Under Cooperative Agreement AID-611-A-16-00003, January 1 to December 9, 2020 (Report No. 4-611-22-068-R)

This memorandum transmits the final closeout audit report on USAID resources managed by Churches Health Association of Zambia (CHAZ), under the Safe Motherhood 360+ project. CHAZ contracted with the independent certified public accounting firm EY Zambia (EY), Lusaka, Zambia, 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 CHAZ's schedule of expenditures of USAID awards; 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 schedule of expenditures of USAID awards 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.

To answer the audit objectives, EY (1) audited the schedule of expenditures of USAID awards 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 9, 2020; (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 schedule of expenditures of USAID awards; (3) identified the award terms and pertinent laws and

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.

regulations and determined which of those, if not observed, could have a direct and material effect on the schedule of expenditures of USAID awards; (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 \$1,335,554 in USAID funds during the audited period.

The audit firm concluded the schedule of expenditures of USAID awards presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited. The audit firm identified no questioned costs; one material weakness in internal control; and one instance of material noncompliance. These findings were reported in the prior period audit report, and we will not repeat a recommendation.

We noted that the disallowed costs of prior periods were set off against the USAID surplus funds. As a result, the negative fund balance at closeout was created by reducing USAID revenues and fund balance with disallowed costs paid back by the recipient. Since this is a closeout and USAID repaid the negative fund balance, we question the incorrect accounting treatment of the disallowed costs, \$314,788, against USAID funds as ineligible questioned costs.²

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 controller, dated June 28, 2022.

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

Recommendation 1. Determine the allowability of \$314,788 in ineligible questioned costs derived from pages 21 and 22 of the audit report and recover any amount that is unallowable.

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").

² Note 5.2.4.1 page 22, disallowed gratuity deducted twice \$93,477 plus 2016 disallowed costs \$105,270 plus 2017 disallowed costs \$116,041 equals \$314,788.