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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
NAIROBI

AUDIT OF
THE NATIONAL AFRICAN FEDERATED
CHAMBER OF COMMERCE AND INDUSTRY
PROJECT NOS. AFR-0220-G-SS-3069-00,
674-0206-G-00-6023-00,
674-0235-G-00-6026-00 AND
674-0303-G-SS-7079-00

AUDIT REPORT NO. 3-674-90-03-N
February 28, 1990

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

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February 28, 1990

MEMORANDUM FOR DIRECTOR, USAID/SOUTH AFRICA, Dennis P. Barrett

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



SUBJECT: Non-Federal Audit of the National African Federated Chamber of Commerce and Industry, Audit Report No. 03-674-90-03-N, Project Nos. AFR-0220-G-SS-3069-00, 674-0206-G-00-6023-00, 674-0235-G-00-6026-00 AND 674-0303-G-SS-7079-00

Attached is a copy of the subject audit report. The report presents the results of a non-Federal audit performed by Price Waterhouse under the supervision of the Regional Inspector General for Audit, Nairobi (RIG/A/N). The audit was requested by USAID/South Africa.

The National Africa Federated Chamber of Commerce and Industry (NAFCOC) project consisted of four grants: the Entrepreneurial Training Grant (AFR-0220-G-SS-3069-00) which provided for equipment, training, and the production of teaching materials for entrepreneurial training; the Networking and Program Support grants (674-0206-G-00-6023-00 and 674-0235-G-00-6026-00) which provided funds to increase NAFCOC's ability to play a leadership role in advocating black business interests in South Africa; and the Strategic Planning Grant (674-0303-G-SS-7079-00) which enabled NAFCOC to conduct a review of its own operations and plan the future strategy of the organization.

The primary purposes of the audit were to determine whether: (a) expenditures reported for reimbursement by NAFCOC were substantiated, allocable, allowable and reasonable under the terms of the various grant agreements; (b) the organization complied with all terms of the grant agreements and applicable laws and regulations; and (c) the internal accounting controls of the organization were adequate for the purposes of the grant agreements. The audit covered the period September 27, 1983 to March 31, 1989, and included expenditures totaling \$698,747. Audit fieldwork was completed on November 27, 1989.

Price Waterhouse determined that net expenditures of \$46,846 (of the \$698,747 costs incurred) were disallowable, and that an additional \$14,858 were questionable. The auditors gave unqualified opinions on the Statements of A.I.D. Revenue and Expenditures of NAFCOC relating to the Program and Networking Support grants and the Strategic Planning Grant. The report states that the financial statements were not prepared in accordance with generally accepted accounting principles. In our opinion, this departure did not adversely affect the financial statements, which were presented in accordance with the terms of the grant agreement and applicable U.S. Government laws and regulations. However, Price Waterhouse gave an adverse opinion on a similar financial statement relating to the Entrepreneurial Training Project.

The auditors also concluded that NAFCOC generally complied with the terms of the grant agreements and applicable laws and regulations, except for the Entrepreneurial Training Project Grant, on which the auditors expressed an adverse opinion. The auditors' study and evaluation of the internal control system was too limited to allow the auditors to express an opinion. The auditors did, however, make some recommendations for improvements in the area of internal accounting controls.

USAID/South Africa generally agreed with the auditors' conclusions. The entire text of the Mission's response is included as Appendix 1 to this report.

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 Mission Director, USAID/South Africa:

- (a) recover \$46,846 (net) in disallowed costs from the National African Federated Chamber of Commerce and Industry
- (b) provide documentation of this action to the Regional Inspector General for Audit, Nairobi.

Recommendation No. 2

We recommend that the Mission Director, USAID/South Africa:

- (a) determine the allowability of \$14,858 in questioned costs of the National African Federated Chamber of Commerce and Industry; and

- (b) provide documentation of the resolution of these costs to the Regional Inspector General for Audit, Nairobi.

We consider the recommendations unresolved pending a specified plan for corrective actions. Please advise me, within 30 days, of the actions taken or planned to clear the recommendations. We appreciate the cooperation and courtesy extended to Price Waterhouse by the Mission and the National African Federated Chamber of Commerce and Industry.

Agency for International Development
National African Federated Chamber
of Commerce and Industry
Financial and Compliance Audit
For the period 27 September 1983
through to 31 March 1989

DATED: 28 November 1989



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 27 SEPTEMBER 1983
THROUGH 31 MARCH 1989

TABLE OF CONTENTS		<u>Page</u>
SECTION		
I	EXECUTIVE SUMMARY	1 - 8
II	REPORT ON STATEMENT OF USAID REVENUE AND EXPENDITURE	9 - 26
III	REPORT ON INTERNAL ACCOUNTING CONTROLS	27 - 32
IV	REPORT ON COMPLIANCE WITH GRANT AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS	33 - 36



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

I EXECUTIVE SUMMARY

A NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY ORGANIZATION .

The National African Federated Chamber of Commerce and Industry (NAFCOC) represents both the formal and informal sectors of black business in South Africa. NAFCOC was formally established in 1964 and has over 25 years evolved into a federation of some 18 affiliate chambers varying in size and spread throughout the country. The primary objectives of NAFCOC are as follows:

- to promote co-operation and unity among black business
- to promote self sufficiency in the black community and fuller co-operation in the primary economy
- to foster development of black business through project promotion, trade investment leads, training and other forms of practical assistance
- to protect black business interests by working for the elimination of obstacles to black economic progress
- to serve as the sole body representing black business nationally

The activities of NAFCOC are primarily funded by members contributions and grant funds received from different donors. The funds provided by USAID are based on various funding instruments designed in such a way as to meet specific NAFCOC requirements.

B PROJECT BACKGROUND

The following three funding instruments are the subject of the non-Federal audit.

Entrepreneurial Training Project (AFR-0220-G-SS-3069-00)

This Project, obligated through a grant agreement on 27 September 1983, is intended to enable NAFCOC to deliver effective training and counselling services to black entrepreneurs. The anticipated project completion date is 21 September 1989. Agreement funds have gone towards, inter alia, production of training materials, training of trainees and counselors, training of entrepreneurs, obtaining the necessary equipment and employment of requisite staff.

The major portion of the grant has been implemented through an 8(a) contract with a US firm, Birch and Davis, which has incurred the major portion of the expenditure on its own account and has also processed NAFCOC's own expenditure claims. Following a mid term evaluation, a subcontract between Birch and Davis and NAFCOC was entered into. In accordance with this subcontract, NAFCOC claims were to be reimbursed by USAID/South Africa.



8

Networking and Program Support Grant (674-0206-G-00-6023-00/
(674-0235-G-00-6026-00)

This Grant, obligated on 25 September 1986, and concluded on 30 September 1988, focussed on increasing NAFCOG's ability to play a leadership role in advocating on behalf of black business interests in South Africa. Agreement funds have gone towards studies of black business, travel and training for NAFCOG staff and conferences sponsored by NAFCOG.

The Grant was entirely managed by USAID/South Africa. Agreement funds have been expended both directly by NAFCOG and by USAID.

Strategic Planning Grant (674-0303-G-SS-7079-00)

This Agreement obligated on 28 September 1987 and with an expected project completion date of 30 September 1990, intends to enable NAFCOG to undertake a comprehensive and effective review of the organization's direction and operations, thereby positioning it to launch a significant institutional strengthening effort. Agreement funds have gone towards the employment of an executive director and technical assistance to produce and implement strategy documents.

The Agreement was entirely managed by USAID/South Africa. Agreement funds have been expended both by NAFCOG and USAID.

C ACCOUNTING AND PROJECT MONITORING SYSTEMS

Under the Entrepreneurial Training Project the overall responsibility for the accounting and financial monitoring resided with the NAFCOG Manager of Education and Training as well as with the Birch and Davis Project Coordinator. In 1988 as a result of the mid term project evaluation there was a reorganization in term of which the responsibilities were combined under the NAFCOG Manager of Education and Training.

For the Networking and Strategic Planning Grants, the overall responsibility for the accounting and financial monitoring resided with the NAFCOG Executive Director.

An organizational chart of NAFCOG is included as Exhibit I - A on page 3.

Billings are prepared at the headquarters in Soshanguwe where the project records for the headquarters and field locations are maintained.

The financial statements of NAFCOG are audited by the independent auditing firm of Griesel Nel Chartered Accountants (SA). We did not have access to their working papers.



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY
ORGANIZATIONAL CHART

EXECUTIVE PRESIDENT
DR S MOTSUENYANE

NAFCOC COUNCIL

NAFCOC MANAGEMENT COMMITTEE

BIRCH AND DAVIS
PROJECT
COORDINATOR

EXECUTIVE DIRECTOR
MR MOLEBATSI/TO 30 NOVEMBER 1988
MR LEKOTA/ FROM 1 JULY 1989

EDUCATION

AGRICULTURE

INDUSTRY

TRANSPORT

HOUSING

LEGAL

01



D AUDIT SCOPE

In accordance with the non-Federal audit Work Statement, the audit scope focused on NAFCO's financial administration of the grant and the following expenditures:

- Entrepreneurial Training Project

Direct NAFCO incurred expenditures reimbursed by:

- i) Birch and Davis
- ii) USAID/South Africa

USAID/Washington reimbursements were not included in the Statement of USAID Revenue and Expenditure, pending our receipt of confirmation of these reimbursements from USAID/Washington.

- Networking and Program Support Grant

Direct NAFCO incurred expenditures reimbursed by USAID/South Africa

- Strategic Planning Grant

Direct NAFCO incurred expenditures reimbursed by USAID/South Africa.

E ADDIT OBJECTIVES

We have performed a financial and compliance audit of the expenditures claimed by NAFCO under the terms of the three USAID Grant Agreements for the periods indicated in Exhibit I - B on page 6.

The objectives of this audit were to determine whether:

- the expenditures reported by NAFCO for reimbursement are substantiated, allocable, allowable and reasonable under the terms of the various Grant Agreements
- the internal accounting controls of the organization are adequate in all material respects for the purpose of the Grant Agreements
- the organization complied with all terms of the Grant Agreements and applicable laws and regulations.

Our examination was performed in accordance with generally accepted auditing standards and generally accepted government auditing standards and accordingly included such tests of the contractor's data and records and other auditing procedures as were considered necessary in the circumstances.



11

The terms of the individual Grant Agreements and the cost principles contained in the applicable US Government regulations were used as criteria in the determination of acceptable costs.

The scope of our work consisted of the following:

- selective examination and testing of supporting documentation of field and headquarter office expenditures,
- a study and evaluation of the internal accounting controls and accounting practices of NAFCOG to the extent necessary to render an opinion on the Statements of Revenue and Expenditure
- a review of NAFCOG's transactions for compliance with the Grant Agreements and applicable laws and regulations.



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

LIST OF USAID AGREEMENTS

NAFCOC
EXPENDITURE

1	Entrepreneurial Training Project (AFR-0220-G-SS-3069-00) Period : 27 September 1983 to 31 March 1989	\$483,256.65
2	Networking and Program Support Grant (674-0206-G-00-6023-00 /674-0235-G-00-6026-00) Period : 25 September 1986 to 31 March 1989	\$ 67,827.10
3	Strategic Planning Grant (674-0303-G-SS-7079-00) Period : 28 September 1987 to 31 March 1989	\$147,663.56
	TOTAL	<hr/> \$698,747.31 <hr/>



P SUMMARY OF AUDIT RESULTS

1 EXPENDITURES REPORTED BY NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

We performed a financial and compliance audit for the Statements of Revenue and Expenditures for the Grant Agreements between NAFCOC and USAID for the period 27 September 1983 to 31 March 1989 and have issued our report thereon dated 27 November 1989.

We identified certain transactions described in Note 2 to the Statements of Revenue and Expenditure that, in our opinion, are questionable and disallowable for reimbursement under the Grant Agreements. They do not represent a material discrepancy, relative to the overall schedule of expenses in the case of the Program and Network Support Grant and Strategic Planning Grant, whereas, they do represent a material discrepancy relative to the overall schedule of expenses in the case of the Entrepreneurial Training Project Grant. These costs are summarised below:

SUMMARY OF COSTS RECOMMENDED TO BE ACCEPTED, DISALLOWED AND QUESTIONED

<u>Project</u>	<u>Amounts</u>			
	<u>Claimed</u>	<u>Recommended To Be</u>		
		<u>Accepted</u>	<u>Dissallowed</u>	<u>Questioned</u>
Entrepreneurial Training Project	483 257	422 804	46 595	13 858
Network and Program Support Grants	67 827	66 827	0	1 000
Strategic Planning	147 663	147 412	251	0
Totals	\$698 747	\$637 043	\$ 46 846	\$ 14 858

Note: Figures have been rounded

2 INTERNAL ACCOUNTING CONTROLS

We made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and generally accepted government auditing standards.

Our study and evaluation influenced the nature, timing and extent of auditing procedures necessary for expressing an opinion on the organization's Statements of Revenue and Expenditure. Our study and evaluation disclosed no condition that we believe to be a material weakness.



However, due to unavailability of some accounting records we did encounter some problems in tracing transactions in a logical sequence from the source documentation through the accounting records to the final billings to USAID for the fiscal years 1984 to 1986. In addition, we believe that:

- Management should implement formal policies and procedures in certain critical areas
- Management should ensure that the following control and accounting procedures are adhered to:
 - authorization of disbursement vouchers
 - cancellation of supporting documentation
 - authorization of payroll
 - retention of original records
 - maintenance of complete personnel records
 - preparation of time sheets
 - training of staff in USAID Reporting
 - maintenance of project subsidiary ledgers
 - monthly cutoff procedures

3 COMPLIANCE WITH MATCHING GRANT AGREEMENT TERMS

NAFCOC complied with those provisions of the Program and Network Support Grant and Strategic Planning Grant Agreements, laws, and regulations, non compliance with which could have a material effect on the Statements of USAID Revenue and Expenditure. However, in the case of the Entrepreneurial Training Project Grant, NAFCOC failed to comply with the provisions of the Grant Agreement, requiring grantee contributions, non compliance with which had a material effect on the Statement of USAID Revenue and Expenditures. We noted certain other issues that we believe warrant the action of NAFCOC as described in the audit findings. These issues are:

- management should develop clear policies and procedures to maintain and safeguard the supporting documentation for at least three years after the completion of the project
- Management should develop clear policies and procedures for the reporting of and the use of USAID advances.



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

II REPORT ON STATEMENTS OF USAID REVENUE AND EXPENDITURES

We have examined the Statement of Agency for International Development Revenue and Expenditures for the National African Federated Chamber of Commerce and Industry for the period 27 September 1983 to 31 March 1989. The Agency for International Development had the following grants with the National African Federated Chamber of Commerce and Industry during this period:

- Entrepreneurial Training Project - (AFR-0220-G-SS-3069-00)
- Program and Network Support Grant - (674-0206-G-00-6023-00)/
(674-0235-G-00-6026-00)
- Strategic Planning Grant - (674-0303-G-SS-7079-00)

Our examination was made in accordance with generally accepted auditing standards and the US Controller General's Standards for Audit of Government Organizations, Programs, Activities and Functions (1988 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in note 1, it is the National African Federated Chamber of Commerce and Industry's accounting policy to prepare its Statement of USAID Revenue and Expenditures on a basis outlined in the terms and conditions of the Grant Agreements with USAID and the applicable US government laws and regulations. Accordingly, the accompanying Statements of USAID Revenue and Expenditures are not presented in conformity with generally acceptable accounting principles.

We have identified certain transactions described in note 2 that, in our opinion are questionable and disallowable for reimbursement under the various Grant Agreements referred to above between the National African Federated Chamber of Commerce and Industry and the Agency for International Development. These costs have been identified on the Statements of USAID Revenue and Expenditures. They, in our opinion, do not represent a material discrepancy relative to the overall schedule of expenses for the Program and Network Support Grant and Strategic Planning Grant; whereas they do, in our opinion represent a material discrepancy relative to the overall schedule of expenditures of the Entrepreneurial Training Project Grant.

In our opinion the Statements of Agency for International Development Revenue and Expenditures of the National African Federated Chamber of Commerce and Industry relating to the Program and Network Support Grant and Strategic Planning Grant Agreements fairly presents the expenditures of the grants in accordance with the terms and conditions of the Grant Agreements with USAID and the applicable US Government laws and regulations. In our opinion the Statement of Agency for International Development Revenue and Expenditures of the National African Federated Chamber of Commerce and Industry relating to the Entrepreneurial Training Project, does not fairly present the expenditures of the grant in accordance with the terms and conditions of the Grant Agreement with USAID and the applicable US Government laws and regulations.



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. This report is intended solely for the use of the management of the National African Federated Chamber of Commerce and Industry and the US Agency for International Development and should not be used for any other purposes.

Priscilla Waterhouse

28 November 1989



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

A ENTREPRENEURIAL TRAINING PROJECT
(AFR-0220-G-SS-3069-00)(1) STATEMENT OF US AGENCY FOR INTERNATIONAL DEVELOPMENT REVENUE AND
EXPENDITURES STATEMENT FOR THE PERIOD 27 SEPTEMBER 1983 TO 31 MARCH 1989

REVENUE:

Cost reimbursements claimed from USAID	\$483,256.65
Total Revenue	<u>\$483,256.65</u>

COSTS INCURRED:

Salaries, wages and fringe benefits	\$148,112.52
Travel and transportation	\$119,118.84
Equipment and supplies	\$ 22,637.13
Participant training costs	\$ 93,541.89
Direct costs	\$ 99,846.27
Total Expenditures	<u>\$483,256.65</u>



(ii) SUMMARY OF QUESTIONABLE AND DISALLOWABLE COSTS

	AMOUNT RECOMMENDED FOR			QUESTIONED COST
	<u>CLAIMED</u>	<u>ACCEPTANCE</u>	<u>DISALLOWANCE</u>	
Salaries	148,112.52	145,505.09	-	2,607.43 (1)
Travel & Trans- portation	119,118.84	36,275.87	78,821.37 (2+3)	4,021.60 (4)
Equipment & Supplies	22,637.13	22,162.58	474.55 (5)	-
Participant Training	93,541.89	128,835.37	(35,293.48) (3)	-
Direct Costs	99,846.27	90,025.04	2,592.84 (6)	7,228.39 (7)
TOTAL	\$483,256.65	\$422,803.95	\$46,595.28	\$13,857.42

- 1 Unsupported Costs in excess of payroll records
- 2 Includes \$33,718.43 required by Grant Agreement as a NAFCOC contribution, \$247.47 in duplicate claimed travel costs, and \$9,561.99 in unallowable vehicle expenditures.
- 3 Includes \$35,293.48 conference cost which, when reclassified, is allowable.
- 4 Unsupported costs.
- 5 Office supplies in excess of approved budget.
- 6 Includes refundable deposits of \$240.96 and \$475.25, duplicate payments of \$492.00 and \$1,564.63, and an underclaimed amount of \$180. (Adjustment).
- 7 Unsupported Direct Costs including rental expense of \$4,095.59 and \$328.05, office supplies \$2,804.75.



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

B PROGRAM AND NETWORK SUPPORT GRANT
(674-0206-G-00-6023-00)/
(674-0235-G-00-6026-00)

(1) STATEMENT OF US AGENCY FOR 'INTERNATIONAL DEVELOPMENT REVENUE AND
EXPENDITURE STATEMENT FOR THE PERIOD 25 SEPTEMBER 1986 TO 31 MARCH 1989

REVENUE:

Cost reimbursements claimed from USAID	\$67,827.10
Total Revenue	<u>\$67,827.10</u>

COSTS INCURRED

Allowances	\$18,476.25
Travel and transportation	\$28,255.02
Consultant's fees	\$20,464.87
Conferences and workshops	\$ 630.96
Total Expenditures	<u>\$67,827.10</u>



(ii) SUMMARY OF QUESTIONABLE AND DISALLOWABLE COSTS

	<u>AMOUNT CLAIMED</u>	<u>AMOUNT RECOMMENDED FOR ACCEPTANCE</u>	<u>DISALLOWABLE</u>	<u>QUESTIONED</u>
Allowances	18,476.25	18,476.25	-	-
Travel and Transportation	28,255.02	27,255.02	-	1,000.00 (1)
Consultant's fees	20,464.87	20,464.87	-	-
Conference & Workshops	630.96	630.96	-	-
	<u>\$67,827.10</u>	<u>\$66,827.10</u>	<u>\$</u>	<u>- \$1 000.00</u>

1 Unsupported Costs



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

C STRATEGIC PLANNING GRANT
(674-0303-G-SS-7079-00)(1) STATEMENT OF AGENCY FOR INTERNATIONAL DEVELOPMENT REVENUE AND EXPENDITURES
STATEMENT FOR THE PERIOD 28 SEPTEMBER 1987 TO 31 MARCH 1989

REVENUE

Cost reimbursements claimed from USAID	\$147,663.56
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Total Revenue	<u>\$147,663.56</u>
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COSTS INCURRED

Salaries	\$ 36 504.21
Travel and transportation	\$ 356.98
Equipment and supplies	\$ 1,423.12
Consultants' fees	\$109,379.25

Total Expenditures	<u>\$147,663.56</u>
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(ii) SUMMARY OF QUESTIONABLE AND DISALLOWABLE COSTS

	<u>AMOUNT CLAIMED</u>	<u>AMOUNT RECOMMENDED FOR ACCEPTANCE</u>	<u>DISALLOWANCE</u>	<u>QUESTIONED</u>
Salaries	36,504.21	36,504.21	-	-
Travel & Transportation	356.98	105.88	251.10 (1)	-
Equipment and Supplies	1,423.12	1,423.12	-	-
Consultant's fees	109,379.25	109,379.25	-	-
TOTAL	\$147,663.56	\$147,412.46	\$ 251.10	\$ -

1 Unallowable Auto Rental



23

NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

NOTES TO THE STATEMENTS OF AID REVENUE AND EXPENDITURES FOR THE PERIOD 27 SEPTEMBER 1983 TO 31 MARCH 1989

NOTE 1 - Nature of operation and summary of significant accounting policies

NATURE OF OPERATION

The National African Federated Chamber of Commerce and Industry (NAFCOC) represents both formal and informal sectors of black business in South Africa. NAFCOC was formally established in 1964 and has over 25 years evolved into a federation of some 18 affiliate chambers varying in size and spread throughout the country. The primary objectives of NAFCOC are as follows:

- to promote co-operation and unity amongst black business
- to promote self sufficiency in the black business community and fuller participation in the primary economy
- to foster development of black business through project promotion, trade investment leads, training and also forms of practical assistance
- to protect black business interests by working for the elimination of obstacles to black economic progress
- to serve as the sole body representing black business nationally.

The activities of NAFCOC are primarily funded by members contributions and grant funds received from different donors. The funds provided by USAID are based on various funding instruments designed in such a way as to meet specific NAFCOC requirements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the statements were as follows:

- a) The statements are prepared using the historical cost convention
- b) All foreign currency expenditures are stated in US dollar equivalent prevailing on the date of payment
- c) No depreciation charge has been reflected in the enclosed statements as expenditures on expendable equipment are chargeable directly to the project
- d) The statements include all costs claimed and reimbursed up to 31 March 1989.



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

NOTES TO THE STATEMENTS OF AID REVENUE AND EXPENDITURE FOR THE PERIOD
27 SEPTEMBER 1983 TO 31 MARCH 1989

NOTE 2 - Questionable and Disallowable Costs

A summary of costs, which in our opinion, are questionable and disallowable are set out below:

A ENTREPRENEURIAL TRAINING PROJECT
(AFR-0220-G-SS-3069-00)

2.1 QUESTIONABLE COSTS

Summary

Salaries	- inadequate supports	2.1.1	2,607.43
Travel and accommodation	- inadequate supports	2.1.2	4,021.60
Office rental	- inadequate supports	2.1.3	328.05
Facilities rental	- inadequate supports	2.1.4	4,095.59
Offices supplies	- inadequate supports	2.1.5	2,804.75
			\$13,857.42
			\$13,857.42

2.1.1 This amount relates to a duplicate claim for the September 1986 salaries of instructors counselors, manufacturing counselors and secretarial assistants of both the Johannesburg and Durban offices. The September 1986 salaries were claimed twice in the claim covering the months of August 1986 to September 1986.

NAFCOC Response

NAFCOC accepted the disallowance of the duplicate claim.



25

- 2.1.2 This amount relates to expenditures for which adequate supporting documentation was not available for our review. The amount is made up as follows:

<u>Period</u>	<u>Amount</u>
August - September 1986	263.92
October - December 1986	351.96
January - February 1987	256.80
September 1987	1,004.70
October 1987	563.13
December 1987	1,103.50
December 1988	477.59
	<hr/>
	\$4,021.60
	<hr/>

NAFCOC Response

NAFCOC accepted the above comments.

- 2.1.3 This amount relates to office rental expenditures for which adequate supporting documentation was not available for our inspection. The amount is made up as follows:

<u>Period</u>	<u>Office</u>	<u>Amount</u>
December 1988	Johannesburg	\$328.05
		<hr/>

NAFCOC Response

NAFCOC accepted the above comments.

- 2.1.4 This amount consists of facilities rental expenditure for which adequate supporting documentation could not be obtained. The amount is made up as follows:

<u>Period</u>	<u>Amount</u>
August - September 1986	\$4,095.59
	<hr/>

NAFCOC Response

NAFCOC accepted the above comments.



2.1.5 This amount relates to office operational expenditure for which adequate supporting documentation was not available for our inspection.

<u>Period</u>	<u>Amount</u>
October - December 1986	701.62
September 1987	63.29
December 1988	2,039.84
	<hr/>
	\$2,804.75
	<hr/>

NAFCOC Response

NAFCOC accepted the above comments.

2.2 DISALLOWABLE COSTS

Summary

Travel and accommodation - required NAFCOC contribution	2.2.1	33,718.43
Travel and transportation - duplicate claim	2.2.2	247.47
Office rental - refundable deposit	2.2.3	240.96
Office rental - duplicate claim	2.2.4	492.00
Office rental - duplicate claim	2.2.5	1,564.63
Office rental - refundable deposit	2.2.6	475.25
Travel and transportation - motor vehicle	2.2.7	9,561.99
Travel and accommodation - incorrect cost classification	2.2.8	35,293.48
Participant training - incorrect cost classification	2.2.9	(35,293.48)
Office rental - underclaimed amount	2.2.10	(180.00)
Office supplies - excess of budget	2.2.11	474.55
		<hr/>
		\$46,595.28
		<hr/>

2.2.1 This amount consists of traveling and accommodation expenses incurred by the current Director and Manager of Education and the current instructor counselor and manufacturing counselor. In terms of the Grant Agreement page 41 part 4, it specifically states that NAFCOC will make substantial contributions to the project. They will be in the form of salaries, fringe benefits and travel for their two current instructors and one manufacturing counselor. The salaries and fringe benefits of the current instructors and manufacturing counselors were not claimed. However, their travel and transport expenses were claimed from USAID. On the basis of the above reasoning, we consider the travel and transport costs that were claimed, to be disallowable.



NAFCOC Response

NAFCOC contended that as the existing NAFCOC employees played a key and vital role in setting up and running the Entrepreneurial Training Project, their traveling and accommodation expenses should be reimbursable under the Grant Agreement.

- 2.2.2 This amount relates to duplicate claims for airfare of \$86.74 claimed twice in September 1987 and for accommodation expenses of \$160.73 claimed twice in May 1988. We recommend these amounts for disallowance.

NAFCOC Response

NAFCOC accepted the disallowance of the duplicate claim.

- 2.2.3 This amount consists of a refundable rental deposit of the Port Elizabeth office which has been expensed to the Grant. As the amount is receivable back by NAFCOC we recommend that this expense be disallowed.

NAFCOC Response

NAFCOC stated, that they were unaware that a refundable deposit could not be claimed in terms of USAID regulations and accepted the disallowance.

- 2.2.4 This amount relates to a duplicate claim in respect of office rental. The June and July 1988 Port Elizabeth Office rentals were claimed individually in each respective month and again in August 1988. Consequently, we recommend that this expense be disallowed.

NAFCOC Response

NAFCOC accepted the disallowance of the duplicate claim.

- 2.2.5 This amount relates to a duplicate claim in respect of office rental. The February 1988 rental for the Cape Town, Port Elizabeth and Durban offices was claimed both in January 1988 and again in February 1988. We recommend that this expense be disallowed.

NAFCOC Response

NAFCOC accepted the disallowance of the duplicate claim.



- 2.2.6 This amount consists of a refundable rental deposit of the Durban office which has been expensed to the Grant. As the amount is receivable back by NAFCOC, we recommend that this expense be disallowed.

NAFCOC Response

NAFCOC stated, that they were unaware that a refundable deposit could not be claimed in terms of USAID regulations and accepted the disallowance.

- 2.2.7 This amount relates to a motor vehicle purchased for use by the Birch and Davis Project Co-ordinator. In accordance with the provisions of the Grant Agreement, NAFCOC was entitled to purchase eight motor vehicles, one for each of its instructor counselors and manufacturing counselors. NAFCOC only purchased three, two for the instructors and manufacturing counselors and one for the Birch and Davis project co-ordinator. The motor vehicle used by the Birch and Davis project co-ordinator should not have been funded from NAFCOC's budget but rather from the Birch and Davis budget.

NAFCOC Response

NAFCOC agreed with the above comments.

- 2.2.8 During our examination we observed that some expenditures were misclassified and therefore were reported in the incorrect cost category. The amount relates to facilities rental for participant training courses held, that were claimed in the budget category of travel and transport, rather than in the budget category of facilities rental. We, however, recommend that the contracting officer accepts these expenditures upon the adjustment to the proper expense category.

NAFCOC Response

NAFCOC agreed with the comments and will reclassify the expenses to their correct budget categories.

- 2.2.9 This amount relates to the contra for the reclassification of facilities rental costs as indicated in note 2.2.8 above.

NAFCOC Response

NAFCOC accepted the reclassification.

- 2.2.10 This amount consists of office rental costs that were underclaimed by NAFCOC.

NAFCOC Response

NAFCOC accepted the adjustment.

- 2.2.11 This amount consists of office supply costs incurred in excess of the approved budget.

NAFCOC Response

NAFCOC accepted the disallowance.



B PROGRAM AND NETWORK SUPPORT GRANT
(674-0206-G-00-6023-00)/
(674-0235-G-00-6026-00)

2.1 QUESTIONABLE COSTS

Summary

Per diem allowances	-	inadequate supports	2.1.1	\$1,000.00
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2.1.1 This amount consists of a per diem claim during the US affirmative trip, for which no supporting documentation of lodging expenses incurred were provided by some of the members on the trip. As USAID regulations require that all lodging expenses be documented and receipted, the amount is considered to be questionable.

NAFCOC Response

NAFCOC noted that the travel itinerary and travel tickets clearly indicated that the individuals concerned were overseas for the full period in question.

C STRATEGIC PLANNING GRANT
(674-0303-G-SS-7079-00)

2.1 DISALLOWABLE COSTS

Summary

Travel costs		2.1.1	251.10
			<hr/>
			\$251.10
			<hr/>



- 2.1.1 The Grant Agreement provides for the reimbursement of business travel expenses incurred by the executive director for the purpose of attending conferences and workshops. NAFCOC on its own accord provided the Executive Director with a car for traveling to place of work. The travel costs that were claimed are considered disallowable as they relate to car hire and fuel expenses received by the Executive Director for the purpose of traveling to his place of work.

NAFCOC Response

The exact definition of business travel is not clear from the Grant Agreement with the result that NAFCOC was of the opinion that the above traveling expenses could be claimed.



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY
NOTES TO THE STATEMENTS OF USAID REVENUE AND EXPENDITURES
FOR THE PERIOD 27 SEPTEMBER 1983 TO 31 MARCH 1989

NOTE 3 Salaries, wages and fringe benefits

The expenditures in the category salaries, wages and benefits were tested as follows:

- Examined the Grant Agreement to determine which employees should have their payroll costs charged to the Grant
- Agreed salary and other benefits to the employees personnel files wherever available
- Tested payroll in detail for every month for all employees
- Insured the salary scales of the employees were within USAID regulations
- Insured the salary scales of the employees were within the budgeted levels set out in the Grant Agreement
- Prepared a list of items considered to be questionable or disallowable costs

NOTE 4 Per diem allowance

The allowances charged to the Grant were tested as follows:

- Insured that the allowance was approved by USAID
- Insured that the allowance was not in excess of USAID established rates
- Insured that the allowance was for approved excursions
- Insured that the per diem allowances could be supported by documented and receipted evidence of lodgings
- Checked the correct charging of allowances to the project
- Prepared a list of items considered to be questionable or disallowable costs

NOTE 5 Travel and transportation

The travel and transportation costs were tested as follows:

- Insured that the Grant Agreement made provision for the reimbursement of local or overseas travel expenses
- Insured that USAID travel regulations and requirements were adhered to
- Tested for written approval from USAID of overseas travel arrangements
- Test checked amounts charged to supporting documentation
- Prepared a list of items considered to be questionable or disallowable costs



NOTE 6 Equipment and supplies

The equipment and supplies charged were tested as follows:

- Insured that the purchase of equipment and supplies was allowable under the Grant Agreement
- Insured that the items purchased were needed for USAID work and were being fully utilized for this purpose
- Test checked the items to shipping bills, invoices of suppliers and other supporting evidence
- Prepared a list of items considered to be questionable or disallowable costs

NOTE 7 Participant training costs

The participant training costs were tested as follows:

- Insured that the various types of participant training costs incurred and charged were allowable under the provisions of the Grant and applicable USAID regulations
- Insured that the participant training courses were approved courses
- Test checked the amounts charged to supporting documentation
- Prepared a list of items considered to be questionable or disallowable costs

NOTE 8 Direct costs

The direct costs charged were tested as follows:

- Insured that the various types of direct operational costs incurred were allowable under the provisions of the applicable Grant and USAID regulations
- Test checked items charged to supporting documentation
- Prepared a list of items considered to be questionable or disallowable costs

NOTE 9 Consultants' fees

The consultants' fees charged were tested as follows:

- Insured that the consultants' costs incurred were allowable under the provisions of the applicable Grant Agreement and USAID laws and regulations
- Test checked items charged to supporting documentation
- Insured consultants performed work in accordance with subcontract
- Prepared a list of items considered to be questionable or disallowable costs

NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

III REPORT ON INTERNAL ACCOUNTING CONTROL

We have examined the Statements of USAID Revenue and Expenditures of the National African Federated Chamber of Commerce and Industry for the period ended 31 March 1989, and have issued our report thereon dated 28 November 1989. As part of our examination we made a study and evaluation of the institution's system of internal accounting control 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 US General Accounting Offices Standards for Audit of Governmental Organizations, Programs, Activities and Functions (1988 Revision).

For the purpose of this report, we have classified the significant internal accounting controls used in administering the grant in the following categories:

- Purchases and disbursements
- Payroll
- Billing system

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

The management of NAFCOC is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objective of a system is to provide management with reasonable but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with managements'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 procedures may become inadequate because of changes in conditions or that degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purposes 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 NAFCOC taken as a whole or on any of the categories identified in the first paragraph.



Although our study and evaluation disclosed no conditions that we believe to be a material weakness, we have noted some deficiencies in the internal control system which need to be addressed by management. Our findings, recommendations and NAFCOC's response are presented in the following pages.

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. This report is intended solely for use of the United States Agency for International Development and the management of NAFCOC and should not be used for any other purposes.

Prin. Waterhouse

28 November 1989



35

NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

AUDIT FINDINGS ON INTERNAL ACCOUNTING CONTROL

1 LACK OF FORMAL POLICIES IN CERTAIN CRITICAL AREAS

Findings:

We noticed that NAFCOC does not have documented formal policies and procedures for certain critical areas, such as:

- there are no formal procedures for reviewing the payroll register by senior management
- there are no formal procedures for reviewing the disbursements cash book by senior management
- there are no formal procurement policies in respect of the purchase of equipment and supplies
- there are no formal accounting policies for USAID revenue and expenditures
- there are no formal budgeting policies for projecting future expenditure levels
- there are no formal policies with respect to the treatment of travel advances
- there are no formal policies with respect to the treatment of travel advances
- there are no formal policies with respect to the treatment of USAID advances.

Recommendation:

NAFCOC should revise and document its formal policies and procedures to address all of the above areas.

2 AUTHORIZATION OF CERTAIN PAYMENT VOUCHERS

Finding:

During our examination we noted several instances where check requisition vouchers were not signed by a senior official as evidence of approval. This could result in payments being made which were not formally authorized. It is NAFCOC's stated policy that all disbursements should be approved prior to payment.



Recommendation:

Check requisition vouchers should be signed by a senior official as evidence of authorization.

3 CANCELLATION OF CERTAIN PAYMENT VOUCHERS

Finding:

We noted that in several instances original vouchers supporting payments were not being cancelled upon payment to prevent duplicate payment.

Recommendation:

All supporting vouchers should be cancelled upon payment thereof. We recommend that NAFCO obtain a 'paid' stamp which can be used to stamp all documentation upon payment.

4 LACK OF CLEAR AUDIT TRAIL

Finding:

During the course of our audit we noted that in several instances there was no clear audit trail from the transaction voucher through to the summarized billing voucher. This results in difficulty in following a transaction through to the final billing to USAID.

Recommendation:

NAFCOC should implement a system to record every individual transaction making up the total billing to USAID. In addition, on each transaction voucher reference should be made to the billing number.

5 AUTHORIZATION OF PAYROLL

Finding:

Our audit tests revealed that there was no evidence of review and approval of the payroll register on a monthly basis by a senior official. This could result in unauthorized or incorrect payments being made.

Recommendation:

We recommend that a senior official review and approve the payroll on a monthly basis and sign the payroll as evidence of their review and approval.



6 RETENTION OF ORIGINAL RECORDS

Finding:

During our examination, we noted several instances where NAFCOG had not retained the original records. The original records were sent to either Birch and Davis or USAID for reimbursement. This resulted in incomplete records at NAFCOG's head office.

Recommendation:

Although we have been able to undertake our tests on records available at USAID's offices or copies of the originals made by NAFCOG, we recommend that NAFCOG always retain the original supporting documents. When claims are made for expenditure's incurred only copies of the originals should be sent with the claim.

7 PERSONNEL RECORDS

Finding:

Whilst performing our audit of salaries and other labor charges, difficulty was experienced in tracing and locating records such as current rates of pay, engagement letters, bonus rates, terms and conditions of employment. It was found that these records were not filed in a logical order but in numerous files both at NAFCOG's head office and field locations. This filing system makes easy retrieval of information difficult.

Recommendation:

We recommend that for each employee NAFCOG open up a personnel file and this file should contain records such as current rate of pay, engagement letter, bonus rates, terms and conditions of employment.

8 PREPARATION OF TIME SHEETS

Finding:

We noted that time sheets were not always prepared on a monthly basis by those involved on USAID projects. This reduces management's ability to monitor the activities of the project employees and especially those at remote field locations.

Recommendation:

We recommend that time sheets be prepared on a monthly basis by those involved on USAID project. The time sheet should summarize the various activities the employee was involved in during the month and should also give an indication of idle time, annual leave and sick leave taken.



38

9 TRAINING IN USAID REPORTING

Finding:

During the audit it came to our attention that there was a general lack of understanding amongst NAFCO's staff of the USAID reporting and monitoring requirements. This resulted in numerous misunderstandings between NAFCO, Birch and Davis and USAID.

Recommendation:

We recommend that NAFCO's staff be formally trained in USAID reporting requirements.

10 PROJECT SUBSIDIARY LEDGER

Finding:

For each billing, NAFCO accumulates all project expenditures on separate, manually prepared schedules. No project ledger is maintained other than the schedules referred to above. This method of expense accumulation is cumbersome and results in unnecessary duplication of work.

Recommendation:

We recommend that a subsidiary project ledger should be established that enables the accumulation and reporting of costs, based on a cost center model, so that all project expenses can be identified and USAID reporting requirements met.

11 MONTHLY REPORTING PROCEDURES

Finding:

During the course of our examination we noted that NAFCO in some instances, particularly during the initial period of the Grant, only submitted claims for project expenditures every second month. This resulted in acute cash flow problems for NAFCO.

Recommendation:

We recommend that NAFCO implement monthly cut-off procedures for project incurred costs and that these costs be reported as soon as is possible.

NAFCO RESPONSE TO AUDIT FINDINGS ON INTERNAL ACCOUNTING CONTROLS

NAFCO accepted all the audit findings and agreed to implement the proposed recommendations.



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY

IV REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS

We have examined the Statements of USAID Revenue and Expenditures of NAFCOC for the period ended 31 March 1989 and have issued our report thereon dated 28 November 1989. The Agency for International Development had the following grants with the National African Federated Chamber of Commerce and Industry:

- Entrepreneurial Training Project - (AFR-0220-G-SS-3069-00)
- Program and Network Support Grant - (674-0206-G-00-6023-00)/
(674-0235-G-00-6026-00)
- Strategic Planning Grant - (074-0303-G-SS-7079-00)

Our examination was made in accordance with generally accepted auditing standards, the provisions of Standards of Audit of Governmental Organizations, Programs, Activities and Functions (1988 revision) promulgated by the US Comptroller General, as they pertain to financial and compliance audits; and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of NAFCOC is responsible for compliance with the terms of the Grant Agreements and applicable laws and regulations.

In connection with our examination, we selected and tested transactions and records to determine the organization's compliance with agreements, terms and applicable laws and regulations, non compliance with which we believe could have a material effect on the abovementioned statements of NAFCOC.

The results of our tests indicate that for the transactions and records of the Program and Network Support Grant and the Strategic Planning Grant tested, NAFCOC complied with those provisions of the Federal Award Agreements and of laws and regulations, non compliance with which could have a material effect on the Statements of USAID Revenue and Expenditures. However, in the case of the Entrepreneurial Training Project Grant, NAFCOC failed to comply with the provisions of the Federal Award Agreement requiring grantee contributions, non compliance with which had a material effect on the Statement of USAID Revenue and Expenditures. We noted certain other issues that we believe warrant the attention and action of NAFCOC as described in the audit findings section of this report. Nothing came to our attention that caused us to believe that for the items not tested, NAFCOC was not in compliance with laws, regulations, and the terms and conditions of the Federal Award Agreements. However, it should be noted that our examination was not directed primarily towards obtaining knowledge of non compliance with such requirements, terms and conditions.



Contractor information contained in this report may be considered privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of management of NAFCOC and the US Agency for International Development and should not be used for any other purposes.

Prin Waterman

28 November 1989



NATIONAL AFRICAN FEDERATED CHAMBER OF COMMERCE AND INDUSTRY
AUDIT FINDINGS ON COMPLIANCE WITH GRANT AGREEMENTS
TERMS AND APPLICABLE LAWS AND REGULATIONS

1 RETENTION OF RECORDS

Finding:

NAFCOC management was unable to locate some of the requested field location and headquarter's expenditure documentation. In accordance with Government requirements, the grantees are required to maintain the supporting documentation for at least three years after completion of the projects.

Recommendation:

Management should develop clear policies and procedures to maintain and safeguard the supporting documentation for a period of at least three years after the completion of each project.

2 CASH ADVANCES

a) Finding:

During the course of our audit, we noted that cash advances made by USAID to NAFCOC were not deposited in a separate bank account. In accordance with Government requirements, USAID funds shall not be co-mingled with other recipient-owned or controlled funds.

Recommendation:

NAFCOC should deposit all USAID cash advances in a separate bank account and shall make all disbursements for goods or services from this account.

b) Finding:

During the course of our audit we noted that there was no periodic reporting of the use and needs of cash advances by NAFCOC to the USAID/South Africa Controller. In accordance with Government requirements, each quarter after the initial advance, the recipient shall submit to the USAID Controller a Federal Advance Status Report.

Recommendation:

NAFCOC should develop reporting policies and procedures whereby it would be able to submit a Federal Advance Status Report on a quarterly basis.

NAFCOC'S RESPONSE TO AUDIT FINDINGS ON COMPLIANCE WITH GRANT AGREEMENTS
TERMS AND APPLICABLE LAWS AND REGULATIONS

NAFCOC accepted all the above audit findings and agreed to implement the proposed recommendations.



42

3 GRANTEE CONTRIBUTIONS

Finding:

During the course of our audit of the Entrepreneurial Training Project Grant, we noted that NAFCOC failed to comply with the terms of the Grant Agreement, as set out on page 41 part 4. This paragraph specifically states that NAFCOC shall make substantial contributions to the project and that they will be in the form of salaries, fringe benefits and travel for their existing instructors and manufacturing counselor. The salaries and fringe benefits were not claimed, however, their travel and accommodation expenses were claimed from USAID.

NAFCOC Response

NAFCOC contended that as the existing NAFCOC instructor and manufacturing counselor played a key and vital role in setting up and running the Entrepreneurial Training Project, their traveling and accommodation expenses should be reimbursable under the Grant Agreement.

THE AUDIT OF THE NATIONAL AFRICAN FEDERATED
CHAMBER OF COMMERCE AND INDUSTRY

APPENDICES

MEMORANDUM

Date: 17 JAN 1989

To: Toby L. Jarman, RIG/A/N

From: Dennis P. Barsett, Mission Director, USAID/SA

Subject: Comments on draft audit report concerning A.I.D. Agreements with the National African Federated Chamber of Commerce & Industry (NAFCOC).

We are in receipt of the subject document. On the whole, USAID/SA considers the report to reflect a thorough and balanced analysis of the financial transactions and processes in question. Our specific comments are as follows:

Report Section II

- * USAID/SA accepts the report's conclusions, contained at page 9, concerning the respective discrepancies and non-discrepancies of the three Agreements in question relative to their overall schedules of expenditures.
- * USAID/SA has no additional information which would disturb the report's categorization of \$13,857.42 in costs under the Entrepreneurial Training Project as "questionable" (Page 18, Section A(2.1)).
- * USAID/SA has no additional information which would disturb the report's categorization of \$46,595 in costs under the Entrepreneurial Training Project as "disallowable" (Page 20, Section A (2.2)). However, we would note that with respect to both "questionable" and "disallowable" NAFCOC expenditures incurred prior to USAID/SA's September, 1988 assumption of direct financial processing responsibilities under the subject Agreement, we are unsure as to whether any repayment responsibilities would rest with NAFCOC and/or the Agreement's implementation subcontractor, Birch and Davis. Pending resolution of this issue by RIG/A, USAID/SA is committed to seeking future reimbursement from the appropriate party of any and all costs RIG/A determines to be disallowable.
- * With respect to the \$1,000 in costs categorized as "questionable" under the Program and Network Support Grant (Page 23, Section B (2.1)), USAID/SA is satisfied that, given the circumstantial evidence, allowance of the claimed per diem would be merited. USAID/SA recommends that such condonation be contingent on NAFCOC's submission of a certification that commercial lodging was in fact used for the nights in question.

- * With respect to the \$251.10 in costs categorized as "disallowable" under the Strategic Planning Grant (page 23, Section C (2.1)), if NAFCOC acknowledges that the purpose of the car rental was as stated on report page 24 USAID/SA has no additional information which would disturb the document's disallowability finding.

Report Section III

- * USAID/SA accepts the report's conclusions, contained at page 27, concerning the adequacy of NAFCOC's internal accounting control systems.
- * With respect to the report's recommendations to NAFCOC, contained at pages 29-32, on improving the latter's internal accounting control systems, USAID/SA considers the proposed measures sound. However, we have reservations concerning the efficacy of USAID/SA attempting to ensure implementation of such steps, given the limited leverage entailed in the Mission's present funding relationship with NAFCOC. (At this time, we do not anticipate any significant new grants or contracts with the organization in the proximate future). Pending RIG/A's formal recommendations, we are committed to taking reasonable actions to promote NAFCOC compliance with the proposed institutional adjustments, to which the report indicates they have in any event agreed.

Report Section IV

- * USAID/SA accepts the report's conclusions, contained at page 33, concerning the respective compliance and non-compliance of NAFCOC with the terms and regulations applicable under the three Agreements in question.

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