

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
NAIROBI

AUDIT OF
THE BLACK EDUCATIONAL RESEARCH TRUST
COOPERATIVE AGREEMENT
NO. 674-0301-G-00-6015
AUDIT REPORT NO. 3-674-91-06-N
March 13, 1991

The audit determined that of the equivalent of \$451,231 billed by the Black Educational Research Trust for costs incurred in South Africa, the equivalent of \$27,471 was either of questionable validity or was not properly supported by accounting records. In addition, improvements were needed in the Trust's internal controls and in its compliance with terms of the cooperative agreement.

CONTRACTOR INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED: THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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March 13, 1991

MEMORANDUM

TO: Dennis P. Barrett, Director, USAID/South Africa

FROM: Toby L. Jarman, RIG/A/Nairobi 

SUBJECT: Audit of the Black Educational and Research Trust
Cooperative Agreement No. 674-0301-G-00-6015-00

The report presents the results of an audit of the Black Educational and Research Trust (the Trust) funded under the USAID/South Africa's Community Outreach and Leadership Development Project. The accounting firm of J. Van Rooyen & Co. performed the audit.

The Trust receives USAID funds as part of the Community Outreach and Leadership Development Project. The purpose of the project is to strengthen the leadership and institutions of disadvantaged communities so they can better respond to the needs of their constituencies. To achieve this purpose, USAID/South Africa entered into a cooperative agreement with the Trust, which was established to sponsor non-formal education projects. The Trust has six member organizations, each of which has its own administrative structure and is responsible for managing funds provided under the cooperative agreement.

From September 26, 1986 to July 18, 1989, USAID/South Africa granted a total of \$1,067,000 to the Trust of which \$451,231 was for costs incurred in South Africa.

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The objectives of this audit were to:

- review and express an opinion on the validity and propriety of costs claimed by the Trust;
- review and report on the Trust's system of internal accounting controls; and
- determine and report on whether the Trust complied with terms of the grant agreement and applicable U.S. laws and regulations.

The audit reviewed the Trust's claims for reimbursement of the equivalent of \$451,231 for costs incurred during the period September 26, 1986 through October 31, 1989. The auditors issued a qualified opinion on the Trust's cost claims. They accepted \$423,760, questioned \$27,329, and considered \$142 as unsupported.

In their report on internal controls, the auditors disclosed weaknesses and made recommendations regarding:

- the maintenance of employment records by three of the Trust's member organizations (see pages 12, 13, and 14); and
- the deduction and payment of taxes on employee wages at the Community Development Projects Association (see page 13).

In their report on compliance, the auditors disclosed that the Trust complied in material respects with provisions of the cooperative grant agreement and laws and regulations. However, the auditors noted certain issues that warrant the attention and action of the organizations under the Trust. The most significant findings concerning compliance issues not already reported above were:

- the Soyikwa Institute of African Theater did not maintain adequate accounting records (see page 19); and
- the Community Development Projects Association registered an automobile purchased with USAID funds in the name of an employee (see page 21).

The draft report was submitted to the Director, USAID/South Africa for comment. Mission's comments (Appendix I) were taken into consideration by the auditors when preparing the attached final report. The Director concluded that most of the questioned costs are allowable, and has issued a bill of collection for the remainder. The Director also stated he will take action to implement Recommendation No. 2. Based upon management's comments, Recommendation No. 1 is closed and Recommendation No. 2 is resolved on report issuance.

We are including the following recommendations in the Office of the Inspector General audit recommendation follow-up system.

Recommendation No. 1: We recommend that the Director, USAID/South Africa:

- 1.1 determine the allowability and recover, as appropriate, Rand 69,416 (\$27,329) of questioned costs from the Black Educational Research Trust; and
- 1.2 determine the allowability and recover, as appropriate, Rand 361 (\$142) of unsupported costs from the Black Educational Research Trust.

Recommendation No. 2: We recommend that the Director USAID/South Africa ensure that the Black Educational Research Trust improves its internal controls and compliance with the grant agreement by establishing and implementing procedures for:

- 2.1 properly maintaining employment contract records at the Soyikwa Institute of African Theater and the Community Development Projects Association and the Part Time University Students Association;
- 2.2 deducting and paying employee taxes at the Community Development Projects Association;
- 2.3 properly maintaining accounting records at the Soyikwa Institute of African Theater; and
- 2.4 requesting any automobile procured for the project be registered in the name of the Community Development Projects Association.

Thank you for the cooperation and courtesy extended to J. Van Rooyen & Co and Regional Inspector General for Audit/Nairobi representatives during the audit.

J.VAN ROOYEN & CO.
Chartered Accountants (S.A.)

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The Regional Inspector General
Nairobi, Kenya
c/o Mr M.L. Van Doren
Office of Developmental Affairs
Embassy of the United States of America
P.O. Box 1882
PRETORIA
0001

Dear Mr van Doren

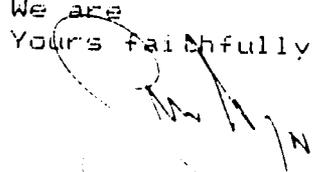
FINANCIAL AUDIT OF THE BLACK EDUCATIONAL AND
RESEARCH TRUST GRANT NO: 674-0301-G-00-6015-00

We have pleasure in submitting our final audit report for the Black Educational and Research Trust (B.E.R.T) for the period September 26, 1986 to October 31, 1989.

We have taken note of the responses to our draft audit report received from the B.E.R.T. cooperative members and have made amendments to our audit report where the responses were found to be valid and supporting documentation satisfactory. Our comments regarding some of the disallowed expenses are attached to this letter.

We wish to express our appreciation for the courtesy and cooperation afforded us by the management and staff of the B.E.R.T. cooperative members, and the staff at the office for Development Affairs - Pretoria, during the course of our audit.

We are
Yours faithfully



J. VAN ROOYEN & CO.

COMMENTS REGARDING QUESTIONED AND UNSUPPORTED EXPENSES1. CBER(i) INTER-ORGANIZATION TRANSFER OF FUNDS- \$3064.76 (R 7 500)

We disagree with the comments by Cecily Mango in the memorandum dated June 29, 1990, where she argues that the inter-organization transfer of funds of \$3064.76 should be allowed as an expense on the basis that the grant agreement permits CBER to provide funds to its regional offices.

While this may be the case, we submit that the branches need to incur the expenses in persuance of the programs funded by the grant agreement (and provide supporting documentation for such expenditures) before any transfer of funds to them can be claimed as an expense from USAID. Mere transfer of funds to branches does not qualify the transfer of such funds as expenses.

(ii) SALARY PAYMENT TO MR. I. MAZIBUKO - \$ 592.85 (R1 500)

The comments by CBER appear reasonable. The grant agreement provides for CBER to use USAID funds to develop their English language program. The honorarium paid to program participants (English tutors) amounts to R150 per session. Therefore the payment of R1 500 (\$592.85) over the period August 1988 through May 1989 (10 months) appears reasonable. However, these amounts should have been claimed under the "Program costs" budget line item.

(iii) DIRECTORS SALARY EXCESS OVER BUDGET - \$ 5899.45 (R10.946)

We note the comments made by CBER regarding this disallowed expense. While we may be sympathetic to the concerns CBER raise, we do not believe that the arguments expressed are sufficiently valid to influence our classification of the expense as a disallowed expense. This is because it is not incumbent on us as auditors and for the purpose of this audit, to decide whether the salaries allowed by the USAID budget is sufficiently high to enable CBER to retain qualified personnel.

2. CDFA(i) Second hand BMW - \$6 037.05 (R7 000)

We note approval of a revised budget by Timothy J. Bork on the project implementation letter no. 2-3 dated August 17, 1987 which included the purchases of a car for an amount of R7 000.

However, in terms of clause 14(a)(3)(vi) of Attachment 3 to the grant agreement, the grantee may not procure used equipment without prior written approval by the grant officer. We submit that the purchase of a used vehicle is covered by this clause and that in the absence of specific written authorization for the purchase of a used vehicle, the purchase of a second hand BMW should remain questioned.

3. MADIMBA(i) Salaries in excess of budget - (1986-87 and 1988)
\$4 262 (R9 774)

Following from our visit to Madimba on the 25th September 1990 and our discussion with the director, Sibongile Khumalo, project implementation letters approving revision of the budget to allow for the excess director's and co-ordinator's salaries to be paid out of funds from unliquidated budget line items could not be presented to us.

Consequently, no adjustment to our questioned amounts has been made.

BLACK EDUCATIONAL AND RESEARCH TRUST (B.E.R.T)
GRANT NO: 674-0301-G-00-6015-00

FINANCIAL AUDIT
FOR THE PERIOD SEPTEMBER 26, 1986
THROUGH OCTOBER 31 1989

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BLACK EDUCATIONAL AND RESEARCH TRUST (B.E.R.T)
GRANT NO: 674-0301-G-00-6015-00

A. BACKGROUND AND AUDIT OBJECTIVES

The Black Educational and Research Trust (B.E.R.T) is a non-profit organization. It was formed in 1981 to sponsor non-formal educational projects in the black communities. It operates under the auspices of the Education Cooperative at Funda Centre. Earlier sponsors to their activities include; The Federal Republic of Germany, The Urban Foundation and private businesses such as IBM, Colgate and Kodak.

Membership to the Education Cooperative is made up of the following organizations:

1. The Council for Black Education and Research (CBER)
2. The Community Development Project Association (CDPA)
3. The African Institute of Art (AIA)
4. The Madimba Institute of African Music (MADIMBA)
5. The Soyikwa Institute of African Theatre (SOYIKWA)
6. The Part Time University Students Association (PATUSA)

Each member organization is self-governing and has its own administrative structure. The Education Cooperative is governed by the consensus of its member organizations.

In broad terms, the aims of the six member organizations is to address cultural and employment factors that preclude Blacks from understanding their cultural heritage or satisfying their need for cultural and professional expressions. Therefore their activities attempt to provide black people with a means of expression as well as training in areas traditionally neglected in the formal education system. These activities are carried out through programs run throughout the year at Funda Centre and elsewhere.

The major activities undertaken by the organizations are summarized below:

1. Council for Black Education and Research (CBER)
 CBER conducts non-formal alternative education programs. The programs consist of inter-disciplinary lectures divided into four themes: African thought and belief; Race and Class; African Social Structures and Leadership.
 Programs funded by USAID include the English language program, a writer's workshop course, the nationwide short story and poetry competition and the publication of a regular periodical.
2. Community Development Projects Association (CDPA)
 CDPA runs community programs that help alleviate youth unemployment by providing training to the youth in areas such as bricklaying, plumbing, welding and carpentry. Student's training is provided by the Building Industries Federation of South Africa (BIFSA) and technical training colleges.
3. African Institute of Art (AIA)
 AIA is involved in a program called Khula-Udweba Outreach Art Project. The project involves the training of community members in the art production techniques. The community members are then equipped with art production material and are helped to establish child art centres in their own communities.
4. Madimba Institute of African Music (MADIMBA)
 Madimba runs a program designed to study the making and playing of African instruments and indigenous African music from rural masters. Part of the program includes the mounting of workshops and African music festivals and the holding of regular rural/urban exchange programs.
5. Soyikwa Institute of African Theatre (SOYIKWA)
 Soyikwa runs a rural theatre program which is designed to expose rural areas to African productions. It also trains students in acting, producing of plays, communication and group facilitation skills and runs a diploma course; a Trainers' training program and an African Theatre Festival.

6. Part Time University Students Association (PATUSA)

PATUSA runs tutorials for part-time university students (mainly UNISA) during the week; adult education classes in the evenings for the matriculation certificate and Saturday supplementary enrichment classes for matric students attending classes during the week.

1.2 FUNDING

Activities of organizations under the Cooperative Agreement are funded by grants from foreign governments including the United States and private businesses.

Some of the major sponsors include:

The Canadian Embassy
Federal Republic of Germany
The South African Breweries and
Van Leer Foundation.

1.3 AUDIT OBJECTIVES AND SCOPE

The objectives of the BERT audit are contained in the USAID proposal letter and specifically require the following:

1. That the audit be performed in accordance with Generally Accepted Auditing Standards and the financial and compliance elements of the U.S Comptroller General's Government Auditing Standards, 1981.
2. That written and signed opinions be expressed on:
 - (i) the USAID Statement of Revenue and Expenses for BERT for the period 26 September 1986 to 31 October 1989.
 - (ii) the system of internal and accounting controls of BERT.
 - (iii) compliance with applicable U.S. laws and regulations.

There were no limitations on the scope of the audit.

B. BLACK EDUCATIONAL AND RESEARCH TRUST (B.E.R.T)
GRANT NO: 674-0301-G-00-6015-00

REPORT ON THE STATEMENT OF REVENUE AND EXPENSES
INDEPENDENT AUDITOR'S OPINION

We have examined the Statement of Agency for International Development Revenue and Expenditure of the Black Educational and Research Trust for the period September 26, 1986 through to October 31, 1989.

Our examination was made in accordance with generally accepted auditing standards and the US Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision) and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used by management, as well as examining the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Footnote 1, the Statement of Revenue and Expenses was prepared on the basis outlined by the terms and conditions of the Cooperative Grant Agreement with USAID and the applicable US Government laws and regulations. The Statement of Revenue and Expenses are maintained on a cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

We have identified certain expenses and transactions described in Note 2 that, in our opinion, are questioned and unsupported for reimbursement under the Cooperative Agreement between the Black Educational and Research Trust and the United States Agency for International Development. These costs have been identified on the Statement of Revenue and Expenses.

In our opinion, except for the amounts described in Note 2, the Statement of Revenue and Expenses examined by us represent fairly the expenditure claimed by the organizations under the Black Educational Research Trust during the period September 26, 1986 through October 31, 1989 in accordance with terms and conditions of the cooperative agreement and the applicable US Government laws and regulations.

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This report is intended solely for use of the United States Agency for International Development and the management of the Black Educational and Research Trust and should not be used for any other purpose.



J. VAN ROOYEN & CO.
CHARTERED ACCOUNTANTS (S.A.)

30 SEPTEMBER 1990

BLACK EDUCATIONAL AND RESEARCH TRUST (B.E.R.T)
GRANT NO: 674-0301-G-00-6015-00

STATEMENT OF REVENUE AND EXPENSES FOR THE
PERIOD SEPTEMBER 26, 1986 THROUGH
OCTOBER 31, 1989

DISBURSEMENTS TO:

	<u>AMOUNT RECOMMENDED TO BE</u>				
	<u>CLAIMED</u>	<u>ACCEPTED</u>	<u>QUESTIONED</u>	<u>UNSUPPORTED</u>	<u>REF</u>
	<u>\$</u>				
Educational Cooperative	19 953	19 953	-	-	-
Council for Black Edu- cation & Research	75 250	66 286	8 964	-	2.1
Community Development Project Association	103 337	96 769	6 426	142	2.2
African Inst. of Art	67 018	67 018	-	-	-
Madimba Institute of African Music	74 862	70 600	4 262	-	2.3
Soyikwa Institute of African Theatre	79 708	72 031	7 677	-	2.4
Part time University Students Association	31 103	31 103	-	-	-
Total Expenditure	451 231	423 760	27 329	142	
Total Revenue	\$ 451 231				

NOTES TO THE STATEMENT OF REVENUE AND EXPENSES FOR THE PERIOD
SEPTEMBER 26, 1986 THROUGH OCTOBER 31, 1989

NOTE 1: Nature of operation and summary of significant
accounting policies.

The organizations under BERT are involved primarily in education projects run for the benefit of the black community in South Africa. They, therefore, do not maintain any significant level of assets. Most of the grant received from USAID and other grantors is used for expenses such as salaries and rent.

Each of the seven organizations under BERT maintain a separate set of accounting records. The accounting records of the organizations, apart from those of the Soyikwa Institute of African Theatre, are audited annually by independent auditing and accounting firms.

The transactions of the organizations are carried out in local currency (South African rands). Reimbursements from USAID are received in local currency. Likewise, the accounting records are also maintained in local currency. The original supporting documentation are kept by each organization. Copies are sent with claims to the USAID offices in Fretoria. The organization receives funds from sources other than USAID. Apart from maintaining documentation supporting claims from USAID, the accounting records do not relate the use of funds to any specific source.

No significant accounting policies are contained in the financial statements of the co-operative organizations. The Statement of Revenue and Expenses has been prepared on the basis outlined by terms and conditions of the grant agreement with USAID and the applicable US Government laws and regulations.

NOTE 2: Questioned and unsupported costs

A summary of costs which in our opinion are questioned and unsupported under the terms of the Cooperative Agreement are presented below:

2.1 COUNCIL FOR BLACK EDUCATION AND RESEARCH (CBER)

The questioned amounts are made up as follows:

- (i) Inter-organization transfer of funds claimed as an expense:

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B.

<u>Date</u>	<u>Public_voucher_no:</u>	<u>\$_value</u>
24/10/88	64597100	1 606. 43
22/11/88	67497277	1 458. 33
		<u>3 064. 76</u>

- (ii) Director's salary exceeds budget line item over the three year period.

26/09/86 to 31/10/89	various	5 899. 45
Total questioned		<u>8 964. 21</u> =====

2.2 COMMUNITY DEVELOPMENT PROJECTS ASSOCIATION (CPDA)

Total questioned and unsupported costs are made up as follows:

Questioned

- (i) Purchase of a second hand car - BMW registration number GNW 365T registered in the name of the director. The purchase is not in accordance with the Cooperative Agreement. Cost related to the car are also considered questionable.

<u>Date</u>	<u>Public_voucher_no:</u>	<u>\$_value</u>
13/01/88	67488487	6 037. 05
22/11/88	67497277	300. 00

- (ii) Costs related to repair of the organization's car after it was broken into by thieves and cost related to repair of car after it was involved in an accident. These expenses do not meet the definition of "maintenance" claimable on vehicles of the organization (VW Golf registration number MWF 321 r)

8/08/87	67498938	31. 01
7/08/89	67498893	58. 27
		<u>6 426. 33</u>

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Unsupported

- (i) Purchases of parts for a car. Invoice provided as supporting documentation is inadequate in that it does not indicate that the goods were purchased for CDFA. The amount is further questioned because employees of CDFA are not mechanics and should not be buying parts to service the cars themselves. (Invoice # 76500 - suppliers - Toby's Ford)

<u>Date</u>	<u>Public_voucher_no:</u>	<u>\$_value</u>
16/03/88	67488796	141. 59
Total unsupported		----- 141. 59 =====

2.3 MADIMBA INSTITUTE OF AFRICAN MUSIC (MADIMBA)

Questioned amounts made up as follows:

(i) Payment of salaries in excess of budget line item (1986-87 and 1988) for director and co-ordinator.		<u>\$_value</u>
1986/87 and 1988	various	4 262
Total questioned		----- 4 262 =====

2.4 SOYIKWA INSTITUTE OF AFRICAN THEATRE (SOYIKWA)

The questioned amounts are made up as follows:

Questioned

- (i) Payment of salary to director in excess of budget line item. No special authorization exists:

1986/87 to 1989	various	<u>\$_value</u>
		7 676. 77
		----- 7 676. 77 =====

BLACK EDUCATIONAL AND RESEARCH TRUST (BERT)GRANT NO: 674-0301-G-00-6015-00INDEPENDENT AUDITORS REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the Statement of USAID Revenue and Expenditure of the Black Educational and Research Trust for the period September 26, 1986 through October 31, 1989, and have issued our report thereon dated 30 September 1990. As part of our examination, we made a study and evaluation of the organization's systems of internal accounting control in areas affecting the USAID Revenue and Expenditure Statement to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in Government Auditing Standards issued by the U.S. Comptroller General. For the purpose of this report, we have identified the significant internal accounting controls in the following expense categories:

- Salaries
- Program cost and
- Administration cost

Our study included all expense categories listed above. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary to express an opinion on the organization's Statement of USAID Revenue and Expenditures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the individual categories of controls identified above.

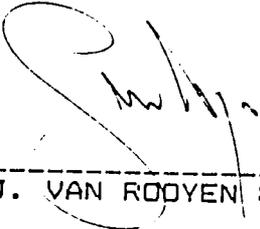
The management of the organizations under the Black Educational and Research Trust is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objective of a system of internal control is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use and disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly we do not express an opinion on the system of internal accounting controls of the organizations under the Black Educational Research Trust taken as a whole or on any of the categories identified in the first paragraph.

Our study and evaluation disclosed certain conditions that we believe to be material weaknesses in internal accounting controls. These are included in PART A of our findings. Matters of a less significant nature have been included in PART B of our findings.

This report is intended solely for the use of the United States Agency for Internal Development and the management of the organizations under the Black Educational and Research Trust and should not be used for any other purposes.



J. VAN ROOYEN & CO.

CHARTERED ACCOUNTANTS (S.A.)
JOHANNESBURG

30 SEPTEMBER 1990

B

BLACK EDUCATIONAL AND RESEARCH TRUST (BERT)REPORT ON INTERNAL ACCOUNTING CONTROLSPART A: SIGNIFICANT MATTERS1. SOYIKWA INSTITUTE OF AFRICAN THEATRE1.1 Maintenance of proper accounting records

Soyikwa does not have a proper set of accounting records. As a result, management has no idea what assets they own, what the levels of their revenues and expenses are or whether cash is expended correctly.

Although the absence of a proper set of accounting records did not materially affect the financial and compliance audit of the Revenue and Expenditure Statement, non-maintenance of a proper set of accounting records creates a ripe environment for misappropriation of funds granted by USAID. Accounting records keep track of transactions entered into by the organization and are an essential tool in the management of any organization.

RECOMMENDATION

Management of Soyikwa must ensure that a proper set of accounts is kept for the organization. These accounts should be reviewed regularly by management and annually at the meeting of the trustees.

1.2 Employment contracts

A formal employment contract is not entered into between Soyikwa and its permanent staff. According to the co-ordinator, Mr. Jerry Kaletebele, terms and conditions of employment are agreed verbally with employees.

The risk arising out of the above is that in time of disagreement between the employee and the organization with respect to conditions of employment and rate of pay, no written proof will exist to substantiate claims made by either party. Cost of a court battle could turn out to be expensive for the organization.

RECOMMENDATION

Employment contracts should be made out for all existing permanent employees. The contract should be signed by the employee and the organization.

Some form of an employment contract (which may take the form of a letter of appointment) should be entered into with non-permanent staff employed by the organization. Rates and terms of engagement must be clearly defined in these contracts.

2. COMMUNITY DEVELOPMENT PROJECTS ASSOCIATION

2.1 Maintenance of employment records

No proof of authorized employment of any of the CDPA employees could be made available to us during our audit. Employment files containing employment contracts do not appear to be maintained for CDPA employees.

Without maintenance of proper employment records, there is a risk that employees who have not been properly authorized may be on the payroll. No proof exists that Mr. Welile Mabaso, Mr. Welile Khoza, Ms. Maude Ramogopa or Mr. K. Nkwanyana have been properly employed by CDPA.

RECOMMENDATIONS

Letters of appointment must be made out for all CDPA employees. Files containing employment records must be opened for each employee. These must contain details of all approved salary increases, leave entitlements and leave taken, date, terms and conditions of employment and date of terminations.

2.2 Deduction and payment of taxes on employees

No controls exists to ensure that employee taxes (PAYE) are deducted from employee salaries each month and paid over to the Receiver of Revenue.

Failure to deduct and pay employee taxes could result in very serious consequences for the organization and the individual employees if they are regarded in the future as having deliberately avoided the paying of taxes.

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RECOMMENDATIONS

Management should institute controls that will ensure that tax is deducted from employee salaries and is paid to the appropriate authorities regularly.

3. PART TIME UNIVERSITY STUDENTS ASSOCIATION (PATUSA)

3.1 Maintenance of employment records

Employment contracts and letters of appointments could not be produced for our inspection during our audit. As a result we could not satisfy ourselves as to the proper authorization of employment of any of the teachers paid using USAID funds.

There remains therefore a risk that unauthorized teachers are paid using USAID funds. If employment contracts do not exist, then there is a risk that in a time of a dispute between the employee and the organization, no formal contract detailing agreed terms and conditions of employment will exist to substantiate claims made by any of the parties.

RECOMMENDATION

Management should ensure that employment files and authorized letters of appointment exist for employees of the organization.

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PART B: MATTERS OF LESS SIGNIFICANCE

(i) Matters that apply generally to all organizations:

1. Cancellation of reimbursed documentation

The documentation supporting claims from USAID are not stamped "PAID" once the claim has been processed and paid by USAID.

The risk arising out of the above is that the same documentation can be used to support further claims from USAID in the future.

RECOMMENDATIONS

Management should purchase a stamp and ensure that all documents are stamped paid prior to the submission to USAID. The date on the stamp should be the same date as the date on the liquidation cover sheet.

Personnel at USAID should disallow claims received where the supporting documentation is not stamped "Paid" or the date of the "Paid" stamp is not the same as that on the current liquidation cover sheet.

(ii) Matters specific to organizations

1. EDUCATION COOPERATIVE

1.1 Updating of employment records

Employment records are not updated with respect to changes in the status and compensation of the employee.

As a result, no evidence was found to show that salary increases were properly authorized.

RECOMMENDATIONS

Management should ensure that employee records are updated with respect to salary increases, leave entitlements and leave pay and changes in the status of the employees.

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1.2 Check requisition not authorized

During our audit, cases were found where check requisitions did not bear signatures of authorization.

Therefore, no evidence exists that supporting documentation is being independently checked and authorized prior to the signing of checks by the check signatories.

RECOMMENDATION

Management should ensure that check requisitions and supporting documentation are inspected and authorized prior to the signing of the check. A signature on the requisition should bear evidence of performance of this function.

2. COUNCIL FOR BLACK EDUCATION AND RESEARCH (CBER)

2.1 Updating of employment records

Employment records of CBER are not updated with respect to changes in the status and benefits of the employees. No evidence therefore exists to prove authorization of salary increases.

RECOMMENDATION

Management should ensure that employee records are updated regularly with respect to changes in the status of employees, salary increases, leave entitlements, supervision or dismissal.

3. COMMUNITY DEVELOPMENT PROJECT ASSOCIATION

3.1 Insurance on assets of the organization

No insurance is taken on motor vehicles operated by the organization. As a result claims for repairs of cars following an accident are being submitted to USAID for reimbursement.

Non-insurance of the cars of the organization could result in severe setbacks if no transport is available to carry out normal activities of the organization. Repair costs of vehicles in times of accidents runs into thousands of Rands and the grant agreement has not provided a budget line item for such repairs.

RECOMMENDATION

Management should take out insurance cover for assets of the organization. The cover should be renewed each year.

4. MADIMBA INSTITUTE OF AFRICAN MUSIC4.1 Cashbook reconciliation

Reconciliation between the cashbook and the bank statement is not performed on a regular basis.

As a result discrepancies in cash balances are not picked up on a timely basis.

RECOMMENDATION

Management should ensure that a reconciliation between the cashbook and the bank statement is performed on a monthly basis. Discrepancies should be investigated immediately.

5. SOYIKWA INSTITUTE OF AFRICAN THEATRE5.1 Payroll disbursement records

No records exist to control the hours worked by teachers and tutors or leave taken in comparison with leave entitlements.

The risk arising out of the above is that the teachers may be paid for work they have not performed.

RECOMMENDATION

Management should ensure that a record is maintained of hours worked by teachers, absences and leave taken. The details must be reviewed at the end of each month prior to payment of salaries.

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BLACK EDUCATIONAL AND RESEARCH TRUST (B.E.R.T)
GRANT NO: 674-0301-G-00-6015-00

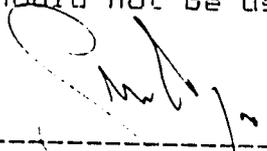
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCES WITH CO-OPERATIVE
GRANT AGREEMENT TERMS AND APPLICABLE U.S LAWS AND REGULATIONS.

We have examined the Statement of USAID Revenue and Expenditures of the Black Educational and Research Trust for the period September 26, 1986 through October 31, 1989, and have issued our report thereon dated 30 September 1990. Our examination was made in accordance with generally accepted auditing standards, and the standards of financial and compliance audits contained in the Government Auditing Standards issued by the U.S Comptroller General, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the organization under the Black Educational and Research Trust complied with those provisions of the Cooperative Grant Agreement and laws and regulations non-compliance with which could have a material effect on the Revenue and Expense Statement. However, we noted certain issues that we believe warrant the attention and action of the organizations under the Black Educational and Research Trust as described in our Audit Findings Section.

With respect to items not tested by us, nothing came to our attention to indicate that the organizations under the Black Educational and Research Trust had not complied with laws and regulations and provisions of the Cooperative Grant Agreement non-compliance with which could have a material effect on the Revenue and Expense Statement.

This report is intended solely for the use of the United States Agency for International Development and the management of the organizations under Black Educational and Research Trust and should not be used for other purposes.



J. VAN ROOYEN & CO
CHARTERED ACCOUNTANTS (S.A.)
JOHANNESBURG

30 SEPTEMBER 1990

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REPORT ON COMPLIANCE WITH COOPERATIVE GRANT AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS.

FINDINGS

1. SOYIKWA INSTITUTE OF AFRICAN THEATRE

1.1 Maintenance of accounting records

During our audit, no accounting records were made available to us to review by Soyikwa. We were informed that the records were with the bookkeepers of the organization. The books were subsequently delivered to our offices. However, they were clearly not properly kept nor audited by qualified auditors. No financial statements were available.

In terms of the grant agreement, each member of the Educational Cooperative is required to maintain a separate set of accounting records and make them available for review by USAID, either directly or through the Black Educational and Research Trust.

RECOMMENDATION

Management should ensure that accounting records are properly maintained for the institute. Transactions should be recorded through the accounting records and the records must be reviewed regularly by management. The financial statements should be audited annually by properly qualified auditors.

1.2 Over run on budget line items

For the three year period ending October 31, 1989, Soyikwa has expended \$32 095 (R 70 854) against budget line item "Personnel-(a) project director". The financial plan for the budget line item over the same period amounts to \$24 418 (R50 063). The overrun of \$7 677 (R20 971) is therefore a questioned expense.

RECOMMENDATIONS

Management should ensure that during the life of the project overruns are avoided by requesting USAID to transfer grant funds from line items with unliquidated balances.

2. COUNCIL FOR BLACK EDUCATION AND RESEARCH

2.1 Transfer of funds to branch claimed as an expense

Transfer of funds to the Cape and Pretoria branches of the council amounting to \$3,064 (R7,500) was claimed as an expense called "donation" from USAID. The claim was reimbursed on public voucher for purchases numbers 67497277 and 64597100 by USAID. These amounts do not meet the definition of expenses allowable in terms of the cooperative grant agreement.

RECOMMENDATION

Management should ensure that only valid expenses allowable in terms of the grant agreement are claimed from USAID.

2.3 Overrun on budget line item

For the three year period ending October 31, 1989 the council has expended \$52,134 (R117, 762) against the budget line item "Personnel-(a) director/coordinator". The financial plan for the period contains a budget of \$46,235 (R 106,946)

The overrun of \$5,899 (R10,946) is therefore a questioned expense.

RECOMMENDATION

Management should ensure that overruns are avoided by requesting USAID to transfer grant funds from line items with unliquidated balances.

3. COMMUNITY DEVELOPMENT PROJECTS ASSOCIATION

3.1 Payments of tax on employees (PAYE)

Pay As You Earn (PAYE), which is a tax on employees levied by the South African Government, is not deducted from employee salaries each month and paid to the Receiver of Revenue.

This is a contravention of law and the regulations of South Africa.

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RECOMMENDATION

Management should ensure that FAYE is deducted from employees each month and paid over to local authorities.

3.2 Purchases of a car not allowed by grant agreement

CDPA purchased a second hand BMW 520i from a car auction on the 25th of July 1987 for an amount of \$6,031 (R11,823) after repairs. The cost of purchasing the car was reimbursed by USAID on public voucher for purchases number 67488487.

Although a revised budget authorizing the purchase of a car worth R7 000 was approved by Timothy J. Bork on the 17th of August 1987, specific authorization was not obtained for the purchase of a used vehicle. In terms of clause 14(a)(3)(vi) of attachment 3 of the grant agreement, the grantees are not to procure used equipment without prior written approval by the grant officers.

RECOMMENDATION

Management should ensure that specific approval is obtained from the grant officer in the future before any used equipment is purchased.

3.3 Registration of an asset in the name of an employee

The second hand BMW 520i (registration number GNW 365T) purchased by CDPA in 1989 and reimbursed for by USAID as above) is registered in the same name of the director, Mr. K. Nkwanyana.

In terms of the grant agreement and U.S Government laws and regulations, assets bought by grantee organizations must be registered in the name of the organization.

RECOMMENDATION

The registration of the car described above should be transferred into the name of the organization.

Management should ensure that assets purchased by the organization are not registered in the name of employees in the future.

4. MADIMBA INSTITUTE OF AFRICAN MUSIC

4.1 Maintenance of records

Liquidation cover sheet and documentation supporting claim of \$8,254.43 (R16,426.32) made from, and paid by USAID by public voucher number 67488542 could not be located by Madimba.

In accordance with Government requirements, the grantees are required to maintain the supporting documentation for at least three years.

RECOMMENDATION

Management should establish controls to ensure that original documentation supporting disbursements and claims from USAID are retained for a period of at least three years.

4.2 Overrun of budget line item

During the 1986/87 year Madimba expended \$12,406 (R25,680) against the budget line item "Personnel co-ordinator". The financial plan for the budget line items contains an amount of \$10 476 (R22 000).

During the 1988 financial year, Madimba claimed an amount of \$9,213 (R20,544) against the budget line item "Personnel co-ordinator". The financial plan for the budget line item contained an amount of \$6,881 (R14,450).

The overrun in the two years 1986/87 of \$1 930 (R3 680) and 1988 of \$2 332 (R6 094) is therefore a questioned expense.

RECOMMENDATION

Management should ensure that overruns are avoided by requesting USAID to transfer grant funds from line items with unliquidated balances.

AUDIT OF
THE BLACK EDUCATIONAL RESEARCH TRUST
COOPERATIVE AGREEMENT
NO. 674-0301-G-00-6015

APPENDICES

UNITED STATES GOVERNMENT

memorandum

DATE: FEBRUARY 25, 1991

REPLY TO
ATTN OF: DENNIS P. BARRETT - DIRECTOR USAID, SOUTH AFRICA

SUBJECT: AUDIT OF THE BLACK EDUCATION AND RESEARCH INSTITUTE
(BERT) AGREEMENT NO. 674-0301-G-00-6015-00

TO: MR. TOBY JARMAN - RIG/N

We have reviewed the draft audit report and have no general comments. The actions we have taken on the proposed recommendations follows:

RECOMMENDATION NO. 1.1

Determine the allowability and recover, as appropriate, \$27,329.00 of questioned costs from BERT; and

ACTIONS TAKEN:

1. COUNCIL FOR BLACK EDUCATION AND RESEARCH (CBER)

- a) Inter-organizational transfer of \$3,064.76 to two regional offices.

The Cooperative Agreement authorized CBER to provide funds to its regional offices. OPMD recommends allowing these expenses, but will send a letter to CBER requesting that the regional offices provide an accounting of how the funds were spent.

- b) Director's salary exceeded budget line item (\$5,399.45).

OPMD recommends this amount be allowed. The original budget for salaries was unreasonably low and did not account for inflation that, during those years, averaged 20% per annum. Had CBER requested approval to reallocate funds for this purpose, it would have been granted by the USAID.

The auditors and RIG should be aware that there is a \$10.00 mistake in addition. \$3,064.76 plus 5,399.45 adds up to \$8,954.21 not \$8,964.21 as shown in the final audit report.

2. COMMUNITY DEVELOPMENT PROJECT ASSOCIATION (CDPA)

- a) Purchase of second hand car and related costs (\$6,337.05).

OPMD recommends that this expense be allowed. As noted in a memo from the Project Officer to the Controller dated 7/11/90, a letter from the Director, Mr. Tim Bork, to CDPA on August 17, 1987 approved a revised budget which included the purchase of a car. It would appear that nobody from USAID advised CDPA that the purchase of a used car was unacceptable. According to CDPA, they never received a copy of the Standard Provisions that accompany each agreement, probably because the Agreement was signed with the Cooperative and not with each individual member. Finally, CDPA operates solely on grants from donors and has no resources to repay this amount.

- b) Costs related to vehicle repair due to theft and accident (\$89.28).

Given the high rate of theft and accidents in Soweto and the small amount of money involved, OPMD recommends that this amount be allowed.

3. MADIMBA INSTITUTE OF AFRICAN MUSIC

- a) Salary payments in excess of budget for director and coordinator between 1986-88 (\$7,262.00).

OPMD recommends that this amount be allowed. The original budget for salaries was unreasonably low and did not account for inflation that, during those years, averaged 20% per annum. Had Madimba requested a budget reallocation to cover salaries, it would have been granted by the USAID.

4. SOYIKWA INSTITUTE OF AFRICAN THEATER

- a) Salary payments in excess of line item for director during 1986-1989 (\$7,676.77).

OPMD recommends that this amount be allowed. The original budget for salaries was unreasonably low and did not account for inflation that, during those years, averaged 20% per annum. Had Soyikwa requested a budget reallocation to cover salaries, it would have been granted by the USAID.

RECOMMENDATION NO. 1.1

Determine the allowability and recover, as appropriate, \$142.00 of unsupported costs from BERT.

USAID/SA sent a bill of collection to BERT cooperative member Community Development Project Association for the amount of \$142.00 on February 19, 1991.

RECOMMENDATION NO. 2:

We recommend that the Director, USAID/SA ensure that BEST improves its internal controls and compliance with the grant agreement by establishing and implementing procedures for:

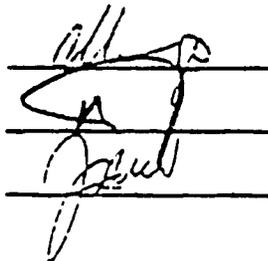
- 2.1 properly maintaining employment contract records at the Soyikwa Institute of African Theater and the Community Development Projects Association;
- 2.2 deducting and paying employee taxes at the Community Development Projects Association;
- 2.3 properly maintaining accounting records at the Soyikwa Institute of African Theater; and
- 2.4 requesting BMW 520 automobile (registration No. GNY 363T) in the name of the Community Development Projects Association.

ACTION TAKEN:

USAID requests that recommendation 2.4 be restated to read "requesting any automobile procured for the project be re-registered in the name of the Community Development Projects Association."

USAID is preparing a work order under the IQC's to establish and implement procedures to make corrections under recommendations 2.1 through 2.4. A copy of the scope of work for these services is attached.

CLEARANCE: PDD - Clango
 SPDO - Johnson
 D/D - JMWelber



SCOPE OF WORK

OBJECTIVE: USAID/SA requires the services of an accounting firm to establish and implement internal control procedures for two sub-grantees under the Cooperative Agreement with the Black Education and Research Trust, based on recommendations from a recent audit. The two sub-grantees are the Soyikwa Institute of African Theater and the Community Development Projects Association.

WORK STATEMENT

Contractor services are required to:

1. Establish and teach sub-grantees how to maintain proper employment contract records at Soyikwa Institute of African Theater and the Community Development Projects Association.
2. Establish a system for deducting and paying employee taxes at the Community Development Projects Association.
3. Establish and teach sub-grantees how to maintain proper accounting records at the Soyikwa Institute of African Theater.
4. Assist the Community Development Projects Association to register any automobiles procured with project funds in the name of the organization.

The contractor will provide USAID/SA a written report on the work performed.

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