MEMORANDUM

DATE: March 22, 2018

TO: Acting Mission Director, USAID/Southern Africa, Rebecca Krzywda

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

SUBJECT: Audit of USAID Resources Managed by University of South Africa Under Multiple Agreements, January 1 to December 31, 2016 (Report No. 4-674-18-066-R)

This memorandum transmits the final audit report on USAID Resources Managed by University of South Africa (UNISA) incurred costs under the following awards:

Award Name (Type)	Award Number	Period
Management of Democratic Elections in Africa Program (MDEA) (grant agreement)	AID-674-G-00-11-00066-00	Jan. 1- Dec. 31, 2016
Young Africans Leadership Initiative (YALI) Regional Leadership Centre Southern Africa (RLC) (cooperative agreement)	AID-674-A-15-00011	Jan. 1- Dec. 31, 2016

UNISA contracted with the independent certified public accounting firm of Nexia SAB&T, Centurion, South Africa to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards.

The audit firm states it performed its audit in accordance with generally accepted government auditing standards (GAGAS), except that the audit firm did not have 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 UNISA's 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 as of December 31, 2016, was presented fairly, in all material respects; (2) evaluate UNISA's internal control structure related to USAID-funded programs; (3) determine whether UNISA complied, in all material respects, with agreement terms and applicable laws and regulations related to USAID funded program; (4) conduct an audit on indirect cost rate; and (5) determine whether UNISA has taken adequate corrective actions on recommendations in prior audit reports.

To answer the audit objectives, Nexia SAB&T (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 UNISA as incurred from January 1, to December 31, 2016; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to UNISA'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. UNISA spent $2,633,011 in USAID funds during the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, the funds received and costs incurred for UNISA for the period under review, eight significant deficiencies in internal control, and two instances of material noncompliance. In addition, the findings in the management letter included amounts that should have been included as ineligible questioned costs of $7,872[2]. We also noted a difference of $325,701[3] between the closing balance of the prior period and the opening balance reported in the current period. The audit firm could not explain this difference; therefore, we also included this difference as ineligible questioned costs. We also deem findings 14.1.1.a to 14.1.1.d, 14.1.2.c, and 14.2.1.b as material internal control issues. The management letter also identified a difference of $2,425 (ZAR 35,644 at exchange rate of 14.7) between what was recorded as cost share contribution and what the audit firm recalculated as cost share contributions. This should have been included as unsupported cost share.

During our desk review, we noted several minor issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller, dated March 22, 2018.

[2] ZAR 64,711.64 (finding 14.1.c) + ZAR 51,000 (finding 14.2.c) at exchange rate of 14.7 = $7,872.

[3] Difference between prior year closing balance of $395,205 and current year opening balance brought forward of $69,504.

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

Recommendation 1. Determine the allowability of $333,573 in ineligible questioned costs identified on pages 25, 69, and 77 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that University of South Africa corrects the six material weaknesses and eight significant deficiencies in internal control detailed on pages 37 to 53, 66 to 72, and 77 of the audit report and the management letter.

Recommendation 3. Verify that University of South Africa corrects the two instances of material noncompliance detailed on pages 56 to 58 of the audit report.

Recommendation 4. Determine the allowability of $2,425 in unsupported questioned cost sharing contributions identified on pages 75 to 76 of the audit report and take any corrective action deemed necessary under ADS 303.3.10.

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").