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MEMORANDUM AUDIT REPORT ON
AUDIT OF CARE/KENYA

AUDIT REPORT NO. 3-615-86-4
February 5, 1986

MEMORANDUM

DATE: February 5, 1986

FROM: Richard C. Thabet, RIG/A/Nairobi

SUBJECT: Memorandum Audit Report On Audit Of CARE/Kenya, Audit Report No. 3-615-86-4

TO: Mr. Charles Gladson, Director USAID/Kenya

BACKGROUND

This report presents the results of our audit of CARE/Kenya, located in Nairobi, Kenya. In September 1982, CARE/Kenya was awarded a $49,000 grant to implement the Improved Rural Technology Water Supply Project (No. 698-0407-30). At that time, CARE/Kenya received a $34,493 advance for the project. On March 31, 1984, the project assistance completion date expired; and, although the project had not been completed, both USAID/Kenya and CARE/Kenya decided to terminate the project. In January 1985, CARE/Kenya remitted $17,469 to AID as the unspent portion of the grant.

Subsequently, in May 1985, CARE/Kenya submitted a long delayed claim for $4,861. The delay in receiving the $17,469 refund and the subsequent claim for $4,861 caused USAID officials to question CARE/Kenya's ability to account for project costs. Since USAID/Kenya officials anticipated receiving a sizable CARE/Kenya proposal for a new project, they asked RIG/A/Nairobi to review the adequacy of CARE/Kenya's accounting system and the propriety of costs claimed under the project.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to (1) evaluate the adequacy of CARE/Kenya's accounting system for recording, segregating, and reporting USAID project costs; (2) assess the adequacy of organizational financial and management capabilities; and, (3) review the propriety of costs incurred under the Improved Rural Technology Water Supply Project.

Our scope included reviewing accounting system procedures and internal controls, organization staffing and the vouchers and documents supporting costs claimed under the project. We did our audit work during December 1985 and January 1986 at USAID/Kenya and at CARE/Kenya in Nairobi. We held discussions with appropriate USAID/Kenya and CARE/Kenya officials and performed necessary tests as considered appropriate under the circumstances. The audit was made in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

The CARE/Kenya accounting system was adequate to record, segregate, and report USAID project costs. Automated in October 1985, the system produced a variety of monthly reports such as check listings, local equipment purchases, fixed assets, cash transfers and subsidiary ledgers. Postings to the general ledger were made weekly and were current. The chart of accounts provided for segregating expenditures by project and donor. Internal controls over cash receipts and disbursements were found to be adequate. Records were audited biannually by the accounting firm of Ernst and Whinney. The most recent examination was made as of May 30, 1984 and the auditors expressed an unqualified opinion.

The automated system was designed to produce bank reconciliations; however, this had not been done at the time of our audit because of a malfunction. Accordingly, the latest available bank reconciliation was for the month ending September 1985, due to the system breakdown. Once corrected, the system should produce bank reconciliations on a timely basis.

Concerning CARE/Kenya's financial and management capabilities to implement a sizable AID project, we found that CARE/Kenya represented the international CARE organization headquartered in New York. CARE/Kenya employed a total of 86 individuals, including four expatriates, the majority of which were located in the Kisumu regional office. Our review of critical personnel backgrounds show that the necessary human resources were available to administer and manage development projects. Also, we believe that CARE/Kenya has the necessary financial and management capabilities to administer AID grants.

We also reviewed the CARE/Kenya expenditures under the Improved Rural Technology Water Supply Project and we questioned none of the costs claimed. According to CARE/Kenya, the person originally responsible for preparing claims failed to do the job properly and was dismissed. Beyond this information, we were unable to determine precisely why the costs were not identified and reported promptly. However, our review of the accounting system and internal controls, as discussed above, lead us to believe that human error was the reason for untimely reporting.

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