



MEMORANDUM

DATE: March 14, 2018

TO: USAID/Southern Africa, Mission Director, John Groarke

FROM: Regional Inspector General/Pretoria, John Vernon /s/

SUBJECT: Audit of USAID Resources Managed by Child Welfare Bloemfontein and Child Line Free State in South Africa Under Cooperative Agreement AID-674-A-13-00003, April 1, 2016, to March 31, 2017 (Report No. 4-674-18-059-R)

This memorandum transmits the final audit report on USAID Resources Managed by Child Welfare Bloemfontein and Child Line Free State in South Africa (CWCL). CWCL contracted with the independent certified public accounting firm Ernst & Young, Bloemfontein, South Africa to conduct the audit. The audit 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.¹

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 CWCL's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

² 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 the CWCL's internal controls; (3) determine whether CWCL complied with award terms and applicable laws and regulations; (4) conduct an audit on indirect cost rate; and (5) reviewed the implementation status of the prior period recommendations.

To answer the audit objectives, Ernst and Young (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 CWCL as incurred from April 1, 2016, to March 31, 2017; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to CWCL'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. CWCL spent \$827,390 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 \$7,082³ in unsupported total questioned costs. We deemed finding I in the audit report to be a material instance of noncompliance. The audit firm reported another instance of weaknesses in internal control in a separate management letter.

During our desk review, we noted several minor issues which the audit firm should address in future audit reports. We presented these issues in a memorandum to the controller, dated March 14, 2018.

To address the issues identified in the report, we recommend that USAID/Southern Africa:

Recommendation 1. Determine the allowability of \$7,082 in unsupported questioned costs on pages 24 and 25 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Child Welfare Bloemfontein & Childline Free State corrects the one instance of material noncompliance detailed on pages 24 and 25 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 to audit staff during the engagement.

³ Over claim amount from finding I of audit report (page 25).

The 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").