



MEMORANDUM

DATE: June 25, 2019

TO: USAID/Zimbabwe, Mission Director, Stephanie Funk

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

SUBJECT: Financial Audit of USAID Resources Managed by Linkages for Economic Advancement of the Disadvantaged in Zimbabwe Under Agreement AID-613-A-15-00006, August 1, 2017, to July 31, 2018 (Report No. 4-613-19-093-R)

This memorandum transmits the final audit report on USAID resources managed by Linkages for Economic Advancement of the Disadvantaged (LEAD). LEAD contracted with the independent certified public accounting firm Baker Tilly, Harare, Zimbabwe 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 an 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 LEAD'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 LEAD's internal controls; (3) determine whether LEAD 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, Baker Tilly (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 LEAD as incurred from August 1, 2017, to July 31, 2018; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to LEAD'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 prior period recommendations. LEAD reported expenditures of \$1,187,708 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 \$83,717 in ineligible questioned costs. The audit firm also reported three instances of material noncompliance. The audit firm identified no material weaknesses in internal control but did identify one significant deficiency. Although we are not making a recommendation for the significant deficiency, we suggest that USAID/Zimbabwe determine if the recipient addressed the issue noted.

Of the \$83,717 in questioned costs, \$49,994 pertained to value-added tax (VAT). This amount consisted of \$10,598 in current year VAT and \$39,396 in the opening VAT receivable balance that was subsequently expensed in the current year. However, the opening balance was already questioned by OIG in previous years. As a result, we will reduce our questioned cost recommendation by \$39,396.²

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

Recommendation 1. Determine the allowability of \$44,321 in ineligible questioned costs on pages 9 and 10 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Linkages for Economic Advancement of the Disadvantaged corrects the three instances of material noncompliance detailed on pages 18 to 22 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 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

² The opening VAT receivable consists of \$22,391 from the immediately preceding year plus \$17,005 from prior years (\$31,365 VAT outstanding as of 31 July 2016 less \$14,360 reimbursed). Please refer to page 7 of the audit report for details. \$22,391 was questioned and a management decision made (4-613-18-069-R), while \$17,005 was part of the \$31,365 that was questioned and ultimately subject to a management decision as well (4-613-17-111-R).

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