



## MEMORANDUM

**DATE:** September 27, 2019

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

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

**SUBJECT:** Financial Closeout Audit of USAID Resources Managed by African Development Solutions in Kenya Under Agreement AID-623-A-12-00026, January 1, 2016, to February 28, 2017 (Report No. 4-623-19-016-N)

This memorandum transmits the final report on USAID resources managed by African Development Solutions (ADESO) in Kenya. USAID/Kenya and East Africa contracted with the independent certified public accounting firm PricewaterhouseCoopers, 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 generally accepted government auditing standards except that the audit firm did not have continuing professional education and external quality control review programs that fully satisfy 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 ADESO'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 ADESO's internal controls; and (3) determine whether ADESO complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; and (5) perform tests to determine whether recipient complied with applicable tax laws, including

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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.

exemptions, for goods and services it acquired.

To answer the audit objectives, PricewaterhouseCoopers (1) audited the fund accountability statement (FAS) 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 ADESO as incurred from January 1, 2016 to February 28, 2017; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to ADESO'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) reviewed the indirect cost rate charged to the FAS to confirm whether they were within the provisions of the Negotiated Indirect Cost Rate Agreement; and (5) performed tests to determine whether the recipient complied with applicable tax laws, including exemptions, for goods and services it acquired. ADESO reported expenditures of \$10,752,263 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 unresolved charges contained in the opening fund balance and \$1,089,453 in ineligible questioned costs. The audit firm reported six instances of material noncompliance; however, we are not making a recommendation since the award has ended. No material weaknesses in internal control were reported. 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 September 27, 2019.

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

**Recommendation 1.** Determine the allowability of \$1,089,453 in ineligible questioned costs shown on page 17 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. 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”).