



**USAID**  
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## **OFFICE OF INSPECTOR GENERAL**

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CLOSEOUT AUDIT OF USAID/RCSA'S RESOURCES  
MANAGED BY THE SOUTHERN AFRICAN  
DEVELOPMENT COMMUNITY – PARLIAMENTARY  
FORUM UNDER LIMITED SCOPE GRANT  
AGREEMENT NO. 690-0304 FOR THE PERIOD  
SEPTEMBER 17, 2002 TO SEPTEMBER 30, 2005

AUDIT REPORT NO. 4-690-06-008-N  
May 4, 2006

PRETORIA, SOUTH AFRICA

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



*Office of Inspector General*

May 4, 2006

MEMORANDUM FOR ACTING MISSION DIRECTOR, USAID/RCSA, Anthony Vodraska

FROM: Acting Regional Inspector General/Pretoria, James B. Gaughran

SUBJECT: Closeout Audit of USAID/RCSA's Resources Managed by the Southern African Development Community - Parliamentary Forum Under Limited Scope Grant Agreement No. 690-0304 for the period September 17, 2002 to September 30, 2005 (Report No. 4-690-06-008-N)

This memorandum transmits the subject report prepared by the Defense Contract Audit Agency (DCAA) European Branch Office.

The audit was performed in accordance with the U.S. Comptroller General's Government Auditing Standards (GAS). The audit report had qualifications because:

- The auditors were unable to obtain an approved detailed budget by activity for the grant during the performance of the audit. As a result, they were unable to compare an approved detailed budget to the actual costs incurred, and
- The USAID funding received was commingled. The auditors considered it impractical to determine the amount of interest those funds would have earned had they been deposited into a separate bank account.

On September 17, 2002 USAID/RCSA approved the Limited Scope Grant Agreement (LSGA) which provided \$2,237,000 in grant funds to the Southern African Development Community - Parliamentary Forum (SADC-PF). It is anticipated that this program will enhance the capacity of parliamentarians in the Southern African Development Community to effectively contribute to deeper regional integration through increased participation and improved democratic practices. The estimated completion date of the LSGA is September 30, 2005.

This Agency-contracted audit (ACA) was initiated by the Mission because the SADC-PF is an *important regional partner*. As a result, the mission wanted to ensure that the audit performed was of a high quality. Also, the audit was required to cover two years of expenditures.

This audit covered \$2,204,169 expenditures of USAID funds. The specific objectives of the audit were to:

- express an opinion on whether the fund accountability statement for the USAID funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period audited in conformity with the terms of the agreement and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis);

- obtain a sufficient understanding of the recipient's internal controls related to the USAID funded programs being audited, assess control risk, and identify reportable conditions, including material internal control weaknesses;
- perform tests to determine whether the recipient complied, in all material respects, with agreement terms and applicable laws and regulations related to USAID funded programs;
- perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient;
- determine if the recipient has taken adequate corrective action on prior audit report recommendations;
- determine whether cost-sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreements; and
- perform a financial audit of the recipient's general-purpose financial statements on an organization-wide basis, if the recipient has been authorized to charge indirect costs, or if the mission specifically requests such an audit.

The auditors rendered a qualified opinion on the Fund Accountability Statement. The audit disclosed the following:

- Total questioned costs of \$230,653 (\$65,961 ineligible and \$164,692 unsupported)
- Six reportable internal control weaknesses, one of which were considered material:
  - i. Unreliable and inadequate accounting system controls;
  - ii. Lack of annual budget to enable timely monitoring of budget to actual expenses;
  - iii. Inadequate segregation of duties in finance and administration departments;
  - iv. Inadequate training of accounting personnel handling USAID grant expenses;
  - v. Lack of an adequate timekeeping system; and
  - vi. Failure to identify and segregate unallowable costs.
- Eight instances of material noncompliance were noted:
  - i. Failure to obtain approval of the grant budget;
  - ii. Failure to prepare the grant budget on a yearly basis;
  - iii. Failure to maintain separate bank accounts to prevent commingling of funds;
  - iv. Failure to remit bank interest in excess of \$250 per year to USAID;
  - v. Failure to establish an adequate timekeeping system;
  - vi. Failure to exclude unallowable salary allowances;
  - vii. Failure to comply with travel policies and procedures regarding per diem; and
  - viii. Failure to exclude unallowable business class travel.

Additionally, the grant agreement required SADC-PF to provide in-kind cost sharing contributions. However, the agreement did not identify any amount or percentage to be assigned to cost sharing or in-kind contributions. As a result, the auditors did not pursue any identification of in-kind amounts. The report recommends that, in the future, if it is USAID/RCSA's intention for SADC-PF to provide cost sharing contributions, the exact cost sharing requirements, including amount and nature, should be specified in the agreement.

Therefore, we are making the following recommendations:

**Recommendation No. 1: We recommend that USAID/RCSA determine the allowability of \$230,653 in questioned costs (\$65,961 ineligible and \$164,692 unsupported) detailed on page 9 of the Defense Contract Audit Agency's audit report, and recover from the Southern African Development Community - Parliamentary Forum any amount determined to be unallowable.**

**Recommendation No. 2: We recommend that USAID/RCSA ensure that the Southern African Development Community - Parliamentary Forum correct the six internal control weaknesses (unreliable and inadequate accounting system controls, lack of annual budget to enable timely monitoring of budget to actual expenses, inadequate segregation of duties in finance and administration departments, inadequate training of accounting personnel handling USAID grant expenses, lack of an adequate timekeeping system, and failure to identify and segregate unallowable costs) detailed on pages 29-34 of the Defense Contract Audit Agency's audit report.**

**Recommendation No. 3: We recommend that USAID/RCSA ensure that the Southern African Development Community - Parliamentary Forum correct the eight instances of material noncompliance (failure to obtain approval of the grant budget, failure to prepare the grant budget on a yearly basis, failure to maintain separate bank accounts to prevent commingling of funds, failure to remit bank interest in excess of \$250 per year to USAID, failure to establish an adequate timekeeping system, failure to exclude unallowable salary allowances, failure to comply with travel policies and procedures regarding per diem, and failure to exclude unallowable business class travel) detailed on pages 35-44 of the Defense Contract Audit Agency's audit report.**

In accordance with Automated Directives System (ADS) 595.3.1.1.a and 595.3.1.5.a, an audit recommendation without management decision may be elevated three months after issuance. Contract, Grant, or Agreement Officers make management decisions on questioned costs and procedural audit recommendations resulting from Office of Inspector General (OIG) desk reviews of financial audits of contractors and grantees. Mission Directors make management decisions for audit recommendations pertaining to Strategic Objective Grant Agreements that he/she signs. Please have the responsible official provide the Regional Inspector General/Pretoria with written notice within thirty days on any information related to actions planned or taken to implement the report recommendations.



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 2191-2006U17900002**



April 18, 2006

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**SUBJECT:** Report on Close-Out Audit of USAID Resources Managed by Recipient  
September 17, 2002 through September 30, 2005

**REFERENCES:** Limited Scope Grant Agreement No. 690-0304  
Appropriation: 725/61021  
Relevant Dates: See Page 51

**RECIPIENT:** Southern African Development Community Parliamentary Forum  
Parliament Gardens  
Love Street Private Bag 13361  
Windhoek, Namibia

**REPORT RELEASE RESTRICTIONS:** See Page 52

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**SUBJECT OF AUDIT**

In response to a USAID Regional Center for Southern Africa (RCSA) request, dated December 19, 2005, we examined the USAID resources managed by the Southern African Development Community Parliamentary Forum (SADC-PF) under Limited Scope Grant Agreement (LSGA) no. 690-0304 for the period September 17, 2002 to September 30, 2005. The purpose of the examination was to:

- express an opinion on whether the fund accountability statements for the USAID-funded programs present fairly, in all material respects, revenues received, costs incurred, and commodities/technical assistance directly procured by USAID for the period reviewed in conformity with the terms of the agreement and generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
- obtain a sufficient understanding of the recipient's internal controls related to the USAID-funded programs being audited, assess control risk, and identify reportable conditions, including material internal control weaknesses;
- perform tests to determine whether the recipient complied, in all material respects, with agreement terms and applicable laws and regulations related to USAID-funded programs;
- perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient;
- determine if the recipient has taken adequate corrective action on prior audit report recommendations;
- determine whether cost-sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreements; and
- perform a financial audit of the recipient's general-purpose financial statements on an organization-wide basis, if the recipient has been authorized to charge indirect costs, or if the mission specifically requests such an audit.

SADC-PF is responsible for preparing the fund accountability statements (FAS) to comply with the requirements in USAID "Guidelines for Financial Audits Contracted by Foreign Recipients." SADC-PF is also responsible for establishing and maintaining an adequate internal control structure, and for compliance with the requirements of the laws, regulations, contracts, and grants applicable to the USAID funded programs. Our responsibility is to express an opinion on the fund accountability statements, test their related internal controls and obtain reasonable assurance on whether these statements are free of material misstatement and compliant with applicable laws, regulations, and grant provisions based on our examination.

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## **SCOPE OF AUDIT**

Except for the qualifications discussed below, we conducted our examination in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Circular A-122. Those standards require that we obtain a sufficient understanding of the recipient's internal controls related to the USAID grants and to plan and perform the examination to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement. An examination includes:

- evaluating the recipient's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed;
- assessing the accounting principles used and significant estimates made by the recipient; and
- evaluating the overall data and records presentation.

We evaluated SADC-PF's fund accountability statement, the internal controls related to the USAID funds being audited, and compliance with agreement terms, applicable laws, and regulations using the requirements contained in the:

- OMB Circular A-122, "Cost Principles for Nonprofit Organizations";
- LSGA no. 690-0304 between USAID and SADC-PF; and
- USAID "Guidelines for Financial Audits Contracted by Foreign Recipients."

Specific procedures performed during the period January 18, 2006, to February 3, 2006, included, but were not limited to:

- examining the fund accountability statement submitted by SADC-PF for the period September 17, 2002 to September 30, 2005;
- reviewing accounting records, general ledgers, and project ledgers for the USAID-funded program to determine whether costs incurred were properly recorded;
- determining the grant recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the fund accountability statement;
- evaluating the effectiveness of internal controls for each significant assertion in the fund accountability statement;
- determining, through interviews with program management personnel and reviews of existing procedures, agreements, laws and regulations, and prior audit findings, whether the control environment is effective;

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- evaluating whether project management has complied with agreement terms, laws, regulations, contracts and binding policies and procedures, and determining the extent of noncompliance or unallowable expenses;
- identifying costs which are not supported with adequate documentation or are not in accordance with the applicable laws, regulations, and agreement terms; and
- following up on material findings and recommendations from prior audits.

Our assessment of control risk reflects that we did not perform an examination of SADC-PF's internal control structure related to (i) the control environment, (ii) the accounting system, or (iii) the related internal controls in effect during the period that costs were incurred. The scope of our examination reflects our assessment of control risk and includes tests of compliance with applicable laws and regulations that we believe provide a reasonable basis for our opinion.

### QUALIFICATIONS

1. Approved Budget. We were unable to obtain an approved detailed budget by activity for the grant during the performance of our audit. Annex I of the grant, paragraph IV, Implementation, states, "The SADC-PF will submit a proposal to the RCSA fully describing the sub-activity to be implemented...The RCSA will review the proposal...RCSA approval will be communicated through an implementation letter." There were five implementation letters issued under the grant. Implementation letter nos. 1 and 5 state the activity being funded and reference the budgets at Annex II. Neither implementation letter contains Annex II. In addition SADC-PF submitted two revised budget proposals requesting to transfer funds between activities. We asked SADC-PF and USAID to provide the approved detailed budget for the grant. SADC-PF provided a revised budget request, but could not show where the request was approved by USAID. USAID provided an approval for SADC-PF's last request to transfer funds between activities. However, neither could provide an approved detailed budget by activity for the entire grant. Therefore, the results of our audit are qualified since we could not compare an approved detailed budget by activity to the actual costs incurred. We could only compare the total costs incurred to the total funded costs. For further details see Exhibit D, Compliance with Agreement Terms and Applicable Laws and Regulations, note 1, page 35.

2. Bank Interest. Implementation Letter No. 1 of the grant requires the grantee to deposit advances into a separate interest bearing account and remit the interest to USAID. The grantee is allowed to retain up to \$250 per account per year for administrative expenses. SADC-PF deposited and transferred over \$1 million of the advances into its own interest bearing account (i.e., not a separate account as required by the grant). By doing so, SADC-PF commingled USAID-provided funds in noncompliance with the agreement terms. Because the USAID funds were commingled, our report is qualified since we considered it impractical to determine the amount of interest these funds would have earned had they been deposited into a separate bank account. For further details see Exhibit D, Compliance with Agreement Terms and Applicable Laws and Regulations, note 4, page 38.

**RESULTS OF AUDIT**

**Fund Accountability Statements**

a. Direct Costs. In our opinion, except for the qualifications discussed above, SADC-PF’s fund accountability statement for the period September 17, 2002 through September 30, 2005 presents fairly, in all material respects, the financial position of costs financed by USAID, in conformity with the basis of accounting described in Note 1 of the fund accountability statement as adjusted by our examination. Our examination disclosed \$65,961 of ineligible costs, and \$164,692 of unsupported costs. The ineligible costs represent earned interest to be remitted to USAID, unallowable employee allowances, unallowable travel, and per diem expenses incurred in excess of allowable per diem rates. The unsupported costs represent labor that could not be supported due to lack of an adequate timekeeping system and the difference between the fund balance and the bank account. The ineligible and unsupported costs are summarized as follows:

<u>Element</u>	<u>Questioned Costs</u>		
	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>
Earned Interest	\$ 907		\$ 907
Per Diem	38,544		38,544
Airfare	1,692		1,692
Salaries & Benefits	24,818	\$131,620	156,438
Bank Reconciliation		33,072	33,072
Total	<u>\$65,961</u>	<u>\$164,692</u>	<u>\$230,653</u>

b. Indirect Costs. SADC-PF did not propose or allocate indirect costs to the grant.

In a response received April 10, 2006 SADC-PF management concurred with \$10,757 of the ineligible expenses for bank interest, meals, and business class airfare. SADC-PF did not concur with \$219,896 ineligible and unsupported expenses related to per diem, salaries and benefits, and bank reconciliation. Please refer to Exhibit A, page 8, of this audit report for the fund accountability statement and the notes to the statement incorporating SADC-PF’s response. SADC-PF’s complete response is attached to this audit report as an appendix 2, page 54.

**Cost Sharing**

In planning and performing our review of SADC-PF’s cost sharing schedule, we reviewed the grant agreement to determine if cost sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreement. According to the agreement, “The Grantee agrees to provide in-kind contribution of facilities and personnel to the activity in order to facilitate the achievement of the results.” The grant agreement did not identify any amount or percentage to be assigned to cost sharing or in-kind contributions. However, SADC-PF did provide personnel and facilities to manage the grant at no cost to USAID. Further, SADC-PF provided a schedule identifying cost sharing amounts that it considers applicable to

this grant. SADC-PF was unable to identify amounts that relate to its in-kind contribution. However, since the grant did not require monetary values, we did not pursue any identification of in-kind amounts. For further details, see Exhibit B, Cost Sharing, page 27, of this report.

### **Internal Control Structure**

In planning and performing our examination of the fund accountability statement of SADC-PF under USAID LGSA No. 690-0304 for the period September 17, 2002 to September 30, 2005, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on internal control. Accordingly we do not express an opinion on SADC-PF's system of internal controls taken as a whole.

We noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect SADC-PF's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement. The identified reportable conditions are summarized as follows:

- unreliable and inadequate accounting system controls;
- lack of annual budget to enable timely monitoring of budget to actual expenses;
- inadequate segregation of duties in finance and administration departments;
- inadequate training of accounting personnel handling USAID grant expenses;
- lack of an adequate timekeeping system; and
- failure to identify and segregate unallowable costs.

We consider lack of an adequate timekeeping system to be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the fund accountability statement and the cost-sharing schedule may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

See Exhibit C, page 29, of this report for detail on the reportable conditions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

**Compliance with Grant Agreement Terms and Applicable Laws and Regulations**

As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests of SADC-PF's compliance with certain provisions of grant terms, laws, regulations, and policies and procedures. Noncompliance with any of these provisions could have a direct and material effect on the determination of the fund accountability statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance. We reported the effects of these instances as ineligible and unsupported costs included by SADC-PF in the fund accountability statement.

- failure to obtain approval of the grant budget;
- failure to prepare the grant budget on a yearly basis;
- failure to maintain separate bank accounts to prevent commingling of funds;
- failure to remit bank interest in excess of \$250 per year to USAID;
- failure to establish an adequate timekeeping system;
- failure to exclude unallowable salary allowances;
- failure to comply with travel policies and procedures regarding per diem; and
- failure to exclude unallowable business class travel.

We detailed the noncompliance conditions under Exhibit D, page 35 of this report.

**Follow-up on Prior Audit Findings**

During our examination we obtained copies of the audit performed by Neuhaus & Company, Chartered Accountants (Namibia) Public Accountants and Auditors, dated August 8, 2002, and the USAID Memorandum dated May 1, 2002, summarizing the preaward survey performed by Datex. We performed a follow-up review to determine the status of the conditions identified in the two reports. The results of our follow-up review are detailed in Exhibit E, page 45, of this report.

**Financial Statements**

USAID requested that an audit of the recipient's organization-wide financial statements be performed if the recipient had been authorized to charge indirect costs. SADC-PF was not authorized to charge indirect costs to the grant; therefore, we did not perform an audit of the recipient's financial statements.

**Additional Remarks**

During the course of our examination, we also noted another matter involving the accounting system and related internal controls which, although not considered to be a significant deficiency

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at this time, we believe should be communicated to SADC-PF's management. This matter is detailed in the "Suggestions to Improve the System," Appendix 1, page 53, of this report.

USAID requested that we verify SADC-PF's disposition of advance check no. 117997 in the amount of \$276,989. We verified that this check was deposited to SADC-PF's local currency account no. 160907055 (not a separate USAID account) on December 22, 2004. Due to commingling of funds, we could not verify the exact expenses paid with this check. However, as part of our transaction testing, we verified, on a sample basis, that claimed costs were related to the USAID LSGA and were in accordance with applicable regulations and grant agreement. Results of our review are included in Exhibit A, page 8.

We discussed audit findings with SADC-PF representatives, Dr. Kasuka Mutukwa, Secretary General; Ms. Bookie Kethusegile-Juru, Assistant Secretary General; Mr. Justin Bonongwe, Finance and Administrative Officer; and others, at an exit conference held February 2, 2006. We provided preliminary draft results of audit at the exit conference. SADC-PF does not concur with all of our findings and recommendations. We incorporated SADC-PF's comments into the audit report notes to the Exhibits and provided auditor's responses, when appropriate. The full text of SADC-PF's reply to our draft report findings is included as Appendix 2, page 54, of the report. SADC-PF's response includes several references to attachments that were not included with the response, but were to be sent by courier. Per discussion with the Deputy RIG/Pretoria, if the attachments are intended to provide support for questioned costs, they should be sent to USAID - RCSA and not be included in the report. Therefore, we incorporated SADC-PF's response to the audit report findings without the referenced attachments.

**THE FUND ACCOUNTABILITY STATEMENT**

We consider \$65,961 to be ineligible costs and \$164,692 to be unsupported costs based on our examination of costs incurred under Limited Scope Grant Agreement No. 690-0304 for the period September 17, 2002 through September 30, 2005. The following schedule details the ineligible and unsupported costs by element.

**SOUTHERN AFRICAN DEVELOPMENT COMMUNITY PARLIAMENTARY FORUM (SADC-PF)**

**STRENGTHENING LEGISLATIVE CAPACITY TO PROMOTE REGIONAL INTEGRATION**

Project No. LGSA 690-0304

**FUND ACCOUNTABILITY STATEMENT BY PROGRAM RESULTS (Note 1)**

**AND RESULTS OF AUDIT (Note 2)**

September 17, 2002 to September 30, 2005

(Amounts in US Dollars)

	BUDGET	ACTUAL	QUESTIONED COSTS			NOTES
			INELIGIBLE	UNSUPPORTED	TOTAL	
<b>REVENUE</b>						
Advances	\$2,237,000	\$2,059,790				
Reimbursements		177,100.23				
<b>Total Revenue</b>	<b>2,237,000</b>	<b>2,236,890</b>				<b>3</b>
Interest		1,657	\$907		\$907	4
<b>Total Revenue and Interest</b>	<b>\$2,237,000</b>	<b>\$2,238,547</b>	<b>\$907</b>	<b>\$0</b>	<b>\$907</b>	
<b>COSTS INCURRED</b>						
<b>A. ELECTORAL NORMS AND STANDARDS</b>						
1.0.0 Pre-election Mission to Angola (Peace Process Assessment)	\$35,668	\$35,668				
2.0.0 Election Preparedness Assessment-Angola						
3.0.0 Election Observation Capacity Bldg & Training Workshop-staff	92,537	92,537	\$8,158		\$8,158	5
4.0.0 Norms and Standards Roundtable for Electoral Mgt Bodies	43,435	43,435	1,692		1,692	6
5.0.0 Norms & Standards Advocacy & Capacity Building Workshop	55,883	55,883				
6.0.0 Testing Norms and Stds in context of Voter Registration in Mw	50,656	50,656				
7.0.1 Communication	8,563	8,563				
7.0.2 Review and Printing of Norms and Standards	22,869	22,869				
7.0.3 Auditing and Financial Charges	8,967	1,017				
7.0.4 Compilation of Reports	4,660	4,660				
8.0.0 Consultations with USAID/RCSA	3,082	3,082				
<b>TOTAL ELECTORAL NORMS AND STANDARDS</b>	<b>326,321</b>	<b>318,371</b>	<b>9,850</b>	<b>-</b>	<b>9,850</b>	
<b>B. REGIONAL WOMEN'S PARLIAMENTARY CAUCUS (RWPC)</b>						
1.1.0 Lobbying Mission to Botswana and Malawi	16,318	16,318				
1.2.0 Lobbying Mission to Mozambique (Now Mauritius)/Tanzania	19,739	19,445				
1.3.0 Lobbying Mission to Namibia	7,693	7,987				
1.4.0 Lobbying Mission to Zimbabwe	22,544	21,710				
2.1.0 Salaries and benefits	97,334	93,885	20,155	73,730	93,885	7
2.2.0 Other Program Costs	7,605	7,605				
2.3.0 International and Regional Networking	8,994	8,994				
2.4.0 Lobbying Mission to Zambia	16,632	19,949				
<b>TOTAL REGIONAL WOMEN'S PARLIAMENTARY CAUCUS</b>	<b>196,859</b>	<b>195,892</b>	<b>20,155</b>	<b>73,730</b>	<b>93,885</b>	
<b>C. CONFLICT MANAGEMENT</b>						
1.0.0 Advisory Group Meeting	24,750	24,750				
2.0.0 Capacity Bldg & Training Workshop-MPS (Mal/RSA observers)	64,621	64,621	204		204	8
3.0.0 Consultations on Peace Building in Angola	56,704	56,704				
4.0.0 Technical Assessment Mission-Tanzania	11,758	11,758				
5.0.0 Capacity Bldg & Training Workshop-Staff (Mal/RSA observers)	79,817	79,117	2,136		2,136	8
6.0.0 Capacity Bldg & Training Workshop-MPS (Moz/Bots/Nam observers)	99,976	99,976				
7.0.1 Salaries and Benefits	26,281	25,521	4,663	20,858	25,521	7
7.0.2 Communication	-	-				
7.0.3 Compilation of reports	1,797	1,797				
7.0.4 Other Program Costs	20	20				
7.0.5 Transboundary Workshop-Angola/Namibia/Zambia	101,670	73,335				
<b>TOTAL CONFLICT MANAGEMENT</b>	<b>\$467,395</b>	<b>\$437,599</b>	<b>\$7,003</b>	<b>\$20,858</b>	<b>\$27,861</b>	

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY PARLIAMENTARY FORUM (SADC-PF)  
 STRENGTHENING LEGISLATIVE CAPACITY TO PROMOTE REGIONAL INTEGRATION  
 Project No. LGSA 690-0304

FUND ACCOUNTABILITY STATEMENT BY PROGRAM RESULTS (Note 1)  
 AND RESULTS OF AUDIT (Note 2)  
 September 17, 2002 to September 30, 2005  
 (Amounts in US Dollars)

	BUDGET	ACTUAL	QUESTIONED COSTS			NOTES
			INELIGIBLE	UNSUPPORTED	TOTAL	
<b>D. ELECTION OBSERVATION PROGRAM</b>						
1.1.0 South Africa Elections	\$261,061	\$261,061	\$12,000		\$12,000	8
1.2.0 Malawi Elections	227,923	226,665	5,040		5,040	9
1.3.0 Botswana Elections	165,475	166,960	7,106		7,106	10
1.4.0 Mozambique Elections	331,490	335,347	3,900		3,900	11
1.5.0 Namibia Elections	153,234	153,234				
2.0.1 Salaries and Benefits	37,032	37,032		37,032	37,032	7
2.0.2 Communication	-	-				
2.0.3 Compilation of Reports	65,063	65,204				
2.0.4 Other Costs and Charges	5,147	5,147				
<b>TOTAL ELECTION OBSERVATION PROGRAM</b>	<b>1,246,425</b>	<b>1,250,649</b>	<b>28,046</b>	<b>37,032</b>	<b>65,078</b>	
<b>TOTAL ALL ACTIVITIES</b>	<b>\$2,237,000</b>	<b>2,202,512</b>	<b>65,961</b>	<b>131,620</b>	<b>197,581</b>	<b>3</b>
Interest Earned		1,657				
<b>TOTAL</b>		<b>2,204,169</b>	<b>65,961</b>	<b>131,620</b>	<b>197,581</b>	<b>12</b>
Outstanding Fund Balance		\$34,378		33,072	33,072	13 & 14
Total Costs Questioned			\$65,961	\$164,692	\$230,653	
COMMODITIES & TECHNICAL ASSISTANCE DIRECTLY PROVIDED BY USAID	None					
<i>Nonexpendable property acquired under the agreement</i> Items titled to the U.S. Government Items titled to Other entities	None					

Explanatory Notes

1. Accounting Principles

The fund accountability statement of SADC-PF for Limited Scope Grant Agreement no. 0690-0304 funded by the USAID was prepared on an accrual basis in accordance with generally accepted accounting principles. The statement is presented by activity-based results, in accordance with the requirements of the USAID and budgeted amounts.

2. Results of Audit

a. Summary of Conclusions:

Conclusions for each separate cost identified as “ineligible” or “unsupported” are included in the individual report notes as identified in the schedule above.

**b. Basis of SADC-PF's Cost:**

SADC-PF accumulated activity costs in a detailed ledger for the following grant activities:

- A. Electoral Norms and Standards,
- B. Regional Women's Parliamentary Caucus (RWPC),
- C. Conflict Management, and
- D. Electoral Observation Program.

Costs for each activity are supported by the following: cash transactions are supported by detailed Travel Retirement Journals (TRJ's); adjustments are supported by journal entries; other costs are supported by check payments and credit card transactions as applicable. Each transaction is further documented by supporting files (contained in binders) established and maintained to store invoices, purchase orders, cash receipts, or other documents to substantiate the allocation of the recorded cost within each activity. In addition, during the course of our evaluation, we learned that each SADC-PF staff member responsible for managing the activity maintains supplemental files that contain additional supporting documents.

**c. Audit Evaluation:**

**(1) Sampling Plan**

(Note: Examination of documents and audit evaluation relating to a specific cost which we identified as ineligible are identified in the separate cost notes. The description here pertains only to a description of the initial sampling plan and modifications to the sampling plan as the audit proceeded.)

Our initial plan was to select a judgmental sample of 50 items based on dollar value and a nomenclature review. We performed a second step to select more items from the multiple data items which we knew would result from the initial selection of 50. Our objective also included ensuring that transactions relating to all activity areas (electoral norms, RCWP, conflict management, and election observation) were included in the sample for testing.

We considered the use of statistical sampling. However, an extensive amount of effort would be needed to assemble the various pieces of the universe into a single pool of accounts for selection. Further, due to the way that the transactions were sorted, we would have to select more transactions in a second step since some of the transaction amounts were summaries of multiple transactions. Therefore, we decided that a judgmental sample would better achieve our audit objective to cover all activity areas, as well as using account nomenclature to assist in risk assessment.

We sorted the transactions in the four databases by cost element to the extent possible to assess the risk areas by nomenclature and dollar value. Our initial selection included the following accounts within each activity which represent the transactions of highest dollar value within each cost element. The universe total represents the amount of that cost element within the indicated activity; the sample total indicates the dollar amount of the sample. The number of initial data selections is also indicated.

<u>Activity</u>	<u>Cost Element</u>	<u>Universe Total</u>	<u>Sample Total</u>	<u>No. in Sample</u>
Election Observations	Accommodations	\$ 204,620	\$162,002	5
	Various	155,023	155,023	3
	Vehicle Hire	214,625	43,991	5
	Elections-Other	439,893	356,249	3
Election Norms	Airfare	81,669	16,117	5
	General	32,473	31,128	5
	Other	65,797	59,323	5
RCWP	Salaries	79,234	10,123	3
Conflict Management	Airfare	129,990	34,866	5
	Other	<u>97,135</u>	<u>17,853</u>	<u>5</u>
Totals		<u>\$1,500,459</u>	<u>\$886,675</u>	<u>44</u>

After initial selection and determination that 11 of the items selected were Travel Retirement Journal (TRJ) entries which each in turn included from 50 to 300 items, we judgmentally decided to evaluate as many items within each of these entries as we could based on the time available and the significance of the cost. We traced support for a total of 491 individual TRJ transactions within the top level TRJs. We judgmentally selected the items within the sample TRJ's based on nomenclature and significance of the cost. As a result of the hundreds of items in the universe, we did not review all initially selected TRJ items in 100 percent detail. We traced support for the stated 491 items relating to TRJ transactions (in addition to the transactions tested which were not TRJ's) back to supporting source documents. After finding minimal discrepancies in the files, we decided to forgo a detailed review of two TRJ's and confined our examination on these to test for reasonableness of the per diem costs paid in accordance with OMB Circular A-122, Attachment B, paragraph 51, Travel.

(2) Per Diem Evaluation

We evaluated the reasonableness of per diem cost by comparing per diem costs budgeted and paid to the per diem costs from two sources: (i) per diem allowed by the Republic of Namibia for foreign travel (rates which have not been adjusted since May 2001) and (ii)

maximum per diem rates allowed by the U.S. Joint Travel Regulations for the relevant location and date.

We learned that SADC official policy is to follow the rates for foreign travel as set by the Republic of Namibia. However, in practice, SADC-PF does not apply those rates. SADC-PF officers consider the Namibian rates to be too low in some cases; however, SADC-PF does not have a written policy regarding deviations from the Namibian rates. In practice, SADC-PF uses a combination of the rates set by the Republic of Namibia and feedback from the field that rates are too low to obtain reasonable meals in certain locations. SADC-PF provides per diem rates in the activity budgets submitted to USAID based on this aforementioned judgment. Absent any objection from USAID, SADC-PF proceeds under the assumption that the budgeted rates are approved and pay the persons attending the activity accordingly.

As audit criteria, we used OMB Circular A-122 to determine cost reasonableness of per diem rates (as well as lodging). Circular A-122, Attachment B, Cost Principles, item 51, Travel costs, paragraph b, Lodging and subsistence, states "Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the non-profit organization in its regular operations as a result of the non-profit organization's written travel policy. In the absence of an acceptable, written non-profit organization policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code... shall apply to travel under Federal awards (48 CFR 31.205-46(a))."

The basis of our audit recommendation relative to per diem rates is, therefore, to apply the Namibian rate from the written SADC policy as the ceiling for the eligible cost. We are providing the JTR rates for information only. Therefore, because we regard the SADC-PF policy to be "use of Republic of Namibia established rates," any per diem cost in excess of the Namibian rate has been identified as ineligible. See Exhibit D, note 7, page 42 for comments on compliance issues relating to per diem identified as ineligible.

d. SADC-PF's Reaction:

SADC-PF provided comments in their written response that address the per diem evaluation discussed in the above note. We incorporated the response into the Exhibits and notes addressing per diem and travel. SADC-PF's complete response is included as Appendix 2, page 54.

3. Advances, Reimbursements, and Expenses

We reconciled SADC-PF's advances, reimbursements, and expenses (liquidations) to the accounting books and to USAID's records.

4. Bank Interest

a. Summary of Conclusions:

Ineligible costs of \$907 represent bank interest earned in excess of \$250 per year, but not remitted to USAID. Questioned costs were calculated as follows:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>Total</u>
Interest Earned	\$0	\$255	\$611	\$791	\$1,657
Less Retention	—	<u>250</u>	<u>250</u>	<u>250</u>	<u>750</u>
Amount to be Returned	<u>\$0</u>	<u>\$ 5</u>	<u>\$361</u>	<u>\$541</u>	<u>\$ 907</u>

Our results are qualified because SADC-PF deposited and transferred over \$1 million of the USAID advances into the organization’s main interest bearing account. Because the USAID funds were commingled, we are unable to determine the amount of interest these funds would have earned had they been deposited into a separate bank account. For further details see Qualifications, Bank Interest, note 2, page 3.

b. Basis of SADC-PF’s Costs:

SADC-PF recorded the interest income based on the interest recorded in the USAID bank statements.

c. Audit Evaluation:

Our review of SADC-PF’s accounting records and bank statements disclosed that SADC-PF maintained USAID funds in an interest bearing account. However, SADC-PF did not remit the funds earned in excess of \$250 each year to USAID. This is in noncompliance with Implementation Letter No. 1 which states “USAID advances shall be maintained in an interest bearing account. Interest earned on advances will be remitted to USAID. However, the Grantee may retain up to \$250 of interest per account per year for administrative expenses.” SADC-PF earned more than \$250 per year in the USAID bank account and used the interest as an offset to bank charges billed to USAID. Therefore, we questioned the bank interest earned minus the \$250 limitation per year. For details of the noncompliance see Exhibit D, page 38, of the report.

d. SADC-PF’s Reaction:

SADC-PF accepts the audit recommendation that it reimburse USAID the amount of \$907 for interest. SADC-PF also requests that USAID reimburse SADC-PF for the equivalent amount of bank charges that were originally financed by the interest through the offset.

e. Auditor's Response:

SADC-PF requests to be reimbursed for the equivalent amount of bank charges (\$907) that were originally financed by the ineligible interest through offset. SADC-PF will have to submit a voucher to USAID with supporting documentation in order to be reimbursed for eligible bank charges. SADC-PF's complete written response is included in Appendix 2, page 54.

5. Electoral Norms, 3.0.0, Training Workshop (Other Cost)

a. Summary of Conclusions:

We questioned \$8,158 which represents the cost of meals primarily for a luncheon at three-day training in Gaborone, Botswana.

b. Basis of SADC-PF's Cost:

Claimed cost was based on the cost of lunches during a training activity as supported by an invoice from the Gaborone Sun Hotel and Conference Center. It also includes the cost of several room service meals as well as some business center expenses.

c. Audit Evaluation:

We questioned the entire cost of the meals because participants were already paid a per diem of \$45 per day. We consider the inclusion of this cost to USAID to be non-compliant with OMB Circular A-122, Attachment B, paragraph 51.b. which does not allow cost in excess of the non-profit organization's written policy and must be consistent with the organization's regular operations. See Exhibit D, note 7, page 42 for discussion of noncompliance with SADC policy and OMB Circular A-122, Attachment B, Selected costs.

d. SADC-PF's Reaction:

SADC-PF acknowledges the mistake made on the luncheon charge and will reimburse USAID in the amount of \$8,158. SADC-PF's complete written response is included in Appendix 2, page 54.

6. Electoral Norms, 4.0.0, Roundtable (Business Class Airfare)

a. Summary of Conclusions:

Our examination of airfares resulted in a determination of \$1,692 of ineligible cost. This represents the excess of the cost of business class over the cost of economy class for one round trip between Windhoek, Namibia, and Lilongwe, Malawi, in October 2003.

b. Basis of SADC-PF's Cost:

Claimed cost was based on an invoice from Sky Travel which identified the type and cost of the airfare. Two travelers flew economy class and one flew business class on the same trip.

c. Audit Evaluation:

We compared the business class fare for one traveler to the cost of economy class fare for the other two travelers. We questioned the difference between economy fare and business fare. This cost is noncompliant with Attachment B of A-122, paragraph 51 c.(1), Travel Costs which states that airfare costs in excess of the customary standard commercial airfare (coach or equivalent) ...or lowest commercial discount air fare are unallowable....” See noncompliance Exhibit D, note 7, page 42.

d. SADC-PF's Reaction:

SADC-PF acknowledges the error made and will reimburse USAID the full amount of \$1,692. SADC-PF's complete written response is included in Appendix 2, page 54.

7. Salaries and Benefits

a. Summary of Conclusions:

We questioned \$156,438 of Salaries and Benefits. Of this amount, we consider salary benefits costs of \$24,818 as ineligible because these costs are expressly unallowable under OMB Circular A-122. We consider \$131,620 of the proposed salary and benefits costs as unsupported due to lack of an adequate timekeeping system during this period. The costs represent salaries and related benefits and allowances paid for the Conflict Management Program Officer, the Regional Women's Parliamentary Caucus (RWPC) Program Manager, and Election Observation Program as detailed below:

<u>Activity</u>	<u>Questioned Costs</u>		
	<u>(1)</u> <u>Ineligible</u>	<u>(2)</u> <u>Unsupported</u>	<u>Total</u>
2.1.0 RWPC	\$20,155	\$ 73,730	\$ 93,885
7.0.1 Conflict Management	4,663	20,858	25,521
2.0.1 Election Observations		37,032	37,032
Total	<u>\$24,818</u>	<u>\$131,620</u>	<u>\$156,438</u>

b. Basis of SADC-PF’s Costs:

SADC-PF recorded these costs in each of the activities for the program manager and staff who worked on the activities. The costs are based on the actual salary and related benefits and allowances that SADC-PF paid the employees. The benefits and allowances include a 25 percent housing allowance, medical aid, utilities allowance, car allowance, ten percent education allowance, social security, 25 percent gratuity (“in lieu of” pension) and leave.

c. Audit Evaluation:

(1) Ineligible Costs

SADC-PF’s employee benefits include a 25 percent housing allowance, a utilities allowance, and a car allowance. These costs are expressly unallowable under OMB Circular A-122, paragraph 19, Goods or Services for Personal Use, and paragraph 20, House and Personal Living Expenses. We calculated the questioned costs based on the monthly salaries and benefits schedule the organization used to calculate the salaries times the number of months billed to USAID. The calculations are as follows:

<u>Allowance</u>	<u>2.1.0 RWPC Amount Per Month</u>	<u>7.0.1 Conflict Amount Per Month</u>
Housing 25%	\$ 634	\$ 519
Utilities	150	150
Car	<u>402</u>	<u>108</u>
Subtotal	1,186	777
No. of Months	<u>17</u>	<u>6</u>
Total	<u>\$20,155</u>	<u>\$4,663</u>

(2) Unsupported Costs

SADC-PF does not have an adequate timekeeping system. SADC-PF employees have a scheduled workday. Supervisors verify that employees are at work, on vacation, or out sick. Costs were allocated to the activities based on the premise that the staff member was dedicated 100 percent to the activity. This is not in compliance with the grant which states in paragraph 5, Grantee Contribution, “The grantee agrees to provide in-kind contribution of facilities and personnel to the activity in order to facilitate the achievement of the results.”

Based on a strict interpretation of paragraph 5, SADC-PF should not have charged USAID for any labor costs. However, we did not question the labor cost on this basis because the proposed budget for Regional Women’s Parliamentary Caucus submitted to USAID includes a line item for salaries and benefits. Conflict Management has a line for Consultancy that has the same number of 7.0.1 (shown as salaries and benefits on the fund

accountability statement). However, the budget for the Election Observation Program did not have a line item labeled 2.0.1, Salaries and Benefits, yet our audit disclosed \$37,032 of cost categorized as paid salary. Based on the conflicting wording in the grant and proposed budget, we are unable to determine if these salary costs are allowable in accordance with the grant terms.

Even if the costs in the budget are determined to be allowable in accordance with the terms of the grant, we question salary cost as unsupported due to lack of an adequate timekeeping system as required by the grant. The grant states in paragraph 8, Conditions Precedent to Disbursement: "Prior to first disbursement under the LSGA...the grantee will...furnish to USAID in form and substance satisfactory to USAID:...(b) Evidence that proper timekeeping procedures are incorporated in grantee's personnel policies..." SADC-PF did not establish an adequate timekeeping system. Therefore, we question the cost.

In addition, we consider the SADC-PF non-compliant with OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B of the Circular, Item 8, Compensation for personal services. Paragraph 8.m, Support of salaries and wages, states that charges to awards for salaries and wages must be based on actual payroll costs. The distribution of costs to awards must be based on employee activity reports, prepared at least monthly, reflecting total actual after-the-fact activity of each employee charging to the award. In order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate.

Therefore, we consider all claimed salary costs as unsupported. Note that this issue is separate from the salary allowances which we consider to be ineligible as discussed in note 7.c(1) on page 16.

d. SADC-PF's Reaction:

(1) Ineligible Costs

SADC-PF noted that the ineligible costs were determined on the basis of charging housing allowance, utilities allowance and car allowance which are not normally allowed. SADC-PF believes it charged USAID the actual payroll based on its existing policy for SADC-PF staff remuneration and according to the contract of employment with the employee. SADC-PF first negotiated with USAID in 2000 for the funding of the position of Gender Program Officer under memorandum of negotiations agreement number 00-G-1015. The position was created specifically for the Gender Program under USAID funding. Based on this understanding, SADC-PF advertised the position in the member states stating the salary package included housing allowance and car allowance.

Negotiations on the LSGA were based on the existing relationship between USAID and SADC-PF as supported by the memorandum of negotiations number 00-G-1015. In line with this agreement, advance requests, accruals, and liquidations were submitted to USAID and were honored based on the mutual understanding of the Gender Program Officer under the LSGA.

It is on this basis that SADC-PF believes that USAID consented and financed all salaries and benefits for the position of Gender Program Officer. SADC-PF requests audit reconsideration to treat the full costs as eligible under the LSGA. For SADC-PF's complete response see Appendix 2, page 54.

(2) Unsupported Costs

SADC-PF acknowledges and regrets the absence of the timekeeping system as stipulated by OMB Circular A-122. SADC-PF plans to implement an alternative timekeeping system which will ensure that time sheets are prepared for all officers charged to awards to support their salaries. However, SADC-PF is of the opinion that within the current system, there were adequate controls and evidence that the officers charged to the LSGA worked 100 percent on the programs for which they were paid. SADC-PF therefore requests audit re-consideration that all salaries and benefits be treated as fully supported. For SADC-PF's complete response see Appendix 2, page 54.

e. Auditor's Response:

(1) Ineligible Costs

SADC-PF stated that it negotiated with USAID in 2000 for the funding of the Gender Program Officer under memorandum of negotiations agreement number 00-G-1015. The position was created specifically for the Gender Program under USAID funding. Based on this understanding, SADC-PF advertised the position throughout the member states, clearly stating the salary package included housing and car allowances. At no time during our audit field work were we made aware of the referenced memorandum of negotiation agreement. Nonetheless, the referenced negotiation agreement would not change our conclusion regarding salary costs.

As stated in paragraph 7.c(1) above, OMB Circular A-122, paragraph 19, Goods or Services for Personal Use, and paragraph 20, House and Personal Living Expenses, specifically state the housing, utilities and car allowances are unallowable unless necessary for the performance of the sponsored award and approved by the awarding agency. We were not provided any documentation to show that these costs were necessary for the performance of the audited award and approved by USAID. The fact that SADC-PF has included these allowances in its salary package does not make them allowable. The subject costs would have to have been approved by USAID specifically for the audited award. Therefore, we still consider these costs

ineligible. For the related internal control weakness and noncompliance, see Exhibit C, note 6, page 33, and Exhibit D, note 6, page 41, respectively.

(2) Unsupported Costs

Paragraph 8 of the LSGA, states that the grantee will furnish USAID evidence that proper timekeeping procedures are incorporated into its personnel policies. OMB Circular 122, Attachment B, paragraph 8m, Support of salaries and wages, has specific requirements for an adequate timekeeping system. These requirements are detailed in Exhibit D, note 5, page 39.

SADC-PF does not have a timekeeping system meeting these standards. As a result any claimed cost for direct or indirect labor is not verifiable to auditable records. Therefore, the claimed salary costs would not be acceptable for reimbursement under a U.S. Government grant or contract. We consider the salary costs unsupported. For the related internal control weakness and noncompliance, see Exhibit C, note 5, page 32, and Exhibit D, note 5, page 39, respectively.

8. Per Diem Cost – South Africa

a. Summary of Conclusions:

We questioned \$14,340 as ineligible representing per diem cost per person in excess of the rate established by SADC-PF policy for South Africa as detailed below.

<u>Activity</u>	<u>Ineligible</u>
1.1.0 Election Observations	\$ 12,000
2.0.0 Conflict Management	204
5.0.0 Conflict Management	<u>2,136</u>
Total	<u>\$ 14,340</u>

b. Basis of SADC-PF's Cost:

Claimed cost was based on the per diem rate of \$55 per day which was the amount included in the activity budget submitted to USAID and the amount paid to the participants as evidenced by paid cash receipts.

c. Audit Evaluation:

Election Observations, 1.1.0: We compared the per diem rate budgeted and paid (\$55 per day) to the rate in SADC-PF's policy. SADC-PF policy is to pay the rate approved by the Republic of Namibia for foreign travel which is \$43 per day for Cape Town and Johannesburg. We used the \$43 rate for our computation in the absence of a separate rate for Pretoria. We determined that SADC-PF paid per diem for a total of 1,000 person days. Therefore, we questioned \$12,000 ( $\$55 - \$43 = \$12$ ;  $\$12 \times 1,000 = \$12,000$ ). We note that the JTR per diem

rate for Pretoria, South Africa in 2004 was \$82. However, because SADC-PF's policy is to use Republic of Namibia rates, we questioned the difference between the Namibia rate for South Africa and the rate paid (and billed to USAID). See note 2, page 11 for additional comments regarding our evaluation of per diem cost.

Conflict, 2.0.0: For the same reasons explained in Elections, 1.1.0, above, we questioned \$12 per day or \$204 ( $\$12 \times 17 \text{ days} = \$204$ ). In this case, the location was Durban, South Africa, but the Namibian rate per SADC policy is the same \$43 per day. We note that the JTR rate for Durban, South Africa was \$66 per day.

Conflict, 5.0.0: For the same reasons explained in Elections, 1.1.0, above we questioned \$12 per day or \$2,136 ( $\$12 \times 178 \text{ days} = \$2,136$ ). In this case, the location was Durban, South Africa, as in 2.2.0 above.

For details of the noncompliance, see Exhibit D, note 7, page 42, of the report.

d. SADC-PF's Reaction:

SADC-PF concurs with the audit observation that the rate with the deviation was included in the budget submitted to USAID. SADC-PF notes the audit recommendation that the travel costs billed in excess of the Namibian travel rates not be allowed. SADC-PF will review its foreign travel rates and policy in order to ensure that rates are adequate and current. SADC-PF requests that, as the deviations were foreseen and had been duly provided for in their budget submitted to USAID (which was approved), reconsideration be made by audit to allow the costs as charged under the LSGA. For SADC-PF's complete response see Appendix 2, page 54.

e. Auditor's Response:

The budget submitted to USAID was an estimate of the costs expected to be incurred for each of the programs under the grant. Approval of a budget and costs claimed on monthly vouchers are approved pending final audit of costs for allowability, allocability and reasonableness. The claimed per diem costs are considered unallowable based on OMB Circular A-122, Attachment B, paragraph 51.b., Lodging and Subsistence, which states "Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the non-profit...organization's written travel policy." SADC-PF policy is to pay the rate approved by the Republic of Namibia for foreign travel. As noted in paragraph 8.c., page 19, above, SADC-PF exceeded the approved rate.

9. Election Observations, 1.2.0, Malawi Elections (Per Diem)

a. Summary of Conclusions:

We questioned \$5,040 which represents the per diem cost per person in excess of the rate established by SADC-PF policy for Lilongwe, Malawi.

b. Basis of SADC-PF's Cost:

Claimed cost was based on the per diem rate of \$80 per day which was the amount included in the activity budget submitted to USAID and the amount paid to the participants as evidenced by signed cash receipts.

c. Audit Evaluation:

We compared the per diem rate budgeted and paid (\$80 per day) to the rate in SADC-PF's policy. SADC-PF policy is to pay the rate approved by the Republic of Namibia for foreign travel, which is \$75 per day for this location. Since it is SADC-PF's written policy to pay the rates authorized by the Namibian government, we questioned the excess cost paid over the approved rate, or \$5 per person per day. We determined that SADC-PF paid for 1,008 person days. Therefore, we questioned \$5,040 ( $\$5 \times 1,008$  days). For information purposes, we note that the relevant Joint Travel Regulation (JTR) rate at this location at this time was \$72 per day. See note 2, page 11 for additional comments regarding our evaluation of per diem cost.

d. SADC-PF's Reaction:

SADC-PF concurs with the audit observation about the per diem rate used for Malawi Elections. SADC-PF stated that the deviation resulted from rounding of the per diem rate in order to facilitate the currency breakdown when collecting funds from the local bank. The rate was duly provided for in the budget submitted to USAID which was approved. In the future SADC-PF will not round per diem rates and will explore other options to address the problem of obtaining smaller US dollar notes. SADC-PF requests that, as the deviations were foreseen and had been duly provided for in the budget submitted to USAID, reconsideration be made by audit to allow the costs as charged under the LSGA. For SADC-PF's complete response see Appendix 2, page 54.

e. Auditor's Response:

The costs are considered unallowable and unreasonable under OMB Circular A-122, Attachment B, paragraph 51.b., Lodging and Subsistence. For further details, see note 8.e, page 20, above.

10. Election Observations, 1.3.0, Botswana Elections (Per Diem)

a. Summary of Conclusions:

We questioned \$7,106 which represents the per diem cost per person in excess of the rate established by SADC-PF policy for Gaborone, Botswana.

b. Basis of SADC-PF's Cost:

Claimed cost was based on the per diem rate of \$45 per day which was the amount included in the activity budget submitted to USAID and the amount paid to the participants as evidenced by paid cash receipts. Two participants were paid in BWP (Botswana pula) and the equivalent USD payment was slightly less than \$45 per day. In addition, SADC-PF included the cost of per diem identified as "top-up" which is the cost of per diem in excess of that budgeted and in excess of SADC-PF policy.

c. Audit Evaluation:

We compared the per diem rate budgeted and paid (\$45 per day) to the rate in SADC-PF's policy. SADC-PF policy is to pay the rate approved by the Republic of Namibia for foreign travel which is \$43 per day for Gaborone, Botswana. See note 2, page 11 for additional comments regarding our evaluation of per diem cost.

A schedule of the computation of ineligible per diem cost is shown below:

<u>Cost Element</u>	<u>No. of Days</u>	<u>Ineligible Cost per Day</u>	<u>Ineligible Cost</u>	<u>Remarks</u>
Per Diem @ \$45/day	551	\$2.00/day	\$ 1,102	(1)
Per Diem @ \$44.83/day	6	\$1.83/day	11	(2)
Per Diem @ \$44.86/day	7	\$1.86/day	13	(2)
Ineligible "Top up"			<u>5,980</u>	(3)
Total			<u>\$7,106</u>	

Remarks:

- (1) We determined that SADC-PF paid \$45 per day in USD for 551 days. Therefore, we questioned \$1,102 ( $\$45 - \$43 = \$2$ ;  $\$2 \times 551 = \$1,102$ ). We note that the Namibian government rate was not updated since May 2001. We also note that the JTR per diem rate for Gaborone, Botswana in 2004 was \$75. However, because SADC-PF's policy is to use Republic of Namibia rates, we questioned the difference between the Namibia rate for Gaborone, Botswana and the rate paid (and billed to USAID).

- (2) We determined that SADC-PF paid the BWP equivalent of \$44.83 and \$44.86 per day for six and seven days, respectively, as indicated in the schedule above. We questioned the amount of the rates in excess of \$43, accordingly.
- (3) We determined that SADC-PF included the cost of per diem in excess of \$45 per day in its payment requests to USAID. Of the \$5,980, SADC identified \$5,046 as "Top-Up". The remaining \$934 was determined to be ineligible based on an apparent mis-labeling of per diem cost for one person who had been previously provided with per diem for 12 days at \$45 per day. Therefore, we included the additional \$934 as "Top-Up" or per diem in excess of policy and in excess of budget and therefore, ineligible.

d. SADC-PF's Reaction:

As explained in an earlier response on the similar topic regarding per diems, SADC-PF will undertake to ensure that no deviations are made from per diem rates provided in its policy. SADC-PF requests that, as the deviations were foreseen and had been duly provided for in the budget submitted to USAID (which was approved), reconsideration be made by audit to allow the costs as charged under the LSGA. For SADC-PF's complete response see Appendix 2, page 54.

e. Auditor's Response:

The costs are considered unallowable and unreasonable under OMB Circular A-122, Attachment B, paragraph 51.b., Lodging and Subsistence. For further details, see note 8.e, page 20, above.

11. Election Observations, 1.4.0, Mozambique Elections (Per Diem)

a. Summary of Conclusions:

We questioned \$3,900 which represents the per diem cost per person in excess of the rate established by SADC policy for Maputu, Mozambique.

b. Basis of Grantee's Cost:

Claimed cost was based on the per diem rate of \$70 per day which was the amount included in the activity budget submitted to USAID and the amount paid to the participants as evidenced by paid cash receipts.

c. **Audit Evaluation:**

We compared the per diem rate budgeted and paid (\$70 per day) to the rate in SADC-PF's policy. SADC-PF policy is to pay the rate approved by the Republic of Namibia for foreign travel which is \$65 per day at this location. We determined that SADC-PF paid for 780 days. Therefore, we questioned \$3,900 ( $\$70 - \$65 = \$5$ ;  $\$5 \times 780 = \$3,900$ ). We also note that the JTR per diem rate for this location is \$57. See note 2, page 11 for additional comments regarding our evaluation of per diem cost.

d. **SADC-PF's Reaction:**

The deviation of the per diem rate was the result of rounding up the per diem rate. The rate was duly provided for in the budget submitted to USAID, which was approved. In the future SADC-PF will not round per diem rates and will explore other options to address the problem of obtaining smaller US dollar notes. SADC-PF requests that, as the deviations were foreseen and had been duly provided for in the budget submitted to USAID, reconsideration be made by audit to allow the costs as charged under the LSGA. For SADC-PF's complete response see Appendix 2, page 54.

e. **Auditor's Response:**

The costs are considered unallowable and unreasonable under OMB Circular A-122, Attachment B, paragraph 51.b., Lodging and Subsistence. For further details, see note 8.e, page 20, above.

12. **Interest Earned**

SADC-PF included interest earned within the activities as a credit. Interest earned should have been included in the revenue section of the fund accountability statement. We included the earned interest per the USAID bank account statements in the revenue section and added it to the bottom of the expenses to keep the statement in balance. See Exhibit A, note 4, page 13 for discussion of bank interest.

13. **Bank Reconciliation**

a. **Summary of Conclusions:**

Unsupported costs of \$33,072 represent the difference between the fund balance and the bank account.

b. Basis of SADC-PF's Costs:

SADC-PF reported a fund balance of \$34,378 which represents the difference between the advances received and the expenses incurred on the grant. As of September 30, 2005, the end of the grant, the balance in the USAID bank account was \$1,305.

c. Audit Evaluation:

We reconciled the advances and expenses to SADC-PF's accounting records and to USAID's records. SADC-PF commingled the USAID funds by not depositing them in a separate bank account. USAID funds were deposited and transferred into three different SADC-PF bank accounts. SADC-PF was unable to provide a reconciliation of USAID funds from these separate bank accounts. As a result, the ending USAID bank balance does not reconcile to the fund balance. Therefore, we consider the difference as unsupported. SADC-PF is also noncompliant with Implementation Letter no. 1, paragraph IV.A, of the grant which requires the grantee to deposit all USAID cash advances in a separate bank account and make all disbursements from that account. For further details of the noncompliance, see Exhibit D, note 3, page 37.

d. SADC-PF's Reaction:

SADC-PF concurs with the audit reconciliation of the advances and expenses to SADC-PF's accounting records, which was the basis for determination of the balance of \$34,378. SADC-PF also concurs that the amount is not supported in the sense that the amount is not represented on the last USAID bank statement which had a balance of only \$1,305. However, SADC-PF is of the opinion that in the absence of a bank reconciliation in the manner required by the pro forma audit formats due to the commingling of funds, the reconciliation referred to in note 13.c, above, provides an alternative basis for determining the amount owed by SADC-PF to USAID for the program. For further details regarding the unsupported costs of \$33,072, see SADC-PF's complete response at Appendix 2, page 54.

e. Auditor's Response:

The LSGA no. 690-0304, Implementation Letter no. 1, requires the recipient to refrain from commingling funds. Since SADC-PF commingled the funds in three bank accounts, we were unable to reconcile the ending bank balance to the books and records. In addition, SADC-PF was unable to provide a reconciliation of the funds in the separate bank accounts. Since SADC-PF could not provide a reconciliation of the bank account balances to its books and records, we consider the costs unsupported. SADC-PF is also noncompliant with Implementation Letter no. 1, paragraph IV.A, of the grant which states that the grantee shall deposit all USAID cash advances in a separate bank account and pay all grant expenses from the account. For further details of the noncompliance, see Exhibit D, note 3, page 37.

14. Closeout

SADC-PF has completed the close-out procedures on the grant and issued the final report. It is in the process of returning the remaining funds to USAID. Based on its records, SADC-PF determined that it owes USAID \$34,378. The actual amount owed to USAID will depend on the final disposition of DCAA questioned costs due to ineligible and unsupported amounts.

## COST SHARING

In planning and performing our review of SADC-PF's cost sharing schedule, we reviewed the grant agreement to determine if cost sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreement. The results of our review disclosed the following:

### 1. Cost Sharing - Cash

It appears that there was an intention for SADC-PF to provide cost sharing contributions. SADC-PF provided a schedule identifying cost sharing amounts that it considers applicable to this grant. The schedule is based on the revised budget of March 19, 2004. However, there was no mention of this cost sharing requirement in the grant agreement, amendments, or implementation letters. Based on the budget qualification and lack of a specific schedule in the grant agreement, it was not possible to review the cost sharing schedule.

### 2. Cost Sharing – In-Kind Contribution

The grant states that SADC-PF was to provide in-kind contribution of facilities and personnel to the activity to facilitate the achievement of the results. There was no specified cost sharing amount or percentage in the grant agreement. SADC-PF did not identify cost sharing amounts incurred for personnel and facilities for the in-kind contribution. SADC-PF's facilities are provided without charge by SADC. Since SADC-PF does not have a timekeeping system, it would not have been possible to provide a schedule of the time and costs incurred by personnel working on the grant. Therefore, we were not able to determine the monetary value of the in-kind contribution, nor was it required under the terms of the grant.

We did, however, review the detail costs ledgers for the grant activities and verified that no costs were charged or billed to the USAID funded grant for salaries and facilities, except in two instances. One salary cost was included for the gender program officer (who performed briefly under the conflict activity and then for the RWPC activity). This salary was apparently authorized under the grant based on the budget submitted to USAID. However, see Exhibit A, note 7, page 15 for our audit results regarding salary and benefits paid. The other instance is identified in the cost ledger as salary, but SADC-PF asserts that this was for a consultant whose expense was paid as a salary. This is also addressed in Exhibit A, note 7, page 15.

Annex II of the grant, Standard Provisions Article D, Grantee Contribution, states "...Services shall be deemed to be contributed when performed and goods shall be deemed to be contributed when furnished." We cannot determine the amount of time or costs incurred by SADC-PF personnel who managed the grant because separate records were not maintained to determine this. However, in accordance with Annex II, Article D, since SADC-PF provided personnel and facilities without charge to manage the grant, it met the grant requirement of

providing personnel and facilities as an in-kind contribution, except for the two salary instances noted above.

In the future, if it is USAID/RCSA's intention for SADC-PF to provide cost sharing contributions, the exact cost sharing requirements, including amount and nature, should be specified in the agreement.

## INTERNAL CONTROL STRUCTURE

Our examination disclosed certain deficiencies in the design and operation of the internal control structure at SADC-PF. In our judgment, these deficiencies could adversely affect SADC-PF's ability to record, process, summarize, and report costs associated with USAID grants in a manner consistent with grant provisions and applicable laws and regulations. The reportable conditions are detailed as follows:

### 1. Accounting System

#### a. Condition:

SADC-PF uses Pastel accounting software and Excel spreadsheets for its accounting system. Costs can be recorded at the activity and sub-activity level in Pastel. In order to obtain the detail required for USAID grants, SADC-PF extracts data from Pastel into Excel spreadsheets for recording sub-activity detailed costs. Excel spreadsheets are cumbersome, and reconciliation and tracking of costs are difficult to perform. In addition, Excel spreadsheets can easily be manipulated, altered, or deleted with no audit trail. An unreliable accounting system increases the risk of misstatement of balances in activity financial reports. SADC-PF advised us that it is in the final stages of purchasing ACCPAC accounting software to replace the Pastel software.

#### b. Recommendation:

We recommend that SADC-PF continue to pursue obtaining reliable accounting system software that will better meet its needs. The software should ensure that transactions are properly accounted for; controls exist to provide for reliable information; and cost reports and summaries required by USAID grants can be readily obtained.

#### c. SADC-PF's Reaction:

SADC-PF notes the recommendations regarding the unreliability of the accounting software and believes that the audit observation compliments its earlier discovery that the system is not reliable and needs urgent replacement. USAID approved the acquisition of new software under the Strategic Objective Agreement Grant, and a new software package (ACCPAC) has been acquired. Program customization, report design and training are currently underway. For SADC-PF's complete response, see Appendix 2, page 54.

### 2. Yearly Budget

#### a. Condition:

SADC-PF's budgets for the grant were based on activity results rather than fiscal year. Without an annual budget, actual costs by fiscal year cannot be monitored for overruns as

required for fund accountability statements. We consider the lack of annual budgets to monitor actual activity costs to be an internal control weakness. Preparation of annual budgets facilitates the monitoring of budget to actual costs, and assists in the preparation of requests for advances. Further, SADC-PF's own policies and procedures require the preparation of annual budgets by activity. See Exhibit D, Compliance with Grant Agreement Terms and Applicable Laws and Regulations, note 2, page 36.

b. Recommendation:

We recommend that in the future SADC-PF prepare yearly budgets for its grants. Even when budgets are prepared by activity, these should be detailed by fiscal year to allow for comparison to actual costs. Monitoring cost overruns and under runs is more useful when performed annually instead of at the completion of the activity. This is especially true for activities that span several fiscal years. Further, requests for advances can be adjusted accordingly each fiscal year if annual budgets are prepared.

c. SADC-PF's Reaction:

SADC-PF will prepare its future budgets on an annual basis. After some consultations with USAID, SADC-PF obtained a "fundamental no objection" to use its fiscal year (April 1 to March 31) for its budget. This development will assist in addressing the above audit recommendation. Previously SADC-PF was restricted to using USAID's fiscal year (October 1 to September 31) which did not synchronize well with the SADC-PF budget cycle. For SADC-PF's complete response see Appendix 2, page 54.

3. Segregation of Duties

a. Condition:

SADC-PF has limited segregation of duties within the finance and administration departments. This was noted in previous audits. (See Exhibit E, Follow-up on Prior Audit Findings, page 45.) Currently, SADC-PF has a finance/administration officer, accountant/deputy finance officer and an assistant accountant. The majority of accounting for USAID grants and SADC-PF is handled by the finance/administration officer and assistant accountant. The accountant/deputy finance officer is dedicated nearly 100 percent to the Parliamentary Leadership Center (PLC). (The PLC is another entity under the SADC similar to a grant.)

The assistant accountant processes requests for payments, prepares the checks, makes the payments, and inputs the costs to the accounting system. The finance officer approves the payment requests, signs the checks, reconciles the bank statements, and also makes entries into the accounting system. We consider the assistant accountant performing both the payment function and making entries into the accounting system to be an internal control weakness. To improve segregation of duties, the bank accounts should be reconciled by an accountant other

than the accountant who processes the payments; the reconciliations should be approved by the finance officer.

The finance officer is also the administration officer. He prepares payroll and bank transfers for salaries and enters salary costs into the accounting system. We consider the finance officer performing all payroll functions to be an internal control weakness.

b. Recommendation:

We recommend that internal controls be improved through greater segregation of duties by either assigning additional duties to the deputy finance officer or hiring another assistant accountant for input activity including entering salary costs into the accounting system.

c. SADC-PF's Reaction:

SADC-PF will recruit a second Assistant Accountant in order to ensure greater segregation of duties. Recruitment will take place by the end of August 2006 which will follow the Plenary Assembly budget consideration in June 2006. For SADC-PF's complete response see Appendix 2, page 54.

4. Training

a. Condition:

The assistant accountant handles the processing of all payments for USAID grants. He has not received any formal training regarding USAID laws and regulations and is not familiar with OMB Circular A-122, Cost Principles for Non-Profit Organizations. He is responsible for reviewing costs for allowability and coding to the appropriate activity for payment. Lack of adequate training for accounting staff increases the possibility of unallowable costs being charged to USAID grants.

b. Recommendation:

We recommend that the assistant accountant and any other accounting staff involved in the processing of costs related to USAID grants be provided training on applicable laws and regulations, to obtain the knowledge to identify and segregate allowable and unallowable costs under USAID grant agreements.

c. SADC-PF's Reaction:

SADC-PF will discuss with USAID how to facilitate the recommended training for all accounting and project staff as soon as possible. For SADC-PF's complete response see Appendix 2, page 54.

**5. Timekeeping Controls**

**a. Condition:**

SADC-PF does not have adequate timekeeping controls in place. SADC-PF's policies and procedures specify the hours for the workday. Supervisors are responsible for ensuring that employees report to work at the specified time and account for employee absences from work. Employees do not maintain timesheets or record the time spent on specific projects/activities. There is no written certification by employees or supervisors regarding time worked; further, there is no record of actual cost objectives for which work was performed.

Timekeeping controls are important to assist in budgeting, preparing estimates for grant proposals, recording actual time worked on projects, and calculating indirect costs. Without proper timekeeping controls, SADC-PF could not determine the actual direct labor time performed for the benefit of cost objectives, including the subject USAID grant. In addition, if timesheets are maintained, SADC-PF could prepare cost sharing schedules that show the personnel time and costs in support of an in-kind cost-sharing arrangement if required by the grant. For related questioned costs see Exhibit A, note 7, page 15, and for noncompliance see Exhibit D, note 5, page 39.

**b. Recommendation:**

We recommend that SADC-PF revise its policies and procedures to include adequate timekeeping controls in accordance with OMB Circular A-122, Attachment B, paragraph 8.m, Support of salaries and wages.

**c. SADC-PF's Reaction:**

SADC-PF has noted the audit recommendation on timekeeping controls and will discuss with USAID a substitute system which will duly ensure adequate time keeping controls and ensure its soonest approval by the Policy Organs of the SADC-PF. For SADC-PF's complete response see Appendix 2, page 54.

**d. Auditor's Response:**

SADC-PF is reminded that OMB Circular A-122, paragraph 8m, Support of salaries and wages, is quite specific regarding the requirements that a non-profit organization has to meet for an adequate timekeeping system. The requirements are in Exhibit A, note 7.e(2), page 19.

6. Unallowable Costs

a. Condition:

SADC-PF does not have written policies and procedures to segregate and remove unallowable costs prior to billing USAID. For example, during our examination we noted that SADC-PF billed USAID for employee allowances that are expressly unallowable under OMB Circular A-122, paragraph 19, Goods or Services for Personal Use, and paragraph 20, House and Personal Living Expenses. Lack of written policies and procedures for identifying and segregating unallowable costs increases the risk that unallowable costs will be billed under USAID grants. For related questioned costs see Exhibit A, note 7, page 15, and related noncompliance condition see Exhibit D, note 6, page 41.

b. Recommendation:

We recommend that SADC-PF prepare written policies and procedures regarding identifying and segregating unallowable costs in accordance with OMB Circular A-122, Cost Principles for Non-Profit Organizations. We recommend that SADC-PF reimburse USAID for the unallowable costs as indicated in Exhibit A, note 7, page 15.

c. SADC-PF's Reaction:

SADC-PF has noted the audit recommendation on unallowable costs. However, SADC-PF's opinion is that it has some written policies and procedures regarding identifying and segregating unallowable costs before they are billed to USAID.

It is SADC-PF's opinion that the costs referenced in Exhibit A, note 7, page 15, which led to the audit conclusion, are in fact a special case in that they represent salaries according to the written policies and procedures of SADC-PF which were duly negotiated for USAID funding since 2000.

SADC-PF has noted the audit recommendation that it reimburses USAID for the amount of \$156,438 and will take the matter up with USAID to review the original understanding regarding salaries and benefits in the context of the SADC-PF policy. SADC-PF is inclined not to concur with our audit recommendation calling for reimbursement of the \$156,438, citing the justification provided in their response included in Exhibit A, note 7, page 17 above.

d. Auditor's Response:

Our review of SADC-PF's written policies and procedures did not disclose any policies and procedures for identifying and segregating unallowable costs in accordance with OMB Circular A-122, Cost Principles for Non-Profit Organizations. Our comments regarding reimbursement of salary and benefits costs are in Exhibit A, note, 7, page 18.

**COMPLIANCE WITH GRANT AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS**

Our testing of SADC-PF's transactions disclosed the following noncompliance conditions. We provided details of the conditions that resulted in questioned costs in Exhibit A, page 8 of this audit report.

1. Budget Approval

a. Condition:

SADC-PF submitted a revised budget to USAID on March 19, 2004. The revised budget is based on phone calls and correspondence between USAID and SADC-PF. We could not find where this budget had been approved by USAID with the issuance of an implementation letter. SADC-PF assumed that the budget was accepted by USAID because it did not receive a response to the contrary from USAID. This is not in accordance with Annex I of the Limited Scope Grant Agreement no. 690-0304, paragraph IV, Implementation, which states, "The SADC-PF will submit a proposal to the RCSA fully describing the sub-activity to be implemented...The RCSA will review the proposal...RCSA approval will be communicated through an implementation letter."

Annex II, Article B, Implementation Letters, further states, "to assist the grantee in the implementation of this agreement, USAID from time to time will issue Implementation Letters (ILs) that will furnish additional information about matters stated in this Agreement. The parties may also issue jointly agreed-upon ILs to confirm and record their mutual understanding on aspects of the implementation of this agreement." SADC-PF does not have an implementation letter approving the revised proposed budget. Accordingly, we qualified our report for lack of an approved detailed budget. For further details see Qualifications, note 1, page 3.

b. Recommendation:

We recommend that in the future, SADC-PF follow up with USAID and obtain the implementation letter approving the budget in accordance with the grant prior to incurring costs for the activity.

c. SADC-PF's Reaction:

SADC-PF has noted the audit recommendation and in the future will follow-up with USAID to obtain the implementation letter approving the budget in accordance with the grant prior to incurring costs for the activity. SADC-PF also stated that the budgets in question were provided to SADC-PF by USAID. SADC-PF's complete written response is included in Appendix 2, page 54.

d. Auditor's Response:

SADC-PF is considered responsive to our recommendation. SADC-PF stated that approved budgets were provided by USAID. The approved budgets were not available during the audit, and we have not had a chance to review them. Therefore, our qualification remains. For further details see Qualifications, note 1, page 3.

2. Yearly Budget

a. Condition:

SADC-PF is in noncompliance with its policies and procedures that require preparation of annual budgets (by activity) for the grant. SADC Institutions Regulation Number 2, Preparation of Annual Budgets, paragraph 4.1. states: "The Finance Officer of each institution is responsible for (a) the issuance of detailed guidelines for the preparation of each year's budgets; and (b) the consolidation of Department/Divisional budgets into a consolidated budget for the whole institution." Paragraph 7.3.1 states "Expenditure relating to conferences, documentation, programs and technical services all under the direct responsibility of the heads of Departments/Divisions in charge of these services. Therefore, the budgets for these services shall be prepared by the relevant Heads of Departments/Divisions and reviewed by the Finance Officer."

SADC-PF prepared a detailed budget by activity rather than by fiscal year. As a result, costs incurred by fiscal year could not be compared to the budget for monitoring or analysis purposes.

b. Recommendation:

We recommend that in the future SADC-PF prepare a yearly budget for its grants in accordance with its policies and procedures. Preparation of a yearly budget facilitates the monitoring of budget to actual costs and assists in the preparation of requests for advances. As discussed in Exhibit C, Internal Control Structure, Item 2, page 29, the annual budgets can be prepared by activity if it is necessary and reasonable to do so.

c. SADC-PF's Reaction:

In the future SADC-PF will prepare yearly budgets for its grants in accordance with its policies and procedures. SADC-PF's complete written response is included in Appendix 2, page 54.

### 3. Commingling of Funds

#### a. Condition:

SADC-PF is in noncompliance with LSGA no. 690-0304, Implementation Letter (IL) no. 1 requirement to refrain from commingling funds. IL no. 1, paragraph IV.A, of the grant, specifically states “USAID funds shall not be commingled with other grantee owned or controlled funds. The grantee shall deposit all USAID cash advances in a separate bank account and **shall make all disbursements for goods and services from this account** [emphasis added].”

Initially, SADC-PF did not establish a separate bank account for the grant. The organization deposited USAID funds into the SADC-PF “common” bank account. After establishing a separate US dollar bank account, SADC-PF continued to transfer and deposit USAID funds to the SADC-PF local currency account. These deposits and transfers totaled over one million dollars and were deposited into a total of three different SADC-PF bank accounts. The Finance Officer stated that they did not have a local currency account established for USAID. The funds were transferred to the SADC-PF local currency account to make payments required in local currency. As a result of this noncompliance SADC-PF was unable to provide a reconciliation for the amount shown on the fund accountability statement to the balance in the SADC-PF account. For the related unsupported costs see Exhibit A, note 13, page 24.

Although we were unable to reconcile the USAID-provided funds to the SADC-PF bank accounts, we did reconcile the advances and disbursements to SADC-PF’s accounting records and to USAID’s records. Because of the commingled funds, we were unable to determine the total amount of interest that was earned on all USAID funds held by SADC-PF. See Item 4, Bank Interest, below for additional discussion.

#### b. Recommendation:

We recommend that in the future SADC-PF establish separate bank account(s) as required for each USAID grant or agreement, and refrain from commingling funds.

#### c. SADC-PF’s Reaction:

SADC-PF notes the audit recommendation and has since opened two bank accounts, one in US dollars in April 2003 and the other in Namibian dollars in May 2005. SADC-PF believes that these accounts will now resolve the issue of commingling of funds. SADC-PF’s complete written response is included in Appendix 2, page 54.

d. Auditor's Response:

SADC-PF is reminded that the LSGA 609-0304 and USAID Standard Provisions for Non-US Nongovernmental Recipients require that USAID funds shall not be commingled with other recipient owned or controlled funds. The USAID cash advances shall be deposited in a separate account. All disbursements for goods and services shall be made from the same account and not transferred to another account for payment.

4. Bank Interest

a. Condition:

SADC-PF is in noncompliance with LSGA no. 690-0304, IL no. 1, paragraph IV.D. which states "USAID advances shall be maintained in an interest bearing account. Interest earned on advances will be remitted to USAID. However, the Grantee may retain up to \$250 of interest per account per year for administrative expenses." SADC-PF earned more than \$250 per year in the USAID bank account and used the interest earned as an offset to other expenses billed to USAID. We identified a total of \$907 that should be refunded under the terms of IL no. 1. See Exhibit A, page 13, note 4 for additional details regarding the computation of interest to be refunded.

In addition, SADC-PF transferred over \$1 million of USAID advances during the period of the grant to the SADC-PF's other (non-USAID) bank accounts to make local currency and other payments. These accounts were also interest bearing. Our report is qualified because we considered it impractical to attempt to determine the amount of interest these funds would have earned had they been deposited into a bank account applicable only to LSGA no. 690-0304. See audit qualification on page 3 of this report for additional information.

b. Recommendation:

We recommend that in the future, SADC-PF deposit funds and make payments relating to USAID activities from a separate bank account in accordance with USAID regulations and grant terms. There should be a separate bank account for each USAID grant or agreement. This will facilitate accounting for interest earned on USAID advances as well as prevent commingling of funds. We also recommend that SADC-PF reimburse USAID the \$907 of interest earned as discussed in Exhibit A, page 13, note 4.

c. SADC-PF's Reaction:

SADC-PF notes the recommendation that there should be a separate bank account for each USAID grant/agreement to facilitate accounting for interest earned on USAID advances as well as prevent commingling of funds. SADC-PF opened a separate bank account in US Dollars in 2003. Since most of the payments for expenses incurred were made in Namibian dollars,

funds were transferred from the US dollar account to the SADC-PF local currency account for payment to the vendors. SADC-PF acknowledges that this was a commingling action which will be avoided in the future by opening a separate local currency account.

SADC-PF will reimburse USAID in the amount of \$907 as recommended by the audit. However, SADC-PF requests a refund of \$907 for operational bank charges that were originally paid using the subject interest amount. SADC-PF's complete written response is included in Appendix 2, page 54.

d. Auditor's Response:

SADC-PF appears to be responsive to our recommendation for separate bank accounts. SADC-PF's request for a refund from USAID for bank charges in the amount of \$907 is discussed in Exhibit A, note 4.d, page 13.

5. Timekeeping System

a. Condition:

SADC-PF does not have adequate timekeeping procedures in place as required by LSGA no. 690-0304, IL no. 1, paragraph II, Actions and Prerequisite to Disbursement, which states "Prior to disbursement of any funds under the Agreement or to the issuance of documentation approving the reimbursement of funds, the SADC-PF must provide USAID with written evidence ...that proper timekeeping procedures are incorporated in the Grantee's personnel policies..."

SADC-PF employees do not record their time on timesheets. Employees have a scheduled workday and report to supervisors if they are going to be absent from work. This is not in compliance with IL no. 1, noted above, and also not in compliance with OMB Circular A-122, Attachment B, paragraph 8.m, Support of salaries and wages, which states,

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Attachment A.)

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or

activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

(a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports....

(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

SADC-PF does not have a timekeeping system meeting these standards. As a result any estimate that SADC-PF makes of its direct and indirect labor is not verifiable to auditable records. In addition, the estimates are not suitable as a basis for cost reimbursement under a USAID grant. For related questioned costs see Exhibit A, note 7, page 15, and for internal control weakness see Exhibit C, note 5, page 32.

b. Recommendation:

We recommend that SADC-PF establish a timekeeping system compliant with OMB Circular A-122.

c. SADC-PF's Reaction:

SADC-PF noted the recommendation and will proceed as stated in Exhibit C, note 5, page 32. SADC-PF's complete written response is included in Appendix 2, page 54.

d. Auditor's Response:

See our response at Exhibit C, note 5.d, page 32.

6. Salary Allowances

a. Condition:

Several of SADC-PF employee benefits are in noncompliance with OMB Circular A-122. SADC-PF's employee benefits include a 25 percent housing allowance, utilities allowance, and car allowance. These costs are specifically unallowable under OMB Circular A-122, Attachment B, paragraph 19, Goods or Services for Personal Use, and paragraph 20, House and Personal Living Expenses.

(1) Paragraph 19, Goods or Services for Personal Use, states "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

(2) Paragraph 20, House and Personal Living Expenses, states

(a) Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowances and personal living expenses for/of the organization's officers are unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies.

(b) The term "officers" includes current and past officers and employees.

b. Recommendation:

We recommend that SADC-PF accumulate these unallowable costs separately from the salary costs and remove them from future billings to USAID unless such costs are specifically approved by the awarding agency in accordance with paragraph 20.(a). In addition, we questioned as "unsupported" all salary and related benefits costs due to lack of an adequate timekeeping system. We recommend that if salary costs are determined to be allowable, the expressly unallowable benefits portion of the salaries not be allowed and the costs be refunded to USAID. See Exhibit A, note 7, page 15, for further details regarding the questioned costs.

c. SADC-PF's Reaction:

SADC Parliamentary Forum notes the audit observation and recommendation, but believes the salaries, including the allowances in question, were specifically approved by the awarding agency. As explained in Exhibit A, note 7, page 17, SADC-PF requests audit reconsideration that the full costs be reclassified as fully supported and allowable under the LSGA.

d. Auditor's Response:

See auditor's response in Exhibit A, note 7, page 18.

7. Travel Policies and Procedures

a. Condition:

SADC-PF has written travel policies and procedures. Its official policy regarding per diem rates is to follow the foreign travel rates set by the Republic of Namibia. In practice, however, SADC-PF does not apply the Namibian rates for conference attendees who are residents of other SADC member states. SADC uses a combination of the rates set by the Republic of Namibia and feedback from the field regarding per diem rates. SADC-PF does not have a written policy to allow deviations from the Namibian rates.

Because of this deviation, SADC-PF is in noncompliance with its travel policies and procedures and with OMB Circular A-122, Attachment B, paragraph 51.b, Lodging and Subsistence. Paragraph 51.b. states:

"Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the non-profit organization in its regular operations as a result of the non-profit organization's written travel policy..."

b. Recommendation:

We recommend that SADC-PF comply with its written travel policies and procedures. If the foreign travel rates set by the Republic of Namibia are not adequate, we recommend that SADC-PF develop its own travel rates which must be consistently applied. In addition, we recommend that the travel costs billed in excess of the Namibian travel rates not be allowed. See Exhibit A, note 5, page 14; note 8, page 19; note 9, page 21; note 10, page 22; and note 11, page 23, for details regarding questioned costs.

c. SADC-PF's Reaction:

SADC-PF concurs that it does not have a written policy to allow deviations from the Namibian per diem rates. SADC-PF notes the audit recommendation to comply with its written travel policies and procedures. It also notes that if foreign travel rates set by the Republic of Namibia are not adequate, it should develop its own travel rates and apply them consistently. SADC-PF notes the recommendation that the travel costs billed in excess of the Namibian travel rates not be allowed.

SADC-PF will review its foreign travel rates and policy in order to ensure that rates are adequate and current. SADC-PF requests that, as the deviations were foreseen and had been duly provided for in the budget submitted to USAID (which was approved), reconsideration be made by audit to allow the costs as charged under the LSGA. SADC-PF's complete written response is included in Appendix 2, page 54.

d. Auditor's Response:

SADC-PF appears to be responsive to our recommendation to follow its travel policies and develop and consistently apply written policies and procedures regarding foreign travel rates.

The budget submitted to USAID was an estimate of the costs expected to be incurred for each of the programs under the grant. The budget and costs claimed on monthly vouchers are approved pending final audit of costs for allowability, allocability and reasonableness. The claimed per diem costs are considered unallowable based on OMB Circular A-122, Attachment B, paragraph 51.b, Lodging and Subsistence. For further details, see Exhibit A, note 8.e, page 20.

8. Business Class Airfare

a. Condition:

During our transaction testing, we noted that SADC-PF purchased one business class and two economy airfare tickets for the round trip to Lilongwe, Malawi, on October 2003. The business class ticket is in noncompliance with OMB Circular A-122, Attachment B, paragraph 51 c.(1), Travel Costs which states that "airfare costs in excess of the customary standard commercial airfare (coach or equivalent) ...or lowest commercial discount air fare are unallowable..." See Exhibit A, note 6, page 14, for details regarding questioned costs.

b. Recommendation:

We recommend that SADC-PF establish written travel policies and procedures that ensure compliance with OMB Circular A-122, Attachment B, paragraph 51c.(1), Travel Costs.

c. SADC-PF's Reaction:

SADC-PF wishes to note that it has written policies regarding travel entitlements and that the above was the result of an error. SADC-PF has in its work plan for the next financial year a provision for a consultant to review its administrative policies and procedures. It is believed that this will assist in addressing the audit recommendation. SADC-PF's complete written response is included in Appendix 2, page 54.

d. Auditor's Response:

SADC-PF appears to be responsive to our recommendation.

**FOLLOW-UP ON PRIOR AUDIT FINDINGS**

During our examination we obtained a copy of the audit report performed by Neuhaus & Co., Chartered Accountants (Namibia), Public Accountants and Auditors. The audit encompassed USAID Grant Agreement Number 00-G-1013, covering period August 1, 2000 to July 31, 2002. In addition, USAID provided a copy of USAID Memorandum, dated May 1, 2002, regarding the preaward survey conducted by Datex at SADC-PF. We performed a follow-up review to determine the status of the conditions identified in these two reports. The results of our follow-up review are detailed below.

**Neuhaus & Co. Audit Report Findings**

1. Segregation of duties

a. Findings and Recommendation:

All accounting and administrative functions are carried out by the Finance and Administration Officer. Some of these duties are considered incompatible, and should be performed by different people. Neuhaus & Co. recommended that as far as practicable, the initiation, authorization, custody and recording of transactions should be segregated. This can be achieved by hiring assistant(s) in the accounting department.

b. Follow-up:

SADC-PF hired an assistant accountant on November 1, 2002, and an accountant/deputy finance officer in July 2005. The assistant accountant and finance/administration officer performed all of the accounting for the USAID LSGA no. 690-0304.

We consider the segregation of duties to be improved over that noted in the Neuhaus & Co. audit. However, the segregation is still limited to the finance officer and the assistant accountant. The majority of accounting for USAID grants and SADC-PF is handled by the finance officer and assistant accountant. The deputy finance officer is dedicated nearly 100 percent to the Parliamentary Leadership Center (PLC). The PLC is another entity under the SADC similar to a grant and is funded by the African Capacity Building Foundation (major donor) and the SADC parliament member states.

Segregation of duties could be further improved by assigning additional duties to the deputy finance officer or hiring another accountant to input transaction activity and salary costs into the accounting system. We also noted that accounting personnel have not received formal training regarding USAID laws and regulations. We have included the limited segregation of duties and lack of formal training as internal control weaknesses. See Exhibit C, page 30, for further details. This item is still open.

2. Fixed Assets

a. Findings and Recommendation:

The fixed asset register does not specify the donor/project for which the fixed asset relates. All fixed assets are recorded on the fixed asset register, but no reference is made to donor/project assets and SADC-PF assets. Neuhaus & Co. recommended that all donor funded fixed assets should be clearly identified on the register.

b. Follow-up:

The fixed asset register has been modified to identify the donor. Since there were no fixed assets procured under this grant, we did not verify the existence of equipment. This item is closed.

**USAID/Datex Audit Report Findings**

1. Organizational Structure

a. USAID Findings and Comments:

Details on the organizational structure were not included in the preaward survey, i.e., organizational structure and chart. USAID requested Datex to submit organizational structure and chart.

b. Follow-Up:

SADC-PF provided an organization chart to us. This item is closed.

2. Personnel Policies

a. USAID Findings and Comments:

Timekeeping was not in use at the time Datex conducted the pre-award survey. SADC-PF's personnel policies and procedures were found acceptable; however there was no discussion of timesheets. The survey recommended the use of timesheets. Datex was requested to confirm that personnel policies were in place and that timesheets were in use. Datex confirmed that personnel policies were in place and that timesheets were being used.

b. Follow-up:

SADC-PF personnel policies and procedures have not been revised and do not discuss the use of timesheets. SADC-PF employees do not complete timesheets, and there are no

timekeeping procedures in place in accordance with OMB Circular A-122, Attachment B. Therefore, Datex's finding that timekeeping procedures existed and timesheets were in use is not valid or applicable currently. This is a noncompliance with the grant and OMB Circular A-122, Attachment B, paragraph 8.m. Further, we consider this to be an internal control weakness. See Exhibit C, note 5, page 32, and Exhibit D, note 5, page 39, for further details of the internal control weakness and noncompliance, respectively. This item is still open.

**3. Procurement System**

**a. USAID Findings and Comments:**

SADC-PF procurement policies and procedures were in place and acceptable. However, some practices deviated from the procedures, e.g., purchase order system was not in use at the time the pre-award survey was conducted.

**b. Follow-up:**

Purchase orders are now in use. This was reviewed during our transaction testing. This item is closed.

**4. Travel Policies**

**a. USAID Findings and Comments:**

SADC-PF travel policies and procedures were considered acceptable.

**b. Follow-up:**

No follow-up was considered necessary. However, during our examination, we noted that SADC-PF deviated from their written policies and procedures. SADC-PF adopted SADC policies and procedures, but did not implement all of them. We noted several instances with travel where SADC-PF deviated from the written travel policies and procedures that resulted in additional costs to USAID. SADC-PF is in noncompliance with its travel policies and OMB Circular A-122, Attachment B, paragraph 51, Travel. See Exhibit D, note 7, page 42, for further details of the noncompliance.

**5. Property Management**

**a. USAID Findings and Comment:**

SADC-PF's property management standards and systems were considered acceptable. SADC-PF maintained an asset register with internal control measures.

b. Follow-up:

No follow-up was considered necessary. However, see the findings from the review of the audit performed by Neuhaus & Co. under "Fixed Assets," above. This item is closed.

6. Financial Capabilities

a. USAID Findings and Comment:

Datex recommended that SADC-PF adopt accounting policies and procedures and recruit a full-time accountant. SADC-PF auditors, Neuhaus & Co, advised that an assistant accountant was required since the department was understaffed which made segregation of duties difficult.

b. Follow-up:

SADC-PF adopted the SADC Institutions written accounting policies and procedures. However, it has not implemented all of the policies and procedures, and in some cases has deviated from them. Some of the policies and procedures do not apply to SADC-PF and others are inadequate for USAID grant requirements, e.g., timekeeping. See Exhibit C, note 5, page 32, and note 6, page 33, and Exhibit D, note 7, page 42, and note 8, page 43, for further details.

SADC-PF hired an assistant accountant and accountant/deputy finance officer. However, there are still internal control weaknesses related to segregation of duties and training. See "Segregation of Duties" in the follow-up performed for the Neuhaus & Co. audit report, above, and Exhibit C, page 30, for further details.

## **RECIPIENT ORGANIZATION AND SYSTEMS**

### **ORGANIZATION**

The Southern African Development Community Parliamentary Forum (SADC-PF) is the regional parliamentary institution of the Southern African Development Community (SADC). The SADC was formed in Lusaka, Zambia on April 1, 1980, as a loose alliance of nine majority-ruled States in Southern Africa known as the Southern African Development Coordination Conference (SADCC), with the main aim of coordinating development projects in order to lessen economic dependence on the then apartheid South Africa. The transformation of the organization from a Coordinating Conference into a Development Community (SADC) took place on August 17, 1992 in Windhoek, Namibia when the Declaration and Treaty was signed at the Summit of Heads of State and Government thereby giving the organization a legal character. The Member States are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe. SADC headquarters are in Gaborone, Botswana.

The SADC-PF was established in July 1996 and approved as an autonomous institution of the SADC in September 1997. Membership to the SADC-PF is open to national assemblies of parliaments whose countries are members of the SADC. SADC-PF's mission is to achieve development and economic growth to enhance the standard and quality of life of the peoples of Southern Africa and evolve common political values, systems, and institutions.

SADC-PF activities are financed through equal annual contributions from member parliaments (25 percent) and other donors. For FY 2005, SADC-PF donors included Open Society Initiative for Southern Africa (OSISA) (48 percent), Norwegian Agency for Development (18 percent), Swedish International Development Agency (SIDA) (5 percent), Canadian Parliamentary Center (1 percent); and USAID Regional Center for Southern Africa (1 percent). Revenues for FY 2005 totaled approximately \$3.3 million. SADC-PF has 19 employees; 4 direct to the Parliamentary Leadership Center and 15 indirect to SADC-PF.

### **ACCOUNTING SYSTEM**

We did not examine SADC-PF's accounting system during the period of performance of the limited scope grant agreement, fiscal years (FYs) 2003 through 2006. However, we noted certain inadequacies in SADC-PF's accounting system such as limited segregation of duties in the accounting and finance departments, and timekeeping deficiencies. For further details see Exhibit C, Internal Control Structure, note 1, page 29, note 3, page 30, and note 5, page 32.

SADC-PF maintains a job cost accounting system using Pastel accounting software and Excel spreadsheets. Activities are assigned individual project numbers that are used to accumulate associated direct costs at the activity and sub-activity level in Pastel, but not at the cost element level. In order to obtain the detail required for USAID grants, SADC-PF extracts

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data from Pastel into Excel spreadsheets for recording sub-activity detailed costs. Payroll is also maintained on Excel spreadsheets with manual journal entries made to the Pastel accounting system at the end of the month. SADC-PF does not calculate an indirect rate.

SADC-PF's fiscal year is April 1 to March 31. Financial statements are audited by BDO Spencer Steward, Chartered Accountants, Namibia.

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**RELEVANT DATES**

Date of Request for Audit: December 19, 2005  
Entrance Conference Date: January 17, 2006

**AUDIT REPORT AUTHORIZED BY:**

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3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

**SUGGESTION TO IMPROVE THE SYSTEM**

During the course of our examination, we noted another matter involving the accounting system and related internal controls, which although not considered to be a significant deficiency at this time, we believe should be communicated to the management of SADC-PF. This matter is detailed below.

References on Source Documents

During our examination, we noted that not all supporting documents, such as purchase orders, cash receipts, and invoices, clearly identified the specific activity to be charged. Proper references on the source documents provide a more transparent audit trail. We suggest that all receipts and invoices indicate not only the grant but also the activity or sub-activity to which the expenses apply. Because of the limited amount of purchases under the audited agreement, we do not consider this to be a significant deficiency at this time.

**SADC-PF'S RESPONSE  
ELECTRONICALLY TRANSMITTED ON APRIL 10, 2006**

SADF-PF's response is attached in the embedded file below. The file is a Microsoft Word document and can be opened for review and printing by double clicking on the icon below.



SADC-PF Response

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