

"Contractor information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public."

**AUDIT OF
KHANYA PRESCHOOL ASSOCIATION
AGREEMENT NO. 674-0302-G-SS-7075**

**AUDIT REPORT NO. 3-674-91-05-N
FEBRUARY 28, 1991**

Claimed costs were generally well supported. Only Rand 17,583 (\$7,631) in costs were questioned and Rand 1,628 (\$666) considered unsupported. However, improvements in internal controls were needed in accounting for revenues and disbursements and in complying with requirements for separate accounts and reimbursing interest receipts to USAID/South Africa.

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

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NAIROBI, KENYA

February 28, 1991

MEMORANDUM

TO: Dennis P. Barrett, Director, USAID/South Africa
FROM: Toby L. Jarman, RIG/A/Nairobi 
SUBJECT: Audit of Khanya Preschool Association Agreement No. 674-0302-G-SS-7075

This report presents the results of a non-Federal financial audit of Khanya Preschool Association, Agreement No. 674-0302-G-SS-7075 (the Agreement). The accounting firm of Pema Lakha and Associates, South Africa performed the audit.

The Khanya Preschool Association (the Association) was founded in September 1987 to provide support to associated, community-based preschools. The Agreement was to help the Association respond to requests of black communities in the Western Cape area of South Africa for assistance in establishing and operating preschools. The Agreement financed four aspects of the Association's operations: committee coordination, training and technical assistance, operating expenses, and an evaluation of operations. From September 29, 1987 through September 30, 1990, USAID/South Africa granted a total of \$183,317 (Rand 438,095) to the Association.

The audit objectives were to:

- report on the fairness of the Association's Fund Accountability Statement;
- evaluate the Association's system of internal controls; and
- determine the Association's compliance with applicable laws, regulations, and Agreement terms.

The audit period was from September 29, 1987 through September 30, 1990 and the audit covered about \$63,529 (Rand 151,835) in funds provided to the Association.

Pema Lakha concluded that the Association's Fund Accountability Statement presents fairly the revenues and expenditures covering the period from September 29, 1987 through September 30, 1990. The audit accepted \$58,530 (Rand 140,967), questioned \$4,333 (Rand 9,240), and considered \$666 (Rand 1,628) as unsupported. The auditors also reviewed USAID disbursements made after the audit period and questioned \$3,298 (Rand 8,343) related to the acquisition of furniture and equipment although the Agreement provides for the acquisition of a vehicle.

In its report on internal controls, Pema Lakha noted several reportable weaknesses in the Association's internal control structure. The following are considered the most significant:

- various Association financial accounting procedures were unacceptable, and
- employment records were not maintained.

The auditors reported that the Association complied with terms of the Agreement and U.S. Laws and regulations, except that it did not:

- open a separate bank account for USAID funds,
- remit interest earned on USAID funds, and
- perform the planned evaluation.

The draft report was provided to USAID/South Africa and the Association's representatives. Their comments were taken into consideration in preparing the attached final report. Both USAID/South Africa and the Khanya Preschool Association generally agreed with the findings and indicated that corrective action would be taken with respect to implementing the recommendations.

The Pema Lakha report contains 23 recommendations. We have summarized the most significant points into two recommendations. While the Mission will want to ensure all applicable recommendations are implemented, only the following recommendations will be included in the Office of the Inspector General's 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, \$7,631 (Rand 17,583) of questioned costs from Khanya Preschool Association; and
- 1.2 determine the allowability and recover as appropriate \$666 (Rand 1,628) of unsupported costs from Khanya Preschool Association.

Recommendation No. 2: We recommend that the Director, USAID/South Africa ensure that Khanya Preschool Association improve its internal control system and compliance with terms of its grant and applicable U.S. laws and regulations by requiring that the Association:

- 2.1 bring its accounting records up-to-date and prepare financial statements to the end of 1990;
- 2.2 balance the cash book and reconcile bank accounts monthly;
- 2.3 approve teacher salary payments and require teachers to acknowledge receipt of these payments;
- 2.4 create a personnel file for each employee at the head office and preschools;
- 2.5 establish a separate bank account for USAID funds;
- 2.6 return interest earned on USAID funds of Rand 164 to USAID/South Africa; and
- 2.7 complete the planned evaluation.

We consider Recommendation Nos. 1 and 2 unresolved pending receipt of a specified plan of corrective action. Please respond to this report within 30 days, indicating any actions planned or already taken to implement the recommendations.

I appreciate the cooperation and courtesy extended to Pema Lakha and Associates and Regional Inspector General for audit representatives during the audit.

KHANYA PRESCHOOL ASSOCIATION

AGREEMENT NUMBER 674--0302-G-SS-7075-00

FINANCIAL AUDIT

FOR THE PERIOD SEPTEMBER 29, 1987

TO SEPTEMBER 30, 1990

JANUARY 31, 1991

6

KHANYA PRESCHOOL ASSOCIATION

FINANCIAL AUDIT

FOR THE PERIOD SEPTEMBER 29, 1987

TO SEPTEMBER 30, 1990

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FINANCIAL AUDIT

FOR THE PERIOD SEPTEMBER 29, 1987 THROUGH

SEPTEMBER 30, 1990

1. INTRODUCTION AND BACKGROUND

A. BACKGROUND

Khanya Preschool Association (KPA) was founded in September 1987 in response to community demands for assistance in establishing and financing community-based pre-schools. The main purpose of KPA is to provide central support to its associated pre-schools. The support is structured to effect cost savings by the centralized purchase and distribution of food, education materials and equipment, co-ordinate and drive central fund raising, co-ordinate technical education and training and provide a forum for parents committees and help establish new schools.

B. AIMS AND OBJECTIVES

1. To run efficient and decent pre-schools that can introduce and maintain early learning among children from deprived backgrounds, such that they can have a good foundation for learning in later life;
2. To provide counselling services to parents;
3. To improve the academic development of pre-school teachers by whatever means possible;
4. To strive for improvements in the pre-school educational institutions, facilities and systems in Southern Africa;
5. To improve the quality of children's life in society;
6. To associate and affiliate with any other organization having similar objects, subject to the approval of the Council of the Association.

C. MANAGEMENT

The business and affairs of the Association are managed and administered by the management committee on behalf of the Association. The committee is comprised of 3 representatives from each pre-school and the principal. The chairperson and co-ordinator from the main office are also members of the management committee.

The Management Committee co-ordinates all technical and financial functions of the Association. The Committee considers all applications for membership, obtains and distributes to members educational materials and information and, through regular visits and monitoring ensures that all member schools offer a high quality standard of education for young people.

A top priority of the management committee was to raise funds to make the project viable as the agreement with USAID only covered a portion of the expenditure budgeted for the program.

Unfortunately the management committee has not been able to operate effectively during the course of the program. This, together with their inability to secure the necessary funding has contributed to the program not achieving its stated objectives.

D. PRE-SCHOOL PARTICIPATION

Initially 9 pre-schools showed an interest in joining the Association. Once the Association was formed and operating, only 5 schools joined and a further 2 during the course of the program. Owing to financial difficulties the Association currently only supports 3 schools.

During our visit to the pre-schools it was evident that the pre-schools were providing a necessary service to the community. Despite the low salaries paid to teachers and limited resources, the teachers made a valuable contribution.

E. PURPOSE OF THE AGREEMENT

The purpose of the Agreement was to help the Khanya Preschool Association respond to the requests of black communities in the Western Cape for assistance in establishing and operating preschools which provide for the early learning needs of black children. Such preschools are community-based and seek to instill in young children a sense of self and a desire to question and learn which is often stifled by the apartheid education system. It is hoped that such early learning opportunities will help them extract the maximum educational experience possible from the inferior and racially biased education generally afforded blacks. Given the limited experience in South Africa with black pre-schools such initiatives will also contribute to defining a community-based, nonracial education system for a post-apartheid South Africa.

The Khanya Preschool Agreement financed four components of the Association's operations: Management Committee co-ordination functions; training and technical assistance for preschool staff and their governing bodies; operating expenses for affiliated preschools; and an interim evaluation of the Association's program. After receiving an initial advance, Khanya Preschool Association was reimbursed for expenditures based on a monthly expenditure report.

At inception the assistance was budgeted as follows:

	\$US	SAR
	---	---
1. Management Committee		
a. Salaries	85 000	157 350
b. Administrative & Finance	41 400	76 550
c. Capital	10 800	20 000
	-----	-----
d. Subtotal	137 200	253 900
2. Technical Assist. & Training	26 400	48 750
3. Preschool Expenses	32 400	59 950
4. Evaluation	10 000	18 500
	-----	-----
TOTAL	\$ 206 000	381 100
	=====	=====

The Association engaged the services of Thembaletu Financial Services to assist with the accounting function. Initially for a period of about 12 months the accountant assisted with the preparation of monthly claims to USAID. Once the Association felt they could handle this function they undertook to prepare and submit claims themselves.

The accounting records consist of a cash book; this is a duplicate cash book issued by the accounting service of Thembaletu Financial Services; and a salary register. At the date of review the cash book was written up to date, but was not balanced. The payroll records were written up to June 1990. Annual Financial Statements were not prepared since inception. There is no evidence of a general ledger or periodic financial reporting.

Despite the poor state of the accounting records, all the bank statements, bank cancelled cheques and suppliers invoices were available for audit.

This is the first non-Federal audit of the Khanya Preschool Association Project, Agreement Number 674-0302-G-SS-7075-00.

During the period October 29, 1990 to December 5, 1990 we performed a financial audit of the grantee for the period September 29, 1987 to September 30, 1990.

The objectives of this audit were to:

- review the Statement of Revenue and Expenditure to assess the propriety, allocability and acceptability of charges to USAID.
- determine whether KPA has complied with the applicable laws, regulations and terms of the contract agreement and U.S laws.
- identify, evaluate and compliance test internal controls.
- prepare audit reports analysing problem areas in need of improvement, proposing recommendations and itemizing costs as accepted, questioned and unsupported.

Our examination was performed in accordance with generally accepted auditing standards and the Comptroller General's Government Auditing Standards (1988 Revision Yellow Book) and accordingly included such tests of the Statement of Revenue and Expenses and other auditing procedures as were considered necessary in the circumstances.

The audit was performed under the supervision of the Regional Inspector General's audit office based in Nairobi and was conducted in accordance with the "Non - Federal Audit Guide".

The terms of the grant agreements and the cost principles contained in the applicable US Government regulations were used as criteria in the determination of questioned and unsupported costs.

The scope of the audit consisted of the following: -

- selective examination and testing of supporting documentation of expenditure incurred and claimed.
- a review of KPA's transactions for compliance with the grant agreements and applicable US laws and regulations.
- a study and evaluation of the internal controls and accounting practice of KPA to the extent necessary to render an opinion on the Statement of Revenue and Expenditure.
- a review of the grant agreements, implementation letters, implementation reports, handbooks, relevant government regulations and other related documents.

The sample selected for testing and the coverage obtained were as follows: -

	R	%
	-	-
Total disbursements tested	151 835	35
Total disbursements outside scope	286 259	65
	-----	-----
Total disbursements (September 87 - September 30, 1990)	438 094	100
	=====	=====

The major portion of the disbursements were for salaries paid to the pre-school staff. Our sample selected for testing included independent confirmations from 35 teachers acknowledging receipt of salaries from The Khanya Preschool Association.

A. STATEMENT OF REVENUE AND EXPENSES

We performed a financial audit of the Revenue and Expenditure Statement of KPA for the period September 29, 1987 to September 30, 1990.

As detailed on Exhibits B and C we identified certain costs which in our opinion were questionable and unsupported.

The questioned and unsupported costs amounted to six percent and one percent respectively of the items tested.

B. COMPLIANCE WITH U.S LAWS AND REGULATIONS

Apart from interest on USAID funds which has not been refunded to the US Treasury, nothing came to our attention to indicate that Khanya Preschool Association has not complied with law regulations, and the terms of the Federal Award Agreement. Over the period of the contract, the interest payable amounted to R 164,05 which according to management will be refunded in due course.

C. INTERNAL ACCOUNTING CONTROLS

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

Our study and evaluation was designed to determine the nature, timing and extent of auditing and procedures necessary for expressing an opinion on the organization's Statement of Revenue and Expenditure.

During the course of our audit, we identified several weaknesses which we have documented in our memorandum on financial matters, accounting procedures and internal controls (Section 12), together with our suggestions and recommendations for improvement.

D. ERRORS AND IRREGULARITIES

During the course of our audit work, nothing came to our attention that caused us to believe that there were any material errors or irregularities.

A. CURRENT STATUS OF THE PROJECT

Khanya Preschool Association was founded in September 1987 in response to community demands for assistance in establishing and financing community based preschools.

During the audit it became clear that the KPA has not been successful in co-ordinating and assisting with the development of preschools.

At inception of the program the Association had 5 member schools, at present it only has a working relationship with 3 schools. The level of assistance to the schools is limited to subsidizing salaries of teaching staff. In addition there is apparently little evidence of programs for teacher upgrading and parent counselling.

This is primarily due to a lack of funding, the inability to get parents to become actively involved in the program and the limited participation by the Association's Director (Chairperson) on the program. To date the Director has only been involved on a part-time basis.

As a result of the poor performance on the part of KPA in meeting its objectives in terms of the agreement, we understand that USAID will not be renewing or extending the grant.

B. QUESTIONED AND UNSUPPORTED DISBURSEMENTS

Based on the sample selected for testing as detailed in Exhibits B and C and disbursements subsequent to September 30, 1990 the financial recovery of the following amounts must be considered.

	R	\$
(i) Unsupported (Exhibits B & C)	R 1 627,54	665,72
(ii) Questioned (Exhibits B & C)	R 9 240,00	4 333,15
(iii) Questioned	R 8 343,34	3 297,76

Subsequent to September 30, 1990 USAID reimbursed KPA for expenses incurred on office furniture.

R 19 210,88 \$ 8 296,63
=====

The questioned costs have been incurred for office furniture and equipment. They have been classified 'questioned' on the basis that the agreement with KPA provides for the acquisition of a vehicle for R20 000 but does not specifically provide for the purchase of office furniture and equipment. The office furniture and equipment was acquired instead of the vehicle as that was a higher priority.

The outstanding cash advance at December 18, 1990 was US \$2 216, 84 (R4 500-14). At this date there was a claim in process which was sufficient to liquidate the balance on the advance account.

D. OTHER MATTERS

We noted that interest earned on USAID funds of about US \$70 (R164,05) had not been refunded to the US Treasury.

6. REPORT ON THE STATEMENT OF REVENUE AND EXPENDITURE

INDEPENDENT AUDITORS' OPINION

We have examined the US Agency for International Development's Statement of Revenue and Expenditure of Khanya Preschool Association for the period September 29, 1987 to September 30, 1990. The US Agency for International Development had grants as described on Exhibit A with Khanya Preschool Association during this period. Our examination was made in accordance with generally accepted auditing standards and the U.S Comptroller General's "Standards for Audit of Governmental 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. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Statement of Revenue and Expenditure is free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the Statement of Revenue and Expenditure. We believe that our audit provides a reasonable basis for our opinion.

It is Khanya Preschool Association's accounting policy to prepare its Statement of USAID Revenue and Expenditure on a basis outlined by the terms and conditions of grant agreement with USAID and the applicable U.S Government laws and regulations. Accordingly the accompanying Statement of USAID Revenue and Expenditure is presented on the cash basis which is a comprehensive basis of accounting other than generally acceptable accounting principles.

In our opinion, the US Agency for International Development's Statement of Revenue and Expenditure of Khanya Preschool Association presents fairly the revenue and expenditure of Khanya Preschool Association attributed to USAID grants during the period September 29, 1987 to September 30, 1990 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 management of Khanya Preschool Association or the US Agency for International Development and should not be used for any other purpose.

Perna Lakha & Associates

PEMA LAKHA & ASSOCIATES

JOHANNESBURG, SOUTH AFRICA
DECEMBER 5, 1990

7. INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION
FOR KHANYA PRESCHOOL ASSOCIATION

We have examined the Statement of USAID Revenue and Expenditure of Khanya Preschool Association for the period September 29, 1987 to September 30, 1990. Our examination was made for the purpose of forming an opinion of the Statement of USAID Revenue and Expenditure. Exhibits B and C are presented for the purpose of additional analysis and are not a required part of the basic statement of USAID Revenue and Expenditure and, in our opinion, is fairly stated in all material respects in relation to the basic Statement of USAID Revenue and Expenditure taken as a whole.

Pema Lakha & Associates

PEMA LAKHA & ASSOCIATES

JOHANNESBURG, SOUTH AFRICA
DECEMBER 5, 1990

B. US AGENCY FOR INTERNATIONAL DEVELOPMENT

REVENUE AND EXPENDITURE STATEMENT

FOR THE PERIOD SEPTEMBER 29, 1987 TO SEPTEMBER 30, 1990

	U.S DOLLARS	RANDS
	-----	-----
Balance at beginning of period	0,00	0,00
Advances and disbursements since inception to September 30, 1990	\$183 316, 97	R 438 094,59
	=====	=====

9. RESULTS OF AUDIT WORK ON DISBURSEMENTS FOR THE
PERIOD SEPTEMBER 29, 1987 TO SEPTEMBER 30, 1990

		<u>CLAIMED</u>	<u>ACCEPTED</u>	<u>QUESTIONED</u>	<u>UNSUPPORTED</u>
		R	R	R	R
Management Committee					
Salaries - Co-ordinator		12 225,63	12 225,63		
Salaries - Bookeeper		6 594,57	6 594,57		
Salaries (PAYE & UIF)		1 237,32	1 237,32		
Administration and finance		24 057,09	14 429,48	9 240,00	387,61
Preschool expenses					
Nonzame		23 410,62	23 410,62		
St. Cyprians		23 583,68	23 583,68		
Nolukhanyo		19 076,76	18 904,91		171,85
Nonkululekho		24 319,00	24 319,00		
Nyanga		1 980,00	1 980,00		
Lukhanyiso		8 579,46	8 579,46		
Siyizamile		6 771,10	5 703,02		1 068,08
Total Tested	34,66%	R 151 835,23	140 967,69	9 240,00	1 627,54
Outside scope	65,34%	286 259,36	92,8%	6,1%	1,1%
Total disbursed		R 438 094,59			

10. REASONS FOR QUESTIONED AND UNSUPPORTED DISBURSEMENTS
 FOR THE PERIOD SEPTEMBER 29, 1987 - SEPTEMBER 30, 1990

DESCRIPTION	QUESTIONED	UNSUPPORTED	REASONS
	R	R	
Administration and Finance			
Telephone		248,80	Claimed twice in error-refer July 1990 claim.
Stationery		138,81	Claimed twice in error-refer July 1990 claim.
Photocopier	6 339,20		The agreements only provided for the purchase of a vehicle. The amounts were utilized instead to acquire office equipment which was a higher priority at the time.
Typewriter	2 900,80		
Preschool Expenses			
Nohlukhanyo		171,85	Full month's salary claimed but only half paid because the teacher only worked for half the month. Balance retained to fund pre-school expenses.
Siyizamile		1 068,08	Principal's salary withheld for two months because of missing funds.
	R 9 240,00	R 1 627,54	

11.REPORT ON THE SYSTEM OF INTERNAL ACCOUNTING CONTROLS

We have audited the Statement of Revenue and Expenditure of the Khanya Preschool Association for the period September 29, 1987 to September 30, 1990 and have issued our report thereon dated December 5, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States.

In planning and performing our audit of the Khanya Preschool Association we considered it's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Khanya Preschool Association is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or 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 internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

- Overall financial controls
- Treasury
- Expenditure
- Procurement
- Payroll

For all the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accounts. Reportable conditions involved matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

The reportable conditions and other matters involving the internal control structure and its operation that we noted are reported to the management of Khanya Preschool Association in the Memorandum on Financial Matters, Accounting Procedures and Internal Controls dated December 5, 1990 and are appended hereto in Section 12.

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 management of Khanya Preschool Association or the US Agency for International Development and should not be used for any other purpose.

Pema Lakha & Associates

PEMA LAKHA & ASSOCIATES

JOHANNESBURG, SOUTH AFRICA
DECEMBER 5, 1990

KHANYA PRESCHOOL ASSOCIATION

12. MEMORANDUM ON FINANCIAL MATTERS, ACCOUNTING PROCEDURES

AND INTERNAL CONTROLS

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Fordsburg, 2033
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Suite 1610, Kine Centre
141 Commissioner Street
Johannesburg
2001

December 5, 1990

Regional Inspector General for Audit-Nairobi
P.O. Box 30261
Nairobi
Kenya

Dear Sirs:

RE: KHANYA PRESCHOOL ASSOCIATION

The accompanying memorandum includes suggestions for improvement of accounting procedures and internal accounting control measures that came to our attention during our audit of the organization for the period September 29, 1987 to September 30, 1990.

In accordance with generally accepted auditing standards, we performed a review and evaluation of existing internal accounting controls for the purpose of providing a basis for reliance thereon in determining the nature, timing and extent of the audit tests applied in connection with our examination of the organisation's Statement of Revenue and Expenses. While certain matters which came to our attention during the review are presented in the accompanying memorandum for the consideration of management, such a review was not designed for the purpose of making detailed recommendations and would not necessarily disclose all weaknesses in the existing system.

The accompanying memorandum also includes comments and suggestions with respect to other matters which came to our attention during the course of our audit. These matters are offered as constructive suggestions for the consideration of management as part of the on-going process of modifying and improving accounting controls and other financial and administrative practices and procedures.

Yours sincerely



J.D. PEMA

FOR :PEMA LAKHA & ASSOCIATES

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MEMORANDUM ON FINANCIAL MATTERS, ACCOUNTING PROCEDURES
AND INTERNAL CONTROLS

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- 12.18 CLAIM FOR SALARIES UNPAID

The Association was founded in September 1987 in response to community demands for assistance in establishing and financing community based preschools.

The objectives of the association are to provide central support to preschools. The support is designed to effect cost savings by centralized purchase and distribution of food, educational materials and equipment. To assist in improving the educational level at preschools by counselling parents, improving the academic development of its teachers and by securing better facilities, to co-ordinate a fund raising drive for and on behalf of its associated pre-schools and to help establish new schools.

During the audit it became clear that the Association has not been successful in co-ordinating and assisting with the development of preschools.

At inception of the program the Association had 5 member schools, at present it only has a working relationship with 3 schools. The level of assistance to the schools is limited to subsidizing salaries of teaching staff. In addition there is apparently little evidence of programs for teacher upgrading and parent counselling.

This is primarily due to a lack of funding, the inability to get parents to become actively involved in the program and the limited participation by the Association's Director (Chairperson) on the program. To date the Director has only been involved on a part-time basis.

Urgent steps need to be taken to revive the program and in this regard we make the following recommendations.

- 1.1 Management should take stock of the current position and identify areas of concern.
- 1.2 Parents support for the program must be canvassed and secured and they should be encouraged to participate actively.
- 1.3 Consideration should be given to inviting new members to serve on the management committee. The newly constituted management committee must possess varied skills necessary to achieve the Association's objectives. The committee should consist of persons with organizing, educational, fund raising and financial management skills.
- 1.4 Management should work out a plan of action to achieve its objectives.
- 1.5 The Association's director should be involved on the program on a full time basis.
- 1.6 The Association should consider obtaining assistance from similar professional organizations to assist management to address teacher upgrading, monitor teaching standards and curricular.

Agreed. Your recommendations are valid and will be
addressed in the new year.

12.2 ACCOUNTING RECORDS AND PREPARATION OF FINANCIAL STATEMENTS

Since inception of the program, only the cash book has been written up but has not been balanced and reconciled. In addition no financial statements have been prepared to date.

This is indicative of poor financial management and will hamper The Association's ability to obtain funding from independent donors.

We recommend that the Association's accounting records be brought up to date and financial statements be prepared to the end of December 1990.

Management comment:

The accountant will be approached after the financial audit to finalize the accounting records and financial statements. USAID will be approached to fund this exercise out of remaining funds.

12.3 CHART OF ACCOUNTS

There is no evidence of a chart of accounts.

The chart of accounts should be designed to report on the disbursements made to each school and conform to the expense categories shown in the approved budget.

Management comment:

We will request our accountant to design the chart of accounts accordingly.

At present there is no formal comparison of actual expenditure incurred to amounts budgeted. This is a helpful tool both, to ensure that there is no overspending and to monitor progress on projects.

We recommend that once the level of operations increases The Association should consider the introduction of this feature.

Management comment:

Noted.

12.5 MONTHLY DISBURSEMENT CLAIMS

We noted that in certain instances disallowed items on claims were not identified and investigated.

This could result in valid claims not being paid.

We recommend that all claims reimbursed be reconciled to the original claim and any differences investigated.

Management comment:

All claims will be reconciled to amounts received in future.

12.6 BANK RECONCILIATIONS

The cash book has not been balanced and bank reconciliations have not been prepared since inception.

These are important procedures to identify errors and irregularities and to obtain the true bank balance after accounting for uncleared cheques. We recommend that the cash book be balanced and bank reconciliations prepared on a monthly basis.

Management comment:

This will be addressed soon after the financial audit.

We noted that during the course of the program very little emphasis was placed on parent and staff workshops. Virtually the whole budget allocated by USAID for this purpose was diverted for the payment of salaries to the teaching staff.

While we appreciate that this was the case as a result of the lack of funding, this area is nevertheless important and requires urgent attention to stimulate interest in the program.

Management comment:

We recognize the need, while some work was performed in this area we will be increasing our emphasis.

12.8 PROGRAM EVALUATION

In terms of the agreement The Association was required to have the program and it's progress evaluated approximately 18 months after the agreement became effective. The purpose of the evaluation was to assess the progress made by The Association in serving pre-schools in the Western Cape and to suggest areas for improvement on the program. Apparently this did not materialize.

To ensure that the program is effective, we recommend that an evaluation of the program be carried out. At this stage of the program it may be beneficial to consider expanding the scope of the evaluation to include the current status of pre-schooling in the Western Cape and to identify the need of pre-schools.

Management comment:

We agree, however this can only be undertaken provided that funding can be obtained.

Initially salaries were only acknowledged by the principal for the total amount received by the schools. This was later improved by teachers acknowledging receipt individually on the salaries register. We have noted that this latter measure has been discontinued.

As salaries are paid in cash to the teachers, it is important that tight controls be instituted to ensure that the scope for errors or fraud is minimized.

To ensure proper control we recommend that salaries payments should be approved by the chairperson and receipt acknowledged individually by each teacher.

Management comment:

This will be put into practice.

12.10 APPOINTMENT OF PRINCIPALS

We noted that a principal is appointed at each preschool regardless of the number of children at the school.

We recommend that where practicable, The Association should consider having a principal responsible for more than one school. The Association should adopt guidelines on a principals to teacher and principal to children ratio to ensure an effective level of supervision and monitoring of teaching standards.

Management comment:

Accepted, will be investigated.

12.11 SALARIES REGISTER

The salaries register has only been written up to June 1990. The Association does not lack the resources to keep their records up to date.

To ensure proper control over salaries and the payment of tax deductions and insurance contributions we recommend that the salaries records be brought up to date without delay.

Management comment:

Now updated.

Tax withholdings and unemployment insurance contributions have not been paid over since September 1990. Furthermore, The Associations has to date not registered for Regional Services Levies.

Late payment of amounts due could attract penalties and interest. We recommend that the total amount due should be established and paid over.

Management comment:

Arrears will be established and paid over.

12.13 PREPARATION OF A CHECKLIST

Consideration should be given to the design of a checklist with completion dates to assist the organization to meet with its monthly financial management and administrative deadlines. The checklist should include inter-alia, the following:

- (i) Trial Balance
- (ii) Bank reconciliations
- (iii) Statutory returns
- (iv) Monthly management accounts
- (v) Creditors reconciliation
- (vi) USAID reimbursement requests
- (vii) Donor reporting requirements and deadlines
- (viii) File maintenance
- (ix) Minutes of meetings
- (x) Salaries register and payment
- (xi) Internal reports for each project

Management comment:

A checklist will be introduced.

There is no evidence on invoices of prices and extensions being checked nor are they cancelled after payment to prevent reuse.

To avoid duplicate and overpayments we recommend that a rubber stamp should be introduced which would require employees to indicate whether invoices have been checked and paid.

Management comment:

Noted. This feature will be introduced once the level of operations increases.

12.15 EMPLOYEE FILES

There are no records noting employee's personal particulars and terms and conditions of employment.

Records of this nature are important for statutory compliance as well as monitoring the progress and development of employees.

We recommend that a file be introduced for each employee at head office as well as preschools. The Director (Chairperson) should periodically meet with staff persons to evaluate their progress and needs. A record of the interview should be filed for reference purpose.

Management comment:

We recognize this need. The co-ordinator will create employee files with immediate effect.

Only a few of the minutes of management committee meetings were available.

To ensure that a proper record is kept of proceedings at meetings we recommend that minutes be taken at all management committee meetings and copies be kept in a file for reference purposes.

Management comment:

This will be instituted with immediate effect.

12.17 INTEREST EARNED FROM USAID FUNDS

In terms of the agreement any interest earnings from funds provided under this agreement will be returned to USAID.

We noted that an amount of R164-05 interest was earned during the course of the program. In keeping with the agreement we recommend that this amount be paid over without delay.

Management comment:

Noted. Will attend to this matter.

12.18 CLAIM FOR SALARIES UNPAID

There is a claim pending against the Association for R4 975 from the Nulukhanyo pre-school.

While we appreciate that salary subsidies to the preschool were discontinued because of a lack of co-operation from the school and a non disclosure of funds received by the school from other sources, we recommend that the Association respond promptly to the claim via their attorneys.

Management comment:

Agreed.

13. REPORT ON THE COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS

We have audited the Statement of USAID Revenue and Expenditure of Khanya Preschool Association for the period ended September 30, 1990, and have issued our report thereon dated December 5, 1990. We conducted our audit in accordance with generally accepted auditing standards and Standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance on whether the Statement of Revenue and Expenditure is free of material misstatement.

The management of Khanya Preschool Association is responsible for Khanya Preschool Association's compliance with US laws and regulations and the conditions of the grant agreements.

As part of obtaining reasonable assurance about whether the Statement of USAID Revenue and Expenditure are free of material misstatement, we performed tests of Khanya Preschool Association's compliance with US laws and regulations and the conditions of the grant agreements. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in US laws and regulations and the conditions of grant agreements that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Statement of USAID Revenue and Expenditure. The results of our tests of compliance disclosed the following material instances of non compliance:

- An evaluation of the program was not carried out as required by the grant agreement.
- The grant agreement required the grantee to endeavour to raise funds. Apparently little effort went into this task and consequently no funds were secured from other donors.
- Only a limited amount of technical assistance and training was provided to parents and teachers as required by the grant agreement.
- Interest earned on U.S. funds were not calculated nor remitted to the U.S. Treasury.

We considered these material instances of non compliance in forming our opinion on whether the Statement of Revenue and Expenditure of Khanya Preschool Association for the period ended September 30, 1990 are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated December 5, 1990 on the Statement of Revenue and Expenditure.

Further, with respect to the items not tested by us, nothing came to our attention to indicate that Khanya Preschool Association had not complied with law 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 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 Khanya Preschool Association or the US Agency for International Development and should not be used for any other purpose.

Pema Lakha & Associates

PEMA LAKHA & ASSOCIATES

JOHANNESBURG, SOUTH AFRICA
DECEMBER 5, 1990

KHANYA PRE - SCHOOLS ASSOCIATION

Palace House
Rooms 109 - 110
Salt River

Tel.: 47-6605

December 5, 1990

PEMA LAKHA & ASSOCIATES
P.O. BOX 42964
FORDSBURG
2033

Dear Sirs:

We confirm, to the best of our knowledge and belief, the following representations made to you in connection with your financial audit of the Statement of Revenue and Expenses of the Khanya Preschool Association for the period September 29, 1987 to September 30, 1990 for the purpose of determining the validity and propriety of charges to USAID, determining compliance with applicable laws, regulations and terms of the contract agreement, evaluating the project's accounting system, internal controls and its capability to properly identify and account for costs in accordance with USAID regulations.

1. We acknowledge management's responsibility for the fair presentation of the Agency for International Development's Statement of Revenue and Expenses.
2. All available minutes of the meetings of the management committee and all financial and accounting records and related data have been made available to you.
3. We are not aware of: -
 - (a) any irregularities involving management or employees who have significant roles in the system of internal accounting control, or any irregularities involving other employees that could have a material effect on the Statement of Revenue and Expenses.
 - (b) any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the reports. There have been no communications from regulatory agencies or government representatives concerning investigation to non-compliance with laws and regulations in any jurisdiction or deficiencies in the financial reporting practices that could have material effect on the Statement of

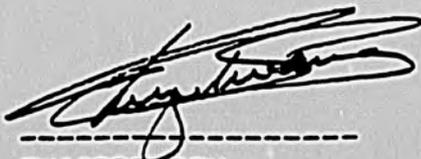
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Palace House
Rooms 109 - 110
Salt River

Tel.: 47-6605

Revenue and Expenses. The organisation has complied with all aspects of contractual agreements that would have a material effect on the Statement of Revenue and Expenses in the event of non-compliance.

- (c) any accounts, transactions or agreements not fairly described and properly recorded in the accounting records having any material effect on the Statement of Revenue and Expenses supplied by US AID - Pretoria.
4. We have complied with all provisions of OMB's Circulars A - 110 and A - 122 as noted in our report on compliance and all other contractual agreements that would have a material impact on the Statement of Revenue and Expenses.
 5. All charges applied against the Agency for International Development Agreement (Agreement no. 674-0302-G-SS-7075-00) represents costs that comply with conditions set forth in the agreement.
 6. The Statement of Revenue and Expenses and appended notes include all disclosures necessary for a fair presentation of revenue and expenses of the organisation in accordance with USAID regulations.
 7. Other than as disclosed, there are no lawsuits or major disputes with preschools, suppliers or others or any other material liabilities or gain or loss contingencies that require to be accrued or disclosed in the financial statements.
 8. No matters or occurrences have come to our attention up to the date of this letter which would materially affect the Statement of Revenue and Expenses and related disclosures for the period September 29, 1987 to September 30, 1990.



CHAIRPERSON
MR. BATEMBU LUGULWANA

KHANYA PRE - SCHOOLS ASSOCIATION

Palace House
Rooms 109 - 110
Salt River

Tel.: 47-6605

03 December 1990

PEMA LAKHA & ASSOCIATES
P O BOX 42864
FORDSBURG
2035

Dear Sirs

In connection with your examination of our Statement of Revenue and Expenses Statement for the period ended September 30, 1990 we have submitted to your representative all available minutes covering meetings of The Management Committee held on the dates stated below. These minutes constitute a record of some of the meetings held during the period from September 29, 1987 to September 30, 1990.

<u>DATE</u>	<u>TYPE</u>
10.3.88	Management Committee
29.4.88	Management Committee
03.5.88	Management Committee
14.7.88	Management Committee / Uluntu
18.8.88	Principals' Meeting
10.10.88	Management Committee

CHAIRPERSON
MR BATEMBU LUGULWANA

CO-ORDINATOR
MR CHRIS NOTO




**AUDIT OF
KHANYA PRESCHOOL ASSOCIATION
AGREEMENT NO. 674-0302-G-SS-7075**

APPENDIX

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