MEMORANDUM

DATE: December 19, 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 Agreement AID-613-A-12-00009, January 1, 2013, to June 26, 2018 (Report No. 4-613-19-006-N)

This memorandum transmits the final audit report on USAID resources managed by [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]

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 [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.

[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.

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 January 1, 2013, to June 26, 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) reviewed the implementation status of prior period recommendations. [redacted] reported expenditures of $8,119,974 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 $260,136 in ineligible questioned costs. The audit firm also reported two significant deficiencies in internal control and six instances of material noncompliance. In addition, we question the opening balance brought forward ($98,104) from another agreement since the fund balance did not relate to the agreement audited and no support was provided to indicate the transfer of the funding balance was approved.

Page 16 of the audit report discloses total accruals for closeout costs of $375,965. This amount includes $224,200 in termination benefits for 25 employees. Of these termination benefits, $40,667 represents accrued leave and the remaining $183,533 represents various categories of payments associated with termination, such as three months' salary, two weeks salary for each year served, and notice pay.

We believe the payments associated with termination constitute severance pay. According to 2 CFR 200.431(i)(1), severance pay "is a payment in addition to regular salaries and wages, by non-Federal entities to workers whose employment is being terminated". This section then limits the allowability of severance pay to the extent it is required by law, employer-employee agreement, "implied agreement" by the non-Federal entity, or other particular circumstances.

Notwithstanding these limitations, other sections further limit the allowability of these severance payments. 2 CFR 200.431(i)(2)(ii) states that measuring costs of "mass severance pay by means of an accrual will not achieve equity to both parties" and that "accruals for this purpose are not allowable." The section then states that "prior approval by the Federal awarding agency or cognizant agency for indirect cost, as appropriate, is required" before the Federal government recognizes its obligation to participate in any specific payment.

Most significantly, however, 2 CFR 200.431(i)(5) states in its entirety:

> Severance payments to foreign nationals employed by the non-Federal entity outside the United States due to a termination of the foreign national

> as a result of the closing of, or curtailment of activities by, the non-Federal entity, are unallowable, unless they are necessary for the performance of Federal programs and approved by the Federal awarding agency.

We believe that the termination of 25 employees represents a curtailment of [redacted] activities. Moreover, we are not convinced that these severance payments are necessary for closing out USAID's past agreement with [redacted]. For example, [redacted] accrued elsewhere nearly $19,000 in salary expenses associated with data storage. Given the requirements in 2 CFR 200.431, we are questioning the $183,533 in severance payments as ineligible.

The allowability of leave is addressed in 2 CFR 200.431(b). According to 2 CFR 200.431(b)(3)(ii), allowable leave costs under the accrual basis of accounting are limited to the lesser of leave accrued or funded. The fund accountability statement discloses a significant negative fund balance at the end of the audited period, with about $376,000 in accrued liabilities outweighing roughly $11,000 in cash. The notes to the fund accountability statement do not disclose any assets as being set aside for the payment of accrued leave, and it is not clear which accrued liabilities have priority. Consequently, we believe the amount of leave costs funded is zero, and consider the $40,667 in accrued leave an ineligible questioned cost.

To address these issues, we recommend that USAID/Zimbabwe:

Recommendation 1. Determine the allowability of $358,240[2] in ineligible questioned costs on pages 11, 13, and 15 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that [redacted] corrects the two significant deficiencies in internal control detailed on pages 19 to 21 of the audit report.

Recommendation 3. Verify that [redacted] corrects the six instances of material noncompliance detailed on pages 24 to 32 of the audit report.

Recommendation 4. Determine the allowability of $224,200 in ineligible questioned costs pertaining to accrued leave and termination benefits 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

[2] Opening fund balance per report of $98,104 + ineligible questioned costs per fund accountability statement of $260,136 = $358,240.

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.