



MEMORANDUM

DATE: October 16, 2018

TO: USAID/Southern Africa, Acting Mission Director, Elizabeth Walker

FROM: Regional Inspector General/Pretoria, Robert Mason /s/

SUBJECT: Financial Audit of USAID Resources Managed by Baylor College of Medicine Children's Foundation Malawi in the Southern Africa Region Under Cooperative Agreement AID-674-A-16-00003, March 31, 2016, to June 30, 2017 (Report No. 4-674-19-004-R)

This memorandum transmits the final audit report on USAID resources managed by Baylor College of Medicine Children's Foundation Malawi (BCM-CFM) implemented in Angola, Botswana, Lesotho, Malawi, and Swaziland. BCM-CFM contracted with the independent certified public accounting firm KPMG, Lilongwe, Malawi 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. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on BCM-CFM'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 BCM-CFM's internal controls; (3) determine whether BCM-CFM 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, KPMG (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 BCM-CFM as incurred from March 31, 2016, to June 30, 2017; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to BCM-CFM'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. BCM-CFM reported expenditures of \$1,140,124 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 did not identify any internal control weaknesses or instances of material noncompliance.

Although the fund accountability statement showed advances of \$1,698,182 for the period audited, expenditures were only \$1,140,124 (an average of \$71,258 per month). Given that the available cash balance net of receivables and payables was \$559,949 as of June 30, 2017, which equates to nearly eight months of average expenditures, we question whether advances were limited to the minimum amount necessary for immediate disbursing needs in accordance with ADS 636.

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 memo to the controller, dated October 16, 2018.

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

Recommendation 1. Determine whether outstanding advances to the Baylor College of Medicine Children's Foundation Malawi are excessive, and, if so, request a refund of funds in excess of immediate disbursing needs in accordance with ADS 636.3.3.2.

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").