



## MEMORANDUM

**DATE:** December 12, 2018

**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 USAID Resources Managed by the East African Community in Multiple Countries Under Assistance Agreement No. 623-AA-09-002-00-EAC, July 1, 2014, to June 30, 2016 (Report No. 4-623-19-003-N)

This memorandum transmits the final audit report on USAID Resources managed by the East African Community (EAC) through the Lake Victoria Basin Commission. USAID/Kenya and East Africa contracted with the independent certified public accounting firm KPMG, Nairobi, Kenya to conduct the audit. The firm stated that the contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards except that the audit firm did not have an external peer review. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on EAC's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementers and contractors as a management function. This contracted audit, however, was initiated before that date and follows the Guidelines.

<sup>2</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.

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 EAC's internal controls; (3) determine whether EAC 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, KPMG (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 EAC as incurred from July 1, 2014, to June 30, 2016; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to EAC'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. EAC reported expenditures of \$8,609,138 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 \$127,026 in total questioned costs (\$31,150 ineligible and \$95,876 unsupported). The audit firm also reported seven material weaknesses and three significant deficiencies in internal control and eight instances of material noncompliance.<sup>3</sup> The audit firm reported four other matters in the management letter submitted with the audit report. In addition, one of the identified material noncompliance instances relates to advance funds not held in an interest bearing account. As such, OIG identified additional ineligible questioned costs of \$50,488 related to foregone interest that should have been returned to USAID. Consequently, total identified questioned costs are \$177,514 (\$81,638 ineligible and \$95,876 unsupported).

During our desk review, we noted several minor issues which the audit firm will need to address in future reports. We presented these issues in a memo to the controller, dated December 12, 2018.

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

**Recommendation 1.** Determine the allowability of \$177,514 in questioned costs (\$81,638 ineligible and \$95,876 unsupported) on page 18 of the audit report and the accompanying calculation of imputed interest and recover any amount that is unallowable.

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<sup>3</sup>The following eight findings in the report are considered material noncompliance: 7.2, 7.4, 7.5, 7.8, 7.9, 7.11, 7.15, and 7.17.

**Recommendation 2.** Verify that East African Community corrects the seven material weaknesses and three significant deficiencies in internal control detailed on pages 28 to 32, 34 and 35, 39 to 44, and 46 to 48 of the audit report.

**Recommendation 3.** Verify that East African Community corrects the eight instances of material noncompliance detailed on pages 29 and 30, 32 and 33, 36 to 40, and 45 to 47 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”).