



MEMORANDUM

DATE: July 13, 2021

TO: USAID/Southern Africa, Acting Mission Director, Kevin Sturr

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

SUBJECT: Financial Audit of USAID Resources Managed by Baylor College of Medicine Children's Foundation Lesotho Under Multiple Awards, July 1, 2019, to June 30, 2020 (Report No. 4-674-21-075-R)

This memorandum transmits the final audit report on USAID resources managed by Baylor College of Medicine Children's Foundation Lesotho (Baylor-Lesotho) under the following awards:

Award Name (Type)	Award Number	Audit Period	Prime Implementer
The Karabo ea Bophelo Project (cooperative agreement)	72067419CA00016	Oct. 1, 2019 - Jun. 30, 2020	
Providing Universal Services for HIV/AIDS Project in Lesotho (subaward)	FAIN AID-674-A-16-00005	Jul. 1, 2019 - Dec. 31, 2019	Elizabeth Glaser Pediatric AIDS Foundation

Baylor-Lesotho contracted with the independent certified public accounting firm Nexia SAB&T, Bloemfontein, South Africa, to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards (GAGAS)¹.

However, it did not have continuing professional education and an external peer review that fully satisfied the requirements of GAGAS. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on Baylor-Lesotho's fund

¹ On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function.

accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

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 Baylor-Lesotho's internal controls; (3) determine whether Baylor-Lesotho 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, 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 Baylor-Lesotho as incurred from July 1, 2019, to June 30, 2020; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to Baylor-Lesotho'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) reviewed the indirect cost rate; and (5) reviewed the implementation status of the prior period recommendations. Baylor-Lesotho reported expenditures of \$3,102,781 in USAID funds during the audited period³.

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 identified one material weakness and two significant deficiencies in internal control. The audit firm also identified two instances of material noncompliance, one of which was also reported as a material internal control weakness. In addition, our desk review identified \$127,568 in ineligible questioned costs relating to overcharged indirect costs which resulted from not excluding the subaward costs from the modified total direct cost base. In addition, 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 issue noted. The audit firm issued a management letter.

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 July 13, 2021.

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

Recommendation 1. Verify that Baylor College of Medicine Children's Foundation Lesotho corrects the two instances of material noncompliance detailed on pages 31 and 35 of the audit

² 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.

³ Total project expenses is \$3,817,555 = \$3,102,781 USAID + \$714,774 CDC

report.

Recommendation 2. Determine the allowability of \$127,568 in ineligible questioned costs (overcharged indirect costs) and recover any amount that is unallowable.

We ask that you provide your written notification of actions planned or taken to reach management decision.

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”).