MEMORANDUM

DATE: April 24, 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 Locally Incurred Costs of USAID Resources Managed by RTI International in Kenya Under Multiple Awards, August 1, 2014, to December 31, 2017 (Report No. 4-615-19-012-N)

This memorandum transmits the final audit report on locally incurred costs of USAID resources managed by RTI International (RTI) under contracts AID-615-C-14-00007 (Tusome Early Grade Reading Program in Kenya (Tusome)) for the period August 1, 2014, to December 31, 2017, and AID-615-T0-15-00021 (Kenya Youth Employment and Skills Program (K-YES)) for the period October 1, 2015, to December 31,2017. USAID/Kenya and East Africa contracted with the independent certified public accounting firm KPMG, Nairobi, Kenya to conduct the audit. 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 an external quality control review program that fully satisfied 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 RTI's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.[1]

[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.

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 RTI's internal controls; (3) determine whether RTI complied with award terms and applicable laws and regulations; (4) review the indirect cost rate, or determine if the review of the indirect cost rate was applicable; (5) review the implementation status of prior period recommendations; (6) determine if RTI complied with local government tax laws; and (7) address mission concerns.

To answer the audit objectives, KPMG (1) audited the fund accountability statement for the awards including the budgeted amounts by category and major items and the revenues received from USAID for the period covered by the audit and the locally incurred costs reported by RTI as incurred from August 1, 2014, to December 31, 2017; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to RTI'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 part of the scope of the locally incurred costs audit; (5) determined this was a first time audit for the locally incurred costs, thus no prior period recommendations; (6) determined if RTI complied with local tax laws; and (7) addressed mission concerns. RTI reported locally incurred expenditures of $33,125,034 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 $63,601in ineligible questioned costs. The audit firm also reported one material weakness in internal control and seven instances of material noncompliance. However, one of the instances of material noncompliance is also reported as a material weakness in internal control. Consequently, we will only include recommendations for six material noncompliance instances. The audit firm also reported results on the mission concern procedures on pages 38 to 43.

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 April 24, 2019.

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

Recommendation 1. Determine the allowability of $63,601 in ineligible questioned costs on pages 12 to 16 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that RTI International corrects the one material weakness in internal control detailed on pages 34 and 35 of the audit report.

Recommendation 3. Verify that RTI International corrects the six instances of material noncompliance detailed on pages 22 to 33 and 36 to 37 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”).