



MEMORANDUM

DATE: November 1, 2019

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

FROM: USAID OIG Africa Regional Office, Assistant Director, Matthew Rathgeber /s/

SUBJECT: Financial Audit of USAID Resources Managed by Children in Distress Network in South Africa Under Agreement AID-674-A-13-00011, April 1, 2017, to March 31, 2018 (Report No. 4-674-20-012-R)

This memorandum transmits the final audit report on USAID resources managed by Children in Distress Network (CINDI). CINDI contracted with the independent certified public accounting firm Mazars, Durban, South Africa, to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards (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 CINDI's 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 CINDI's internal controls; (3) determine whether CINDI complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; and (5) review the implementation status of the prior period recommendations.

To answer the audit objectives, Mazars (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 CINDI as incurred from April 1, 2017, to March 31, 2018; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to CINDI'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

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.

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. CINDI reported expenditures of \$1,864,714 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. The audit firm did not identify any questioned costs but reported two significant deficiencies in internal control; and one instance of material noncompliance. Although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID/Southern Africa determine if the recipient addressed the issues noted. In addition, the material noncompliance finding did not include the monetary value of the misappropriated funds. The audit firm also issued a management letter.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We presented these issues in a memo to controller, dated November 1, 2019.

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

Recommendation 1. Verify that Children in Distress Network corrects the one instance of material noncompliance detailed on pages 17 and 18 of the audit report.

Recommendation 2. Determine the amount of misappropriated funds related to the duplicate supplier bank account numbers finding number 1 on page 17 and 18 and determine the allowability of this amount and recover 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").