

PD-ABH-034

84990

Audit of
The African Teachers Association
of South Africa
Agreement No. 674-0302-A-00-6055-00

Audit Report No. 3-674-91-10-N
August 19, 1991

The audit questioned the equivalent of \$69,544 of expenditures to the African Teachers Association of South Africa and considered as unsupported all \$376,481 in disbursements made to Florida Memorial College. In addition, several internal control weaknesses and several items of non-compliance with the grant agreement were noted.

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.

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

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

August 19, 1991

MEMORANDUM

TO: Terrence McMahon, Director, Office of Procurement

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

SUBJECT: Audit of the African Teachers Association of South Africa, Agreement No. 674-0302-A-00-6055-00

Enclosed are five copies of a non-Federal audit of the African Teachers Association of South Africa (the Association), Agreement No. 674-0302-A-00-6055-00. The accounting firm of Coopers Theron Du Toit, South Africa performed the audit at the Association's offices in Soweto, South Africa. This audit report also contains limited audit results of the Florida Memorial College (the College). The U.S. affiliate accounting firm of Coopers & Lybrand in Miami, Florida attempted to perform audit work at the College, but was unsuccessful.

In a cooperative agreement, A.I.D. granted funds to the College to strengthen the Association's capacity to develop and sponsor programs for its member teachers in upgrading their professional qualifications, teaching skills, and leadership and management abilities. The College authorized the American Black College Consortium (ABC) to act as its agent for the specific and sole purpose of negotiating, executing, implementing and monitoring a subgrant agreement with the Association under which part of the funds granted to the College by A.I.D. would be provided to the Association.

The primary focus of the audit was the Association (the subgrantee). The audit objectives relating to the Association were to:

express an opinion on the Association's Fund Accountability Statement;

- report on the Association's system of internal controls; and
- report on the Association's compliance with applicable U.S. laws, regulations, and terms of the cooperative agreement.

In requesting the audit, USAID/South Africa also expressed concern that the College had not always provided timely financial management reports detailing the status of advances drawn for the Association. The Mission was further concerned about the College's ability to administer the project in accordance with Federal regulations and the grant agreement and whether technically qualified personnel were employed. These issues and a survey of the College's financial operations were to be performed by Coopers & Lybrand in Miami, Florida.

The audit was performed from February 21, 1990 through February 28, 1991 and covered \$350,049 (794,203 Rand) in funds provided to the Association during the period of September 30, 1986 through September 30, 1989. The audit also included disbursements of an additional \$376,481 made to Florida Memorial College of Miami, Florida.

Coopers Theron Du Toit conducted its audit in accordance with Government Auditing Standards except that its staff did not meet continuing professional education requirements. The auditors issued a qualified opinion on the Association's Fund Accountability Statement. The audit accepted \$280,505 (631,884 Rand), and questioned \$69,544 (162,319 Rand) of the \$350,049 (794,203 Rand) in funds provided to the Association.

Despite repeated requests by Coopers & Lybrand, the College refused to provide accounting records of its operations for audit. Consequently, the entire disbursement of \$376,481 to the College (excluding funds made available to the Association) were classified as unsupported.

In its report on internal controls, Coopers Theron Du Toit noted several reportable weaknesses in the Association's internal control structure concerning authorization procedures, budget overruns, payroll, and bank reconciliations. The Association merged into the new South African Democratic Teacher's Union on January 1, 1991 and has ceded all property and records to the new Teacher's Union. Consequently, the report's recommendations on internal controls intended for the Association cannot be implemented as such and are not included here as formal recommendations in the Office of the Inspector General's audit recommendation follow-up system. However, they should be passed on to the new Teacher's Union for appropriate action.

The auditors reported that for the items selected and tested, the Association complied with U.S. laws and regulations and terms of the cooperative agreement except that it did not

retain records in South Africa for the required period of three years, did not use adequate bursary procedures, did not obtain proper approval for a leadership course, and did not submit formal technical reports on a timely basis. These recommendations, as explained above, also cannot be implemented and will not be included here as formal audit recommendations in the Office of the Inspector General's audit recommendation follow-up system. However, they should also be passed on to the new Teacher's Union for appropriate action.

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

The report contains 15 recommendations. While the Mission will want to ensure all applicable recommendations are implemented, only the following recommendations will be included in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1: We recommend that the Director, Office of Procurement determine the allowability and recover, as appropriate, from Florida Memorial College the equivalent of \$69,544 (162,319 Rand) of questioned costs associated with its subgrant to the African Teachers Association of South Africa.

Recommendation No. 2: We recommend that the Director, Office of Procurement determine the allowability and recover as appropriate, \$376,481 of unsupported costs Associated with A.I.D. grant funds to Florida Memorial College.

Recommendations Nos. 1 and 2 are unresolved. They will be resolved when final determination is made on the exact amounts that the Office of Procurement will disallow and will be closed when my office receives documentation supporting the allowability and/or collection of the disallowed amounts. In resolving and closing Recommendation No. 2, Office of Procurement may wish to formally request a non-Federal audit of the College in coordination with IG/A/FA.

Please advise my office, within 30 days, indicating any actions planned or already taken to clear the recommendations. I appreciate the cooperation and courtesy extended to Coopers Theron Du Toit and Regional Inspector General for Audit representatives during the audit.

**NON-FEDERAL AUDIT OF THE AFRICAN TEACHERS ASSOCIATION
OF SOUTH AFRICA (ATASA)**

FEDERAL GRANT NUMBER 674-0302-A-00-6055-00

AUDIT REPORT

4

AFRICAN TEACHERS ASSOCIATION OF SOUTH AFRICA (ATASA)

**NON-FEDERAL AUDIT FOR THE PERIOD SEPTEMBER 30, 1986
THROUGH SEPTEMBER 30, 1989**

TABLE OF CONTENTS

SECTION

- I EXECUTIVE SUMMARY
- II REPORT ON USAID FUND ACCOUNTABILITY STATEMENT FOR ATASA
- III REPORT ON INTERNAL ACCOUNTING CONTROLS
- IV REPORT ON COMPLIANCE WITH TERMS AND CONDITIONS OF THE COOPERATIVE AGREEMENT AND APPLICABLE U.S. LAWS AND REGULATIONS.

SECTION I

EXECUTIVE SUMMARY

Index	Page
Background to project	1
Accounting and financial reporting systems	2
Areas of concern	2
Audit objectives and scope	3-4
Results of the audit	4-5
Internal accounting controls	5-6
Compliance with Cooperative and Subgrant Agreements terms and conditions, and applicable U.S. laws and regulations	7

Background to project

1. The African Teachers Association of South African ("ATASA") receives funds from The Agency for International Development through a Cooperative Agreement which is being funded under the Educational Support and Training Project ("ESAT"). The purpose of the ESAT Project is to support and expand selected activities in South Africa that advance the black community's goals of educational equity. The purpose of the ATASA Cooperative Agreement is to strengthen ATASA's capacity to develop and sponsor programs for its member teachers in upgrading their professional qualifications, teaching skills, leadership and management abilities.

2. Florida Memorial College ("FMC") of Miami, Florida entered into an Agreement with USAID on September 30, 1986 and became the recipient of a total grant, comprising the planning grant and the ATASA Program Support Grant ("subgrant").

3. FMC authorized the American Black College Consortium ("ABC") to act as its agent for the purpose of negotiating, executing, implementing, and monitoring the provisions of the planning and subgrants.

4. The focus of the planning grant was to identify and make available resources in the U.S. educational community which could be used by ATASA in developing and sponsoring programs for its member teachers in upgrading their professional qualifications, teaching skills, and leadership and management abilities.

5. The primary objective of the subgrant was to strengthen ATASA so that it could play a more effective role in promoting teachers' interests in South Africa and in pressing for educational reform. In this context ABC was to provide funds to ATASA for the purpose of enhancing ATASA's ongoing program and those of its regional affiliates through supporting staff salaries, office expenses, scholarships for teachers and training seminars etc.

Accounting and Financial Reporting Systems

6. As mentioned in paragraph two, the total grant comprises a planning grant and a subgrant. Overall responsibility for the maintenance of proper accounting records relating to the entire grant resides with FMC, who in turn delegated this function to ABC. All accounting records and vouchers for the planning grant are therefore kept at ABC in Miami, Florida. The accounting records for the subgrant are kept at the ATASA offices in South Africa. Accounting records comprising a cash book, journal and ledger are maintained by ATASA for the subgrant. Requests for advances or reimbursements, together with the original supporting documentation in some instances, are submitted to ABC for payment. Photocopies of the documentation, except for certain paid checks, are retained at ATASA in South Africa.

7. Transactions performed by ATASA consist mainly of local currency disbursements which are funded by monies transferred by ABC in U.S. dollars, converted to South African rands by U.S. banks at rates of exchange prevailing on the dates of transfer, and paid directly into ATASA's local bank account.

8. ATASA submits quarterly financial reports quarterly to ABC. These reports are also submitted to both USAID in Washington and USAID in South Africa.

9. The financial statements of ATASA are audited by the independent auditing firm Laesecke, Scholtz & Co. The auditors report on the latest financial statements as at 31 March 1989 contains a qualification on the completeness of membership fees. ATASA is not provided with the total number of members in each affiliated group and therefore it is not possible for the independent auditors to issue an opinion on the completeness and accuracy of the membership fees.

Areas of USAID concern

10. FMC has not always provided timely financial management reports detailing the status of advances drawn for ATASA under the approved letter of credit. USAID South Africa is also concerned about FMC's ability to administer the ATASA project in accordance with Federal regulations and the grant agreement and whether technically qualified personnel were used to administer the program. In addition USAID requires assurances that regional and local elements of ATASA benefited from the Cooperative Agreement to the extent provided by the Agreement.

Audit Objectives and Scope

11. The audit objectives in auditing the ATASA subgrant were:-
 - 11.1 To express an opinion on the USAID Fund Accountability Statement for the ATASA subgrant.
 - 11.2 To review the direct expenses for the propriety, allocability and validity of grant expenses.
 - 11.3 To categorize expenses identified as accepted, questioned or unsupported.
 - 11.4 To review and evaluate ATASA's accounting systems, internal controls and capability to properly identify and account for grant expenses. This review is performed as a separate service to ATASA because a substantive audit approach, which does not require a review of the accounting systems and internal controls, is most appropriate in the circumstances.
 - 11.5 To prepare audit reports analyzing problem areas in need of improvement, to propose recommendations and to discuss these with ATASA.
 - 11.6 To determine whether ATASA has complied with applicable U.S. laws and regulations and terms and conditions of the Cooperative Agreement.
12. Our audit on the subgrant was performed in accordance with generally accepted auditing standards and generally accepted government auditing standards and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
13. The audit was performed under the supervision of the Regional Inspector General for Audit in Nairobi (RIG/A/N) and was conducted in accordance with the "Guidelines for Financial and Compliance Audits of AID-Financed Agreements" and the "Guidelines for Audits of Federal Awards to Non Profit Institutions."
14. The terms and provisions of the subgrant agreements and the cost principles contained in the applicable U.S. Government regulations were used as criteria in the determination of questioned or unsupported costs.
15. The scope of the audit of the subgrant consisted of the following:-

9

- 15.1 Reviewing the terms and conditions of the Cooperative Agreements, applicable standards provisions, implementation letters, budgets and financial or project evaluations, and correspondence.
- 15.2 Reviewing agreements, handbooks and other pertinent information.
- 15.3 Reviewing job descriptions and qualifications of financial management hired under the Cooperative Agreement.
- 15.4 Preparing a flowchart recording both administrative and program controls between FMC, ATASA, local and regional affiliates of ATASA.
- 15.5 Reviewing and evaluating ATASA's accounting systems, internal controls, and its capability to properly identify and account for grant expenditure.
- 15.6 On a sample basis, examining and testing supporting documentation.
- 15.7 Obtaining a letter of representation from management.

Results of the audit

16. Coopers Theron Du Toit have, on behalf of Business and Systems Consultants CC, performed a financial and compliance audit of the subgrant to ATASA as highlighted on the USAID Fund Accountability Statement under the African Teachers Association of South Africa for the period September 30, 1986 to September 30, 1989 (refer Section II). Despite many requests communicated to FMC to provide us with the accounting records relating to the planning grant for audit, these have not been made available. To enable us to finalize our work we have had no alternative but to exclude the planning grant from our procedures and consequently, our report only deals with financial and related matters of the subgrant. In this context a scope limitation has been placed on our work and our report is qualified accordingly. Furthermore we are unable to report on the areas of USAID concern to the extent that the concerns relate to FMC's ability to administer the ATASA project in accordance with federal regulations and the grant agreement and whether or not technically qualified personnel were used to administer the program.

17. In our audit of the subgrant we identified certain transactions described in paragraphs 18 and 19 below (refer Section II) that, in our opinion, are questioned. We have not identified any unsupported expenditure.

18. Total expenditure on the line item "staff and office - ATASA" had been exceeded by R149 819 (\$65 080) and R34 093 (\$14 003) thereof are questioned under the terms of the agreement. This amount was refunded to the ATASA grant account on 10 March 1990. The balance of the overrun was approved by utilizing the budget surplus contained in another line item.

19. On the line item "Regional Affiliates" an amount of R12 500 (\$4 464) is questioned because it is expenditure of a capital nature and consequently, not allowable in terms of the subgrant agreement to the Cooperative Agreement and OMB circular A-122.

20. We also examined ATASA's policies and methodology to ensure that the classification and allocation of costs were consistent from year to year and that they were in compliance with guidelines established by OMB Circular A-122, AID regulations, and the terms and conditions of the Cooperative Agreement. No exceptions were identified.

21. Overall, the funds benefited ATASA in the following manner:

21.1 Upgrading of teachers qualification;

21.2 Training of regional leaders through leadership courses;

21.3 Magazine publishing improved and there was better communication between ATASA and its members as well as recruits.

Internal Accounting Controls

22. We made a study and evaluation of the system of internal accounting controls relating to the subgrant to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to provide an additional service to ATASA because a substantive audit approach which was followed does not require a review of the accounting systems and internal controls. Accordingly, we may not have identified all weaknesses which may exist in the system of accounting control. We have not made a study and evaluation of the system of internal accounting controls relating to the planning grant because, as mentioned before, the accounting records relating to the planning grant have not been made available to us for audit.

23. The following internal control weaknesses were noted as a result of our audit of the subgrant:

- 23.1 The Secretary General is accountable to the National Council for the revenue and expenditure and general financial management of ATASA funds. He is also the ABC/ATASA project coordinator. This function involves the preparation and submission to ABC of budgets and revenue and expenditure reports. No independent review of these reports is carried out by the National Council.
- 23.2 The majority of the original supporting documentation was submitted to ABC, FMC's agent for monitoring the grant, in Miami, Florida.
- 23.3 No formalized procedures exist to monitor actual expenditure against budget.
- 23.4 Certain ATASA regional affiliates do not report timeously on the expenditure incurred by them in respect of which they received advances.
- 23.5 No individual personnel files are maintained. Also, salaries and salary bonuses are not approved by the National Council who is responsible for the hiring of staff.
- 23.6 One person is responsible both for the preparation of the salary checks and the payment thereof to employees after the checks have been signed.
- 23.7 Checks are not restrictively crossed.
- 23.8 Bank reconciliations are prepared by the bookkeeper who also performs the following functions:
 - 23.8.1 approves invoices for payment;
 - 23.8.2 is one of the two check signatories; and
 - 23.8.3 despatches signed checks to creditors.
- 23.9 Supporting documentation is in certain instances not cancelled at the time of payment.
- 23.10 No formal purchase ordering systems exists. All orders are placed telephonically with minimal written supporting documentation.

24. The effect of these weaknesses, management's comments and our recommendations are provided in Section III of this report.

Compliance with Cooperative and Subgrant Agreements, terms and conditions, and applicable U.S. laws and regulations

25. As mentioned before, the accounting records relating to the planning grant have not been made available to us for audit. Consequently, on the planning grant we cannot confirm compliance with the Cooperative and Subgrant Agreements, terms and conditions and applicable laws and regulations.

26. As far as the subgrant is concerned we confirm that ATASA has complied with those terms and conditions of the Cooperative and Subgrant Agreements, applicable U.S. laws and regulations, the non-compliance with which, could have had a material effect on the presentation of the Fund Accountability Statement. However, we noted certain minor issues that we believe warrant the action of ATASA as described in greater detail in section IV.

27. These issues are:

27.1 The National Council should develop clear policies and procedures to maintain original documentation.

27.2 In the case of bursaries, procedures for selection, processing and funding should be developed by ATASA. Final selection should be approved by both ATASA and ABC. Periodic student progress reports should also be requested and submitted to ABC.

27.3 In the case of an external course, ATASA should prepare a scope of the course and provide USAID with the opportunity to review it to ensure that the course and consequent expenditure is in line with the overall objectives of the grant.

27.4 No formal quarterly technical reports are submitted to ABC and USAID to communicate the progress and accomplishment of activities, problems and delays experienced.

SECTION II

REPORT ON USAID FUND ACCOUNTABILITY STATEMENT FOR ATASA

Index	Page
Auditor's report	1 - 2
USAID Fund Accountability Statement for the African Teachers Association of South Africa No 674-0302-A-00-6055-00 for the period September 30, 1986 through September 30, 1989	3
Nature of operation and maintenance of accounting and financial records	4
Accounting and financial records	4
Questioned and unsupported expenses	5 - 6
Benefits of the program	6 - 7

THE AFRICAN TEACHERS' ASSOCIATION OF SOUTH AFRICA

AGENCY FOR INTERNATIONAL DEVELOPMENT FUND ACCOUNTABILITY STATEMENT

AUDITOR'S REPORT

1. We have audited the Agency for International Development (AID) Fund Accountability Statement for the African Teachers' Association of South Africa for the period September 30, 1986 to September 30, 1989. Except that the scope of our work was limited by the matter referred to in the following paragraph, our audit was conducted in accordance with generally accepted auditing standards and the U.S. Comptroller General's Government Auditing Standards (1988 Revision) and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Fund Accountability Statement is free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the Fund Accountability Statement. We believe that our audit provides a reasonable basis for our opinion.

2. The actual expenditure incurred under the budgeted planning grant of \$376 481 out of the total actual expenditure of \$726 530 was not audited by us as the relevant accounting records were not made available for audit. Consequently, on the planning grant we have been unable to carry out such tests of the accounting records and such other auditing procedures or obtain all the information and explanations we considered necessary. For reporting purposes the entire actual expenditure under the planning grant has been classified as "unsupported".

3. It is the African Teachers' Association of South Africa's accounting policy to prepare its AID Fund Accountability on a basis outlined by the terms and conditions of the grant agreement with AID and the applicable U.S. Government laws and regulations. Accordingly, the accompanying Fund Accountability Statement is presented on the cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

4. Except for any adjustments that might be necessary had the U.S. accounting records been made available to us, in our opinion, the Agency for International Development Fund Accountability Statement for the African Teachers' Association of South Africa presents fairly the revenue and expenses of the Association attributed to AID grants during period September 30, 1986 to September 30, 1989 in accordance with terms and conditions of grant agreements and the U.S. Government laws and regulations.

5. Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use by management of the African Teachers' Association of South Africa or The Agency for International Development and should not be used for any other purpose.

Coopers Theron Du Toit

COOPERS THERON DU TOIT
Chartered Accountants (SA)

February 28, 1991

USAID FUND ACCOUNTABILITY STATEMENT FOR THE AFRICAN TEACHERS ASSOCIATION OF SOUTH AFRICA
 NO. 674-0302-A-00-6055-00
 FOR THE PERIOD SEPTEMBER 30, 1986
 THROUGH SEPTEMBER 30, 1989

Category	Budget	Actual		Amount Accepted		Questioned		Unsupported	
	\$	\$	R	R	\$	R	\$	R	\$
I <u>Planning grant to FMC</u>									
Personnel	102 000	90 565	-	-	-	-	-	-	90 565
Fringe	20 400	18 113	-	-	-	-	-	-	18 113
Overhead	95 472	84 769	-	-	-	-	-	-	84 769
Consultants	15 220	10 371	-	-	-	-	-	-	10 371
Tel/Telex	18 400	5 500	-	-	-	-	-	-	5 500
Postage, Supplies, Reproduction	6 720	7 945	-	-	-	-	-	-	7 945
Training Mod.	25 000	25 000	-	-	-	-	-	-	25 000
Local Travel	17 000	19 598	-	-	-	-	-	-	19 598
Travel Workshop	24 000	20 000	-	-	-	-	-	-	20 000
Consultant Travel	3 400	3 918	-	-	-	-	-	-	3 918
Travel to/from South Africa	33 000	27 854	-	-	-	-	-	-	27 854
Equipment/Supplies Distributed to Consortium Members	9 400	9 448	-	-	-	-	-	-	9 448
	-	53 400	-	-	-	-	-	-	53 400
Planning grant to FMC (A)	370 012	376 481	-	-	-	-	-	-	376 481
II <u>Subgrant to ATASA</u>									
Bursaries	167 000	96 785	216 000	216 000	96 785	-	-	-	-
R & D Officer Salary	10 000	-	-	-	-	-	-	-	-
Leadership Seminar	30 000	8 539	23 911	23 911	8 539	-	-	-	-
Staff and office ATASA	132 500	197 580	441 792	291 973	132 500	149 819	65 080*	-	-
Regional Affiliates	185 000	47 145	112 500	100 000	42 681	12 500	4464	-	-
Subgrant to ATASA (B)	524 500	350 049	794 203	631 884	280 505	162 319	69 544	-	-
TOTALS (A & B)	894 512	726 530	794 203	631 884	280 505	162 319	69 544	-	376 481

*Converted at average exchange rate of expenditure incurred during September 30 1986 to September 30 1989

NOTES TO THE AGENCY FOR INTERNATIONAL DEVELOPMENT FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD SEPTEMBER 30, 1986 TO SEPTEMBER 30, 1989.

NATURE OF OPERATION AND MAINTENANCE OF ACCOUNTING AND FINANCIAL RECORDS

1. The African Teachers Association of South Africa (ATASA) receives funds from The Agency for International Development through a Cooperative Agreement which is being funded under the Educational Support and Training Project (ESAT). The purpose of the ESAT Project is to support and expand selected activities in South Africa that advance the black community's goals of educational equity. The purpose of the ATASA Cooperative Agreement is to strengthen ATASA's capacity to develop and sponsor programs for its member's teachers in upgrading their professional qualifications, teaching skills, leadership and management abilities.

2. Florida Memorial College (FMC) of Miami, Florida entered into an agreement with USAID and became the recipient of a total grant made up of the Planning Grant and the ATASA Program Support Grant. FMC authorized the American Black College (ABC) Consortium to accomplish the above purpose. FMC/ABC were to provide funds from the subgrant to ATASA for the purpose of enhancing its on-going programs and those of its regional affiliates. ATASA and ABC entered further into a joint venture (subgrant agreement) to achieve the above purpose.

Accounting and financial records

3. The formal accounting and financial records of ATASA are maintained in local currency (in South African rand) in Soweto, Johannesburg where the headquarters of ATASA is located.

4. Transactions performed by ATASA comprise mainly of local currency disbursements which are liquidated through funds transferred by ABC to ATASA's bank account in South Africa. The transfers are made in U.S. dollars and are converted to South African rand by U.S. banks at rates of exchange prevailing at date of transfer. ATASA submits quarterly financial reports to the ABC Consortium. These quarterly financial reports are also submitted to USAID in Washington and to USAID in South Africa.

15

Questioned and unsupported expenses

5. A summary of costs, which in our opinion are questioned for reimbursements under the terms and provisions of the Cooperative Agreement and its subgrant agreement, is presented below.

Staff and Office - ATASA R149 819 (\$65 080)

6. This amount relates to a budget overrun of R149 819 (\$65 080), of which R34 093 (\$14 003) is a general debit for which no supporting documentation exists. According to the bank, the R34 093 (\$14 003) relates to travellers checks that should have been debited to ATASA's general bank account and not to the ATASA/ABC subgrant bank account. The balance of the budget overrun relates to the following items:

- 6.1 The increase in salaries for office and support staff.
- 6.2 The payment of bonuses and 13th checks which were not originally budgeted for.
- 6.3 Escalation in printing and publication costs.
- 6.4 The employment of an editor on a full time basis instead of on a part time basis as originally agreed.

ATASA response

7. As far as the R34 093 (\$14 003) is concerned, when travellers checks were issued by the bank, ATASA did not specify which bank account should be debited with the amount. The bank debited the grant account which was the incorrect account. An appropriate bank transfer was effected on 19 March 1990 refunding the subgrant bank account with this amount.

8. As far as the balance of the budget overrun of R115 726 (\$51 007) is concerned, a revised budget was sent to FMC/ABC. A great deal of communication problems were experienced with FMC/ABC who failed to effect the appropriate changes to the budget. According to Mr Dlamlenze the payment of bonuses was

discussed with Ms Mary Anne Riegleman, USAID representative in Washington, and Mr C T Wright, chairman of the planning committee at FMC, who orally approved the payment of bonuses by using budget surpluses in other line items in order to pay the amount. This comprises the most significant part of the budget overrun.

Auditor's response

9. The R34 093 (\$14 003) has been refunded to the ATASA/ABC subgrant bank account. Therefore, the item is no longer questionable. Adequate supporting documentation was made available to us in order to verify the validity of the costs representing the budget overrun. These amounts are therefore not questionable.

Regional affiliate - Ciskei Teachers Union R12 500 (\$4 464)

10. The amount relates to the acquisition, on 19 September 1989, of a photocopying machine for R12 500 (\$4 464). This expense is questioned in terms of the Agreements.

ATASA response

11. The matter was discussed at National Council as to how the amount was expended and the Council is still awaiting a reply from the regional office which is accountable.

Auditor's response

12. This expense is still questioned in terms of the subgrant agreement as it relates to expenditure of a capital nature.

Benefits of the program

13. On the question of the benefits that local and regional elements of ATASA enjoyed from the grant, the following are some of the benefits:

Regional level

13.1 The funds were used to pay the operations of the regional office which included the following:-

- 13.1.1 Salaries and travelling costs for office staff including that of the editor which was an additional post;
- 13.1.2 Office costs which include telephone, rent etc;
- 13.1.3 Printing and publishing material as well as other office administration costs.

Affiliate level

- 13.2 The affiliates used the funds for the running of affiliate offices on a full time basis and included the following:-
 - 13.2.1 Salaries of typist and project co-ordinators;
 - 13.2.2 Office costs including telephone, rent, etc.
- 14. Overall the funds benefited ATASA in the following manner:-
 - 14.1 Upgrading of teachers' qualifications;
 - 14.2 Training of regional leaders through leadership courses;
 - 14.3 Magazine publishing improved and there was better communication between ATASA and its members as well as recruits.

SECTION III

REPORT ON INTERNAL ACCOUNTING CONTROLS

Index	Page
Auditor's report	1 - 3
Internal control weaknesses	4 - 9

AFRICAN TEACHERS' ASSOCIATION OF SOUTH AFRICA (ATASA)
REPORT ON INTERNAL ACCOUNTING CONTROLS

1. We have audited the AID Fund Accountability Statement for the African Teachers' Association of South Africa (ATASA) for the period September 30, 1986 to September 30 1989, and have issued our report thereon dated February 28, 1991. As part of our audit, we made a study and evaluation of ATASA's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's Government Auditing Standards (1988 Revision).

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

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

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

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

- 5.1 Completeness of expenditure;
- 5.2 Authorization and validity of expenditure:
- 5.3 Allocation of expenditure.

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

6. The purpose of our study and evaluation was to provide a service to ATASA because a substantive audit approach which does not require the examination and evaluation of the system of internal control, was most appropriate in the circumstances. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

7. We have not made a study and evaluation of the internal accounting controls related to the planning grant as the relevant accounting records were not made available for audit. We therefore are unable to express an opinion thereon.

8. Our study and evaluation, made for the limited purpose described above, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls taken as a whole or any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness. We have noted minor issues in the internal control systems which should be addressed by the management. Our findings, recommendations and management's comments are presented on pages 4 to 9.

9. Contractor information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of the management of the African Teachers' Association of South Africa or The Agency for International Development and should not be used for any other purpose.

Coopers Theron Du Toit

COOPERS THERON DU TOIT

Chartered Accountants (SA)

February 28, 1991

25

AFRICAN TEACHERS' ASSOCIATION OF SOUTH AFRICA
INTERNAL CONTROL WEAKNESSES

Authorization and supervision procedures

Observation

1. The Secretary General is accountable to the National Council regarding revenue and expenditure and general financial management of ATASA funds. He is also the ABC/ATASA project coordinator which involves the preparation and submission, to ABC, of budgets and revenue and expenditure reports. No independent review of these reports is carried out by the National Council.

Recommendation

2. We recommend that copies of all budgets and revenue and expenditure reports be submitted to the National Council's finance committee for review and approval before issue.

ATASA response

3. This is not practically possible. Due to the structure of the Finance Committee it will be costly to implement this control as members comprising the Committee are spread throughout the country. Consequently ATASA would have to incur additional costs for their travelling and accommodation purely to review and approve budgets and revenue and expenditure reports.

Supporting documentation

Observation

4. The majority of the original supporting documentation was submitted to ABC, FMC's agent for monitoring the grant, in Miami, Florida. This resulted in a lack of an audit trail in South Africa.

Recommendation

5. We recommend that ATASA submit certified copies of the documentation to ABC for advances or reimbursement of expenditure and that the original documentation be maintained in South Africa.

ATASA response

6. National Council will develop clear policies and procedures for the retention of original documentation to ensure an adequate audit trail.

Budget overruns

Observation

7. No formalized procedures exist to monitor actual expenditure against budget. Consequently budget overruns are not timeously identified.

Recommendation

8. To avoid the above occurring, we recommend that ATASA implement procedures which would identify budget overruns before they happen. Furthermore, all budget overruns should be approved by USAID before payments are effected.

ATASA response

9. Procedures are to be implemented that will identify potential budget overruns in order to prevent these occurrences. Written approval will also be obtained in the future where budget overruns occur.

Regional affiliates

Observation

10. Certain ATASA regional affiliates do not report timeously on the expenditures incurred by them for which they have received advances.

Recommendation

11. We suggest that ATASA timeously request and obtain relevant reports from affiliates. In addition, these reports should be reviewed and approved by a responsible official, such as the Secretary General or bookkeeper of ATASA, to ensure that the expenditure incurred is covered by the grant.

ATASA response

12. Agreed. This will be implemented in the future.

Payroll

Observation

13. No individual personnel files are maintained. Problems may therefore arise regarding possible future salary negotiations or disputes. Salaries and salary bonuses are not approved by the National Council which is responsible for the hiring of staff.

Recommendation

14. We recommend that proper individual personnel files be created and maintained for all employees. We also suggest that all salaries and salary bonuses be approved in writing by the National Council.

ATASA response

15. Agreed. This control will be implemented in future.

Observation

16. One person is responsible for both the preparation of the salary checks and the payment thereof to employees after the checks have been signed. This lack of segregation of duties could lead to a misappropriation of funds which could go undetected.

16

Recommendation

17. In view of the small number of employees on the payroll, we recommend that the monthly salary checks be distributed to employees by a person other than the person responsible for the preparation of such checks.

ATASA response

18. This control will be implemented. However, Mr H H Dlamlenze, the Secretary General, oversees the day to day running of the operations and ensures that all expenses are duly and properly authorized.

Observation

19. Not all salary checks are restrictively crossed. This could lead to a misappropriation of funds and a loss of audit trail.

Recommendation

20. All checks issued should be marked either "account payee only" or "not negotiable".

ATASA response

21. Agreed. All checks will be restrictively crossed in future.

Bank reconciliations

Observation

22. Bank reconciliations are prepared by the bookkeeper who also:

- 22.1 approves invoices for payment;
- 22.2 is one of the two check signatories; and
- 22.3 despatches signed checks to creditors.

29'

23. This lack of segregation of duties could result in misappropriation of ATASA funds.

Recommendation

24. We recommend that all bank reconciliations be reviewed and approved by a more senior official.

ATASA response

25. Mr H H Dlamlenze oversees the day to day running of the operations as Secretary General. Subsequent to the period ended September 30, 1989 the Association entered into an agreement with Promat whereby the latter has agreed to administer funds made available to ATASA by USAID. Promat has appointed an investigation accountant who works in conjunction with ATASA's Administrative Assistant Secretary (the Association's former bookkeeper) and who also checks the records on a test basis to ensure their accuracy.

Cancellation of documentation after payment

Observation

26. Supporting documentation is, in certain instances, not cancelled at the time of payment. This could result in certain payments being presented a second time for payment.

Recommendation

27. We recommend that all documents supporting payments be stamped "cancelled" when the checks are signed.

ATASA response

28. All supporting documentation will be cancelled in future. A cancellation stamp will be acquired for this purpose.

Checks not restrictively crossed

Observation

29. Checks to creditors are not restrictively crossed in all instances. This could lead to a misappropriation of funds and a loss of audit trail.

Recommendation

30. We suggest that all checks issued be crossed either "account payee only" or "not negotiable".

ATASA response

31. All checks to be restrictively crossed in future.

Purchase orders

Observation

32. No formal purchase ordering system exists. All orders are placed telephonically with minimal written supporting documentation.

Recommendation

33. We suggest that a system of pre-numbered purchase orders be implemented to maintain control over this area. Furthermore appropriate approval procedures should be developed and implemented to ensure that only valid orders are placed.

ATASA response

34. ATASA will implement a purchase ordering system in order to improve control over this area.

SECTION IV

**REPORT ON COMPLIANCE WITH TERMS AND CONDITIONS OF THE COOPERATIVE
AGREEMENT AND APPLICABLE U.S. LAWS AND REGULATIONS**

Index	Pages
Auditors report	1 - 2
Report of non-compliance with agreements and regulations.	3 - 5

32

AFRICAN TEACHERS' ASSOCIATION OF SOUTH AFRICA
REPORT ON COMPLIANCE WITH COOPERATIVE GRANT AND SUBGRANTS AGREEMENTS
TERMS AND APPLICABLE U.S. LAWS AND REGULATIONS

1. We have audited the AID Fund Accountability Statement for the African Teachers Association of South Africa for the period September 30, 1986 to September 30, 1989. Except that the scope of our work was limited by the matter referred to in the following paragraph our examination was made in accordance with generally accepted auditing standards; the provisions of Government Auditing Standards (1988 Revision) promulgated by the U.S. Comptroller General, as they pertain to financial and compliance audits; and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

2. The actual expenditure incurred under the budgeted planning grant of \$376 481 out of the total actual expenditure of \$726 530 was not audited by us as the relevant account records were not made available for audit. Consequently, we have been unable to carry out any tests on the compliance of the expenditure with the Cooperative Grant and subgrant agreements, terms and applicable laws.

3. The management of the African Teachers Association of South Africa is responsible for the Association's compliance with laws, regulations, and terms and conditions of the Cooperative Grant and subgrant agreements thereto.

4. In connection with our examination of the subgrant, we found that for transactions and records selected and tested, the African Teachers Association of South Africa complied with laws, regulations and the terms and conditions of the Cooperative Grant and subgrant agreements. Certain matters relating to non-compliance by ATASA with the Cooperative Agreement subagreement and applicable laws and regulations came to our attention during the examination of the AID Fund Accountability Statement for the period September 30, 1986 through September 1989. These matters together with our recommendations and ATASA's responses are set out on pages 3 to 5 of this section.

3. Further, with respect to the items not tested by us, nothing came to our attention to indicate that the African Teachers Association of South Africa had not complied with laws, regulations, and the terms and conditions of the Cooperative Grant and subgrant agreements. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of noncompliance with such requirements, terms and conditions.

4. Contractor information contained in this report may be privileged. The restrictions of 18 USC 1095 should be considered before any information is released to the public. This report is intended solely for the use of the management of the African Teachers Association of South Africa or The Agency for International Development and should not be used for any other purpose.

Coopers Theron Du Toit

COOPERS THERON DU TOIT

Chartered Accountants (SA)

February 28, 1991

AFRICAN TEACHERS' ASSOCIATION OF SOUTH AFRICA (ATASA)
REPORT ON COMPLIANCE WITH COOPERATIVE AGREEMENT, SUBAGREEMENT
AND APPLICABLE U.S. LAWS AND REGULATIONS

Retention of records

Condition and effect

1. In terms of the ABC Consortium and the ATASA joint venture agreement all supporting documentation relating to revenue and expenditure is to be retained in the Republic of South Africa for a period of three years. This has not been the case as the majority of supporting documentation was forwarded to ABC in Florida. The cause of this condition is that ABC in Florida requested the original documentation for reimbursement of expenditure and the effect thereof is a loss of audit trail.

Recommendation

2. We recommend that National Council develop clear policies and procedures relating to the maintenance of the original documentation for a period of at least three years on completion of each project.

ATASA response

3. Clear policies and procedures will be developed and implemented in the future to ensure that original documentation is retained for the prescribed period.

Bursaries

Condition and effect

4. In terms of the subagreement, before funds may be provided for under the "bursaries" line item, procedures for selection, processing, and funding of teacher candidates for training should be developed by ATASA. ATASA and ABC are also required to agree on the selection procedures. Furthermore, periodic progress reports of bursary students should be obtained. These requirements were not complied with. The effect thereof is that bursaries could be granted to inappropriate candidates.

135

Recommendation

5. Procedures for selection, processing and funding of bursaries should be developed by ATASA and final selection should be approved by both ATASA and ABC. Periodic progress reports should also be requested and obtained for bursary students.

ATASA response

6. Procedures for the selection, processing and funding of bursaries will be developed and implemented. Regular review of student progress will also be performed in future.

Leadership Course

Condition and effect

7. No funds should have been provided for this external course until ATASA had prepared a scope of the course and USAID had reviewed the budget and planning. The effect of this deviation is that expenditures on courses not in line with the overall objectives of the grant could be claimed against the grant.

Recommendation

8. Proper approval should be obtained to ensure that only expenditures on approved courses are claimed against the grant.

ATASA response

9. Proper approval will be obtained in the future.

Technical Reports

Condition and effect

10. No formal quarterly progress reports were submitted to ABC with a copy thereof to USAID (SA) regarding the following:-

- 10.1 The activities which have been accomplished
- 10.2 The problems, delays or adverse conditions, if any, which may affect program success.
- 10.3 Action needed to resolve problems and lessons.

The effect of the above non-compliance is that USAID may not be fully and timeously aware of the problems affecting program success and the corrective action, if any, that may be required.

Recommendation

- 11. Formal technical reports should be submitted in order to ensure compliance with the terms of the subgrant agreement and thus to communicate the progress on accomplishment of activities, problems, and corrective action to resolve the problems.

ATASA response

- 12. The inventory modules developed by ABC were submitted late and were not suitable for conditions in South Africa. Lack of communication from ABC and no timeous response resulted in technical reports not being prepared.

Audit of
The African Teachers Association
of South Africa
Agreement No. 674-0302-A-00-6055-00

APPENDICES

RECEIVED
- 7 MAY 1991
RIG 'A' N

MEMORANDUM

DATE : May 6, 1991
TO : Mr. Toby Jarman, RIG/A/Nairobi
FROM : *Dennis R. Barrett*, Director, USAID/South Africa
SUBJECT : Mission Comments on Audit of African Teachers
Association of South Africa (ATASA)

Attached is a copy of the Mission's comments on the audit report of African Teachers Association of South Africa (ATASA). The Mission will be issuing the Bill for Collection to the Florida Memorial College in the next few days.

Regard
D

MEMORANDUM

To: Mel Van Doren, Controller

From: Jennifer Bisgard, ²³PDO

Through: David Evans, HRDO 

Subject: Non-Federal Audit of ABC/ATASA 674-0302-A-00-6055-00

Date: April 29, 1991

You requested comments on the ABC/ATASA audit recommendations:

1. The African Teachers Association of South Africa merged into the new South African Democratic Teacher's Union officially on January 1, 1991. The new union, SADTU, is made up of the traditional teachers' associations based on race and the newer alternative/progressive unions. ATASA has ceded all property and records to SADTU. Therefore, recommendations intended for ATASA on internal controls are no longer relevant, although they will be passed on to SADTU.

2. Regarding elements which are described as "questionable" the Project Office makes the following recommendations:

a. Since a statutory three year period is specified in the Standard Provisions of the ABC Cooperative Agreement during which the USG has the right to audit the project records, (particularly since Florida Memorial College was paid under a Federal Letter of Credit) we recommend that a bill for collection be issued for the full amount of \$370,012.00.

b. Under the sub-grant to ATASA, questionable items include:

i. Over-run of the budget: The Project Office has no reason not to believe Mr. Dlamlenze's (General Secretary of ATASA) statement on page 5 that permission was requested from ABC/Florida Memorial College to alter the budget and was granted orally by the then Project Officer, located in AID/W. We suggest that this is confirmed with Ms. Mary Anne Riegleman in Washington D.C..

ii. In the light of (i) above, and the fact that 13th check bonuses are standard policy for South African employers (including nongovernmental organizations), we are satisfied that R65,080 was appropriately spent in accordance with the purpose of the sub-grant.

44

iii. The issue of the photocopier purchased by the Ciskei branch of ATASA is much more difficult. The audit indicates that the ATASA national board has requested an explanation from the Ciskei branch and has acknowledged that capital equipment is not part of the Cooperative Agreement. The project office will pursue this matter with SADTU and request certification that the photocopier has been handed over to the local SADTU branch and is being used for union purposes.

cc. SADTU

file: Financial file
Agreement file
Chron

Cleared: MJohnson:SPDO
RMBaFrett:ACCT RMB

2

41

REPORT DISTRIBUTION

American Ambassador to South Africa	1
Mission Director, USAID/South Africa	5
MS/OP	5
AA/AFR	2
AFR/SA/AMAN	2
AFR/CONT	1
XA/OD	1
XA/PR	2
AA/LEG	1
GC	1
AA/FA	2
FM/FPS	2
AA/S&T	1
PPC/CDIE	3
MS/MO	1
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM	5
IG/I	1
RIG/I/N	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1

48