



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

FOLLOW-UP AUDIT OF THE AGREED-UPON-PROCEDURES REVIEW OF THE SOUTHERN AFRICA ENTERPRISE DEVELOPMENT FUND

AUDIT REPORT NO. 4-690-07-009-P
AUGUST 28, 2007

PRETORIA, SOUTH AFRICA



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

August 28, 2007

MEMORANDUM

TO: USAID/South Africa Mission Director, Carleene Dei

FROM: Regional Inspector General/Pretoria, Nathan S. Lokos /s/

SUBJECT: Follow-up Audit of the Agreed-Upon-Procedures Review of the Southern Africa Enterprise Development Fund (Audit Report No. 4-690-07-009-P)

This memorandum transmits the Office of Inspector General's final report on the subject audit. The report does not make any recommendations.

USAID/Southern Africa's management comments dated July 24, 2007, were received on August 16, 2007. These comments are included as Appendix II of this report.

I sincerely appreciate the cooperation and courtesy extended to my staff during this audit.

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SUMMARY OF RESULTS

The Regional Inspector General (RIG)/Pretoria performed a follow-up audit of the Agreed-Upon-Procedures Review of the Southern Africa Enterprise Development Fund (SAEDF). The initial review (Report No. 4-690-05-005-N) was conducted by KPMG (Johannesburg, South Africa) and was issued by RIG/Pretoria on March 14, 2005. The purpose of the follow-up audit was to determine whether the Mission had taken corrective action for Recommendation Nos. 3 and 4 from the initial report. These findings addressed reportable internal control weaknesses and material instances of noncompliance with the agreement terms and applicable laws and regulations (see pages 2 and 3).

The follow-up audit determined that SAEDF has taken corrective action for 19 of the 20 findings we reviewed regarding internal control weaknesses and instances of noncompliance identified in the KPMG report. For the one issue not addressed, we consider it to be a best practice and not a material instance of noncompliance, and we have accordingly disclosed it in a separate management letter. As a result, we have concluded that SAEDF has taken sufficient action to correct the internal control weaknesses and instances of noncompliance identified in the KPMG report (see pages 4 and 5).

BACKGROUND

On April 3, 1995, USAID entered into Grant Agreement No. AOT-G-00-95-00086-00 (later changed to AOT-0514-G-00-5086-00) with the Southern Africa Enterprise Development Fund (SAEDF) to encourage the creation and expansion of indigenous small and medium-size enterprises in the Southern Africa region. The specific countries covered in the agreement were Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. As of September 30, 2003, USAID had committed \$87.6 million in grant funds of a total life-of-project estimated amount of \$108 million.

The drawdown for the period from October 1, 1997, to September 30, 2003, was \$59,751,974:

Table 1. Drawdowns

| Description | Investments | Operational | Total |
|---|--------------------|--------------------|--------------|
| Total drawdowns from 10/1/1997 to 9/30/2003 | \$54,121,436 | \$5,630,538 | \$59,751,974 |

Because of allegations of funds misuse by the chief executive officer and the lack of acceptable Office of Management and Budget (OMB) Circular A-133 audits for fiscal years 2001 and 2002, USAID/Southern Africa contracted KPMG, Johannesburg, South Africa, to perform an agreed-upon-procedures review for the period November 1, 1995, to September 30, 2003. The review covered \$63.9 million in expenditures of USAID funds. The agreed-upon-procedures review disclosed total questioned costs of \$9.6 million (\$1.2 million ineligible and \$8.4 million unsupported), 26 reportable internal control weaknesses, and 30 instances of material noncompliance.

On March 14, 2005, RIG/Pretoria issued the KPMG report, recommending that USAID/Southern Africa take actions to ensure that the recommendations to SAEDF be addressed before the release of the remaining life-of-grant funds of \$20,436,288. In response to the review recommendations, USAID/Southern Africa initiated a review of SAEDF to check the controls and systems that SAEDF management had implemented to ensure that the reportable internal control weaknesses and instances of material noncompliance detailed in the KPMG report had been addressed.

In addition to the review conducted by USAID/Southern Africa, the Mission requested RIG/Pretoria to perform a follow-up audit of the agreed-upon-procedures review of SAEDF. This follow-up audit was designed to determine whether USAID/Southern Africa's actions in response to Recommendation Nos. 3 and 4 of Report No. 4-690-05-005-N were effective in correcting the identified problems. Based on the Mission's response to Recommendation No. 5 of the original audit report, USAID/Southern Africa will not release the remaining life-of-grant funding of \$20,436,288 to SAEDF until an independent third party has verified that substantially all material and nonmaterial internal control weaknesses and instances of material noncompliance have been rectified. Moreover, the release of this funding is also subject to the availability of funds.

AUDIT OBJECTIVE

The Regional Inspector General (RIG/Pretoria) conducted a follow-up audit as part of the Office of Inspector General's fiscal year 2007 audit plan to answer the following question:

Were USAID/Southern Africa's actions in response to Recommendation Nos. 3 and 4 of Report No. 4-690-05-005-N effective in correcting the identified problems?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

USAID/Southern Africa's actions were effective in correcting the internal control and compliance deficiencies identified in Report No. 4-690-05-005-N. Southern Africa Enterprise Development Fund (SAEDF) has taken appropriate steps to implement controls to address the internal control weaknesses and material instances of noncompliance identified in the agreed-upon-procedures review conducted by KPMG¹. SAEDF has taken corrective action for 19 of the 20 internal control and compliance findings tested. Some of the controls instituted by SAEDF include the following:

- Employee bonuses are approved by the chief executive officer (CEO) before being paid.
- Bonuses are determined by performance review scoring.
- Bonuses are approved for payment by the Board of Directors (Board).
- The CEO's employment contract is signed by the Board members and it clearly states the duties and responsibilities of the CEO.
- The CEO's performance is formally evaluated by the Board.
- Budgets are monitored and discussed on a quarterly basis during the Board's meetings.
- Journal entries are substantiated by supporting documentation, kept in a sequentially numbered register, and properly authorized before being processed in the financial system.
- Employees are given itemized bills that clearly identify personal calls, bills are checked and approved by each departmental supervisor, and deductions are made to employees' salaries if the set threshold is exceeded.
- Leave forms are completed and timely authorized, entered into the leave system, and reconciled.
- The payroll is being prepared by the financial manager, who is knowledgeable about payroll; furthermore, the attendance register is being signed by all employees and authorized by the chief financial officer on a daily basis.
- All investments entered into by SAEDF are reviewed to ensure that they are not pledged as collateral with other financial institutions.
- The investment process is adequately adhered to as stated in the investments policy manual.
- Checks and bank transfer letters are always signed by two authorized signatories.
- Human resources, investments, procurement, travel, and accommodation policies have been enhanced so that weaknesses previously identified are being timely mitigated.
- Travel forms are timely authorized by designated senior officials.
- Bank reconciliations are timely prepared and reviewed and outstanding items are followed and cleared.

¹ Audit Report No. 4-690-05-005-N, "Agreed-Upon-Procedures Review of USAID Resources Managed by the Southern Africa Enterprise Development Fund, USAID Grant No. AOT-0515-G-00-5086-00 (Originally Grant No. AOT-G-00-95-00086-00) for the Period November 1, 1995, to September 30, 2003," dated March 14, 2005.

- Salary increases are validated by performance evaluation forms, which are signed by the CEO, rated employee, and senior official of the rated employee.

We do not consider the one remaining item that SAEDF has not addressed to be a material instance of noncompliance, but we do consider it to be a best policy practice for SAEDF to follow in the future. Therefore, this item is communicated in a separate management letter to SAEDF.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Southern Africa provided its management comments on the draft report in a memorandum dated July 24, 2007, which was received on August 16, 2007. Those comments included one clarification that was included in this final report.

The management comments are included in their entirety in Appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General (RIG)/Pretoria performed the follow-up audit in accordance with generally accepted government auditing standards. Audit fieldwork was conducted at Southern Africa Enterprise Development Fund (SAEDF) offices in Johannesburg, South Africa, from May 14–18, 2007.

In planning and performing this audit, the audit team developed specific audit procedure steps to determine whether appropriate corrective actions were taken to address the 20 most important management controls weaknesses identified in Report No. 4-690-05-005-N.

During the audit, the audit team tested SAEDF's internal control related to the control weaknesses and instances of noncompliance selected for review. This included internal control related to the following:

- Process undertaken by management to approve and authorize bonus payments.
- Process undertaken by the Board of Directors to evaluate the chief executive officer's performance.
- Process undertaken by the financial manager and chief financial officer in preparing and authorizing the payroll.
- Payroll and bank reconciliations timely prepared, reviewed, and authorized, and reconciling items timely cleared.
- Travel authorization forms adequately completed and timely authorized by designated senior officials.
- Salary increases validated by performance evaluation forms that are duly signed.
- Leave forms reconciled to the leave system and variances investigated and cleared.
- Bank transfer letter signed by two signatories and always confirmed by the bank with SAEDF before payments are made.
- Employees given itemized bills to identify private and business calls and to pay for private calls that have exceeded the monthly threshold.

Methodology

To answer the audit objective, the audit team selected the 20 findings considered most significant out of the 26 reportable internal control findings and 30 material instances identified in the KPMG report issued by RIG/Pretoria as Audit Report No. 4-690-05-005-N, "Agreed-Upon-Procedure Review of USAID Resources Managed by the Southern Africa Enterprise Development Fund, USAID Grant No. AOT-0515-G-00-5086-00 (Originally Grant No. AOT-G-00-95-00086-00) for the Period November 1, 1995, to September 30, 2003," dated March 14, 2005. The team tested whether management had designed and implemented adequate controls and policies to ensure that previously identified internal control weaknesses and noncompliance instances were addressed.

To make its determination, the audit team reviewed USAID/Southern Africa's final action memorandum, dated January 26, 2007, and determined whether the corrective actions were effective to address the recommendations. The team interviewed responsible SAEDF management officials and reviewed the organization's revised policies and procedures that were put into place to correct the internal control weaknesses and material instances of noncompliance previously identified. The team performed tests of transactions and other SAEDF documentation to verify that the procedures were being implemented as designed.

MANAGEMENT COMMENTS



UNITED STATES GOVERNMENT

ACTION M E M O R A N D U M

DATE : July 24, 2007

TO: Matthew Rathgeber, Acting Regional Inspector
General/Pretoria

FROM : Erna Kerst, Regional Mission Director /s/

SUBJECT : Follow-up Audit of the Agreed-Upon-Procedures Review
of the Southern Africa Enterprise Development Fund

The Mission has reviewed the subject audit report and issued the following management comments:

We are pleased with the report's conclusion that SAEDF has taken sufficient action to correct the internal control weaknesses and instances of noncompliance identified in the original KPMG report (Report No. 4-690-05-005-N).

We are concerned that the last sentence on page 2 of the draft report issued June 25, 2007 may give SAEDF the impression that USAID will release the remaining life-of-grant funding of \$20,436,288 now that SAEDF has implemented adequate controls weaknesses and instances of material noncompliance. In the current budget environment, USAID is unlikely to have funds available to release to SAEDF. We suggest adding a sentence such as "The release of this funding is subject to availability of funds."

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