MEMORANDUM

DATE: December 18, 2018

TO: USAID/Zimbabwe, Mission Director, Stephanie Funk

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

SUBJECT: Closeout Financial Audit of USAID Resources Managed by [redacted] in Zimbabwe Under Multiple Agreements, July 23, 2015, to June 28, 2018 (Report No. 4-613-19-005-N)

This memorandum transmits the final audit report on USAID resources managed by [redacted] under the following awards:

Award Name (Type)	Award Number	Period Audited	Subaward
[redacted] (cooperative agreement)	AID-613-A-15-00008	Jul. 23, 2015-Jul. 22, 2017	
[redacted] (cooperative agreement)	AID-613-A-17-00002	Sept. 21, 2017-Jun. 28, 2018	
Subaward		April 1, 2018-June 28, 2018	Subaward under [redacted]

USAID/Zimbabwe contracted with the independent certified public accounting firm Deloitte & Touche, Pretoria, South Africa 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 GAGAS, except that the audit firm did not have continuing professional education and external quality control review programs that fully satisfied 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 [redacted] fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.[1]

[1] 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 [redacted] internal controls; (3) determine whether [redacted] complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; and (5) review the implementation status of prior period recommendations.

To answer the audit objectives, Deloitte & Touche (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 [redacted] as incurred from July 23, 2015, to June 28, 2018; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to [redacted] 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) did not review the implementation status of prior period recommendations as agreed with USAID/Zimbabwe. [redacted] reported expenditures of $2,865,593 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 $173,294 in total questioned costs ($104,885 ineligible and $68,409 unsupported). Included in the questioned costs was $10,833 in ineligible questioned costs identified on the subaward. In addition, the audit firm reported 1 material weakness and 1 significant deficiency in internal control and 18 instances of material noncompliance (one of which relates to the subaward).

Page 47 of the audit report includes a fund balance reconciliation which lists $44,787 in salary accruals. Included in this amount is $23,366 in accrued leave payable to employees whose positions were terminated shortly after the end of the audited period.

The allowability of leave is addressed in 2 CFR 200.431(b). According to this section, 2 CFR 200.431(b)(1) through (3) must be met in order for leave to be allowable. 2 CFR 200.431(b)(2) requires leave costs to be "equitably allocated" among all activities, including Federal awards, while 2 CFR 200.431(b)(3)(ii) states that allowable leave costs under the accrual basis of accounting are limited to the lesser of leave accrued or funded. We believe that the recipient did not comply with the former and is limited to the amount funded in the latter.

First, while the accrued salaries were allocated to the USAID agreement and the [redacted] subaward in accordance with the level of effort devoted to the respective projects, which did not add up to 100% of the employees' time, the accrued leave was based on 100% of the employees' salary and was fully charged to the fund accountability statement. For the majority of employees, the level of effort attributable to the agreement and subaward was in the range of roughly 40 to 60 percent. Thus, it is questionable whether the accrued leave costs were "equitably allocated" per 2 CFR 200.431(b)(2).

Second, the fund accountability statement discloses a negative fund balance at the end of the audited period, with accrued liabilities outweighing available assets. The fund balance reconciliation does not describe any assets as being set aside for the payment of accrued leave, and it is not clear which liabilities would have priority. Consequently, we believe that the amount of leave costs funded is zero, and consider the $23,666 in accrued leave an ineligible questioned cost.

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

Recommendation 1. Determine the allowability of $162,461 in questioned costs ($94,052 ineligible, $68,409 unsupported) identified on pages 13 to 14 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that [redacted] corrects the one material weakness and one significant deficiency in internal control detailed on pages 20 and 21 of the audit report.

Recommendation 3. Verify that [redacted] corrects the 17 instances of material noncompliance detailed on pages 24 to 41 and 43 to 45 of the audit report.

Recommendation 4. Verify that [redacted] provides [redacted] with a copy of the finding raised in Deloitte & Touche's audit report for its review to (a) determine the allowability of $10,833 in ineligible questioned costs identified on pages 14 and 17 and recover the amount determined to be unallowable and (b) take any appropriate action regarding the one instance of material noncompliance related to the subaward as detailed on page 42 of the report.

Recommendation 5. Determine the allowability of $23,666 in ineligible questioned costs pertaining to accrued leave and take appropriate actions regarding 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").

We have redacted information from this transmittal memo. All instances where information has been withheld are because release would constitute an invasion of privacy.