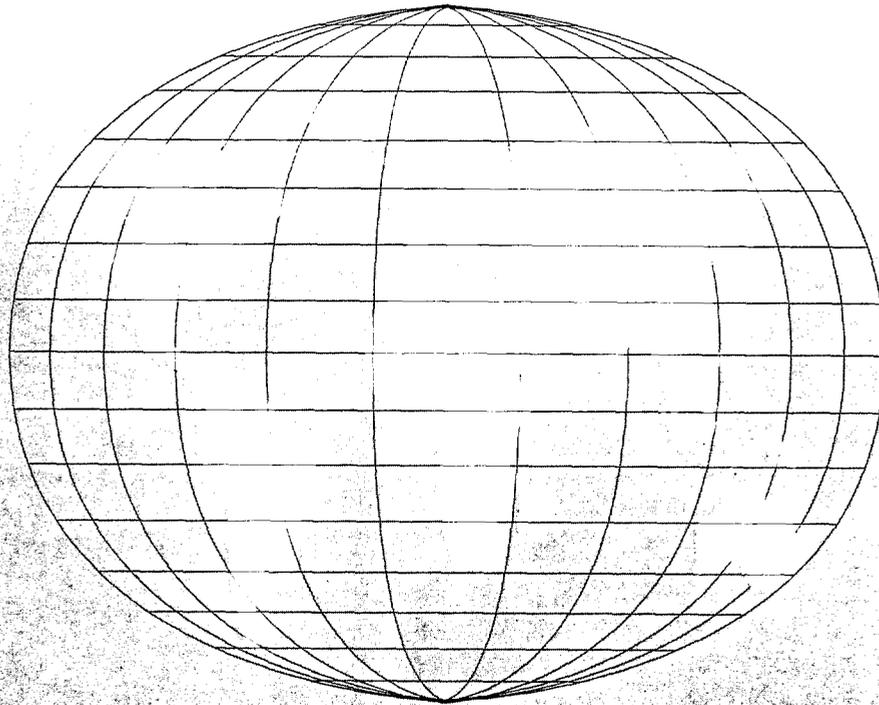


Report of Audit

**Audit of Desmond Tutu Educational Trust's
Grant Number 674-0309-G-SS-0032 for the
Period August 17, 1990 to October 15, 1993**

**Report No. 4-674-97-003-N
February 28, 1997**



**REGIONAL INSPECTOR GENERAL/PRETORIA
OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

**Audit of Desmond Tutu Educational Trust's
Grant Number 674-0309-G-SS-0032 for the
Period August 17, 1990 to October 15, 1993**

**Report No. 4-674-97-003-N
February 28, 1997**

REGIONAL INSPECTOR GENERAL/PRETORIA

B



Regional Inspector General
Pretoria

February 28, 1997

MEMORANDUM FOR MISSION DIRECTOR, USAID/South Africa

FROM: Regional Inspector General/Pretoria, *James S. Jarrell* for Joseph Farinella

SUBJECT: Audit of Desmond Tutu Educational Trust's Grant Number 674-0309-G-SS-0032 for the Period August 17, 1990 to October 15, 1993.
Report Number 4-674-97-003-N

Attached are three copies of an Agency-contracted Audit of Desmond Tutu Educational Trust (DTET) performed by the accounting firm Price Waterhouse. The Desmond Tutu Educational Trust was established on July 24, 1990 to "solicit, accept, and administer donations to be applied for the purpose of redressing educational disadvantages experienced by black students in the Republic of South Africa, resulting from structural and legal discrimination, based upon race, class, beliefs or social background". There are two separate funds within the Trust: the Student Assistance Fund and the Academic Institution Assistance Fund.

The agreement number 674-0309-G-SS-0032 was entered into on August 17, 1990 for the period August 17, 1990 to December 31, 1991. Eligible costs incurred at or after the commencement of the 1990 academic year may be financed under the Agreement. USAID obligated \$3,000,000 for this period. Agreement Implementation Letter No. 2 dated February 11, 1992 extended the expiration date to December 31, 1992. Amendment No. 1 dated November 7, 1995 granted DTET a retroactive no-cost extension up to October 15, 1993.

FINANCIAL 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.

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The objectives of the audit were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report the use of funds in accordance with the grant agreement (in accordance with SAS 62);
- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses (in accordance with SAS 68); and
- test the auditee's compliance with the terms of the grant agreement as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of non-compliance (in accordance with SAS 73).

The audit covered income and expenses of about \$3.0 million (including interest income of about \$67,000) for the period August 17, 1990, to October 15, 1993.

The auditors issued a qualified opinion on the Fund Accountability Statement. Their report identified questioned ineligible costs of \$993 (R 2,919) and unsupported costs of \$274,327 (R 806,522). The unsupported amount included payments of \$267,274 for printing costs that were not properly documented.

The auditors identified no material internal control or compliance weaknesses.

Based on our review, we are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/South Africa determine the allowability and recover, as appropriate, questioned ineligible costs of \$993 from the Desmond Tutu Educational Trust.

Recommendation No. 2: We recommend that USAID/South Africa determine the allowability and recover, as appropriate, questioned unsupported costs of \$274,327 from the Desmond Tutu Educational Trust.

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We consider the recommendations to be awaiting management decisions. Management decisions for Recommendations 1 and 2 will be made when the Mission determines the allowability of the questioned amounts. Final action regarding the recommendations will be completed when the Mission takes appropriate collection actions relative to any disallowed costs. Please advise me within 30 days of actions planned or taken to reach management decisions on the audit recommendations.

Thank you for the cooperation extended to Price Waterhouse auditors and the Regional Inspector General for Audit representatives during the audit.

Attachments: a/s

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***FINANCIAL AUDIT OF DESMOND TUTU EDUCATIONAL TRUST
FOR THE PERIOD AUGUST 17, 1990 TO OCTOBER 15, 1993***





**FINANCIAL AUDIT OF DESMOND TUTU EDUCATIONAL TRUST
FOR THE PERIOD AUGUST 17, 1990 TO OCTOBER 15, 1993**

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**FINANCIAL AUDIT OF DESMOND TUTU EDUCATIONAL TRUST
FOR THE PERIOD AUGUST 17, 1990 TO OCTOBER 15, 1993**

APPENDICES

Appendix No.	Title
A	List of Report Recommendations
B	Management Letter
C	Management's Comments

EXHIBITS

Exhibit	
I	Schedule of Ineligible Costs
II	Schedule of Unsupported Costs



1 INTRODUCTION

1.1 Background

The Desmond Tutu Educational Trust (DTET) was established on July 24, 1990 to "solicit, accept, and administer donations to be applied for the purpose or redressing educational disadvantages experienced by black students in the Republic of South Africa, resulting from structural and legal discrimination, based upon race, class, beliefs or social background". There are two separate funds within the Trust: the Student Assistance Fund and the Academic Institution Assistance Fund.

USAID/South Africa entered into an agreement under the Support to Tertiary Education Project (STEP) with DTET to support the Student Assistance Fund of DTET.

While the objectives of the Student Assistance Fund include the provisions of bursaries, scholarships, student loans, academic support programs, pre-subsistence allowance, study materials, essential travelling, and other necessary support and facilities, USAID support will focus on the following: student assistantships; student aids such as text books, tutoring programs for students within particular faculties and departments; and work opportunities for students on and off campus.

The grant agreement is the subject of this audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's Government Auditing Standards.

The agreement number 674-0309-G-SS-0032 was entered into on August 17, 1990 for the period August 17, 1990 to December 31, 1991. Eligible costs incurred at or after the commencement of the 1990 academic year may be financed under the Agreement. USAID obligated US\$3,000,000 for this period. Agreement Implementation Letter No. 2 dated February 11, 1992 extended the expiration date to December 31, 1992. Amendment No. 1 dated November 7, 1995 granted DTET a retroactive no-cost extension up to October 15, 1993.

1.2 Audit Objectives and Scope

1.2.1 Audit Objectives

Price Waterhouse was contracted by USAID to perform an Agency-contracted close-out audit of the Desmond Tutu Educational Trust 674-0309-G-SS-0032 in accordance with generally accepted auditing standards and the U.S. Comptroller General's Government Auditing Standards.



The objectives of this audit engagement were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report the use of funds in accordance with the grant agreement (in accordance with SAS 62);
- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses (in accordance with SAS 68); and
- test the auditee's compliance with the terms of the grant agreement as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of non-compliance (in accordance with SAS 73).

1.2.2 Audit Scope

The scope of the audit included an examination of the Fund Accountability Statement of DTET, a review of compliance with provisions of the grant agreement and applicable U.S. laws and regulations and an evaluation of the internal control structure of the auditee. The period of review for this financial audit covered all applicable grant revenue received and eligible costs incurred at or after the commencement of the 1990 year to October 15, 1993.

1.2.3 Audit Scope Limitations

Price Waterhouse does not have an external quality control review by an unaffiliated audit organization as required in paragraph 46 of chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirement of Government Auditing Standards is not material because we participate in the Price Waterhouse Worldwide internal quality control program which require Price Waterhouse South Africa to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.



Due to the inaccessibility in nature of continuing education classes for United States Government Auditing Standards, Price Waterhouse/South Africa has not been able to comply with the continuing education requirements as stipulated in paragraphs 6-9 of chapter three of Government Auditing Standards (1994 revision). Our practice in South Africa currently maintains and makes reference to all literature surrounding United States Government regulations pertaining to USAID audits and send all professional staff to other GAAS continuing education classes each year.

1.2.4 Audit Methodology

Price Waterhouse conducted its initial survey of reimbursement vouchers and accounting records on October 7, 1996 at which time the identification and selection of transactions for detailed testing was completed. The audit field work was performed at the offices of DTET and the University of the Western Cape. The financial audit report was then prepared and reviewed at our office in Johannesburg.

The principal audit steps performed during the course of the audit included the following:

- an examination of the grant agreement including the attachments, amendments, applicable standard provisions and regulations and correspondence, to gain an understanding of the goals and objectives of the project, the activities being financed by USAID, the types of costs incurred under the grant and the billing and accounting procedures and requirements placed on DTET by USAID;
- performance of detailed compliance work on the auditee's internal controls, audit procedures to detect errors and irregularities and audit procedures to evaluate the auditee's compliance with the contract and applicable provisions. An assessment of the adequacy of accounting systems and internal controls of the auditee was made, in order to obtain reasonable assurance of detecting errors, irregularities and illegal acts. A follow up of controls implemented since the period under review was performed in order to establish whether adequate controls exist currently.
- testing of revenue and expenditure transactions in the Fund Accountability Statement to determine the extent of non-compliance, unreasonable, unallowable or unallocable expenses and the effectiveness of internal controls. Identification of costs which were not supported with adequate documentation or which were not in accordance with the applicable agreement terms;
- a review of travel and per diem costs to determine whether these costs



were in accordance with the stated policy, agreement and regulations;

- a review of procurement procedures to determine whether sound commercial practices including competition were used and reasonable prices were obtained;
- a reconciliation of financial reports submitted by DTET to USAID to the DTET accounting records, in order to determine whether the financial submissions are accurate and supported by the accounting records and supporting vouchers; and
- a review of the general ledger to determine whether revenues received and expenditures incurred were properly recorded, accumulated and reported.

1.3 Brief Summary of Audit Results

1.3.1 Fund Accountability Statement

Our audit tests of the Fund Accountability Statement revealed that of the total costs of R8,935,396 included in the Fund Accountability Statement, R809,440 were questioned costs of which R2,919 were ineligible costs and R806,521 were unsupported for reimbursement by USAID.

1.3.2 Internal Control Structure

Our evaluation of the internal control structure revealed no material reportable conditions under the standards established by the American Institute of Certified Public Accountants.

1.3.3 Compliance with Contract and Related Provisions

Our evaluation of compliance with the grant and related provisions identified the following instances of non-compliance: interest received refunded to USAID, separate bank account, non-submission of monthly vouchers for reimbursement, non-submission of semi-annual progress reports, non-compliance with special provisions and title to and use of property.

1.4 Brief Summary of Management Comments

Refer Appendix C.

Price Waterhouse



2. FUND ACCOUNTABILITY STATEMENT

2.1 Independent Auditor's Report

We have performed a financial audit of the Fund Accountability Statement of the Desmond Tutu Educational Trust (DTET) under the USAID Grant Agreement number No. 674-0309-G-SS-0032 for the period August 17, 1990 to October 15, 1993.

The Fund Accountability Statement is the responsibility of DTET's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and the standards contained in the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our auditing provides a reasonable basis for our opinion.

Price Waterhouse does not have an external quality control review by an unaffiliated audit organization as required in paragraph 46 of chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse Worldwide internal quality control program which requires Price Waterhouse South Africa to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Due to the inaccessibility in nature of continuing education classes for United States Government Auditing Standards, Price Waterhouse/South Africa has not been able to comply with the continuing education requirements as stipulated in paragraphs 6-9 of chapter three of Government Auditing Standards (1994 revision). Our practice in South Africa currently maintains and makes reference to all literature surrounding United States Government regulations pertaining to USAID audits and send all professional staff to other GAAS continuing education classes each year.



The results of our tests disclosed the following material questioned costs as detailed in the Fund Accountability Statement: (1) R2,919 in costs that are ineligible because they are not in accordance with the grant agreement and special provisions; and (2) R806,521 in costs that are not supported with adequate documentation.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the Fund Accountability Statement examined by us presents fairly in all material respects grant revenues and costs reimbursed for the period August 17, 1990 to October 15, 1993 in accordance with the terms of the grant agreement and in conformity with the basis of accounting described in the notes thereto.

Financial 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 United States Agency for International Development and the management of DTET but this is not intended to limit the distribution of the report, if a matter of public record.

Pricewaterhouse

November 4, 1996



2.2 FUND ACCOUNTABILITY STATEMENT

2.2.1 Fund Accountability Statement of the Desmond Tutu Educational Trust Grant Agreement No. 674-0309-G-SS-0032 for the period August 17, 1990 to October 15, 1993

	Budget R	Actual R	Accepted R	Questioned Costs	
				Ineligible R	Unsupported R
Income					
Received from USAID to 10/93	7,850,000	6,140,408			
Received from USAID after 10/93		2,391,411			
Interest Received		227,006			
		8,758,825	0	0	0
Expenses					
Student Assistance Programs	7,850,000				
Work Study Programs		6,280,176	6,280,176		
Course Readers/ Printing at UWC		785,786	(0)		785,786
Textbook Purchases		1,704,429	1,689,998		14,431
Office Administration Costs (Trust)		165,004	155,781	2,919	6,304
	7,850,000	8,935,396	8,125,956	2,919	806,521
Surplus of Expenditure over Income		(176,571)			



2.2 FUND ACCOUNTABILITY STATEMENT

2.2.1 Fund Accountability Statement of the Desmond Tutu Educational Trust Grant Agreement No. 674-0309-G-SS-0032 for the period August 17, 1990 to October 15, 1993

	Budget US\$	Actual US\$	Accepted US\$	Questioned Costs	
				Ineligible US\$	Unsupported US\$
Income					
Received from USAID to 10/93	3,000,000	2,205,154			
Received from USAID after 10/93		704,025			
Interest Received		67,161			
		2,976,340	0	0	0
Expenses					
Student Assistance Programs	3,000,000				
Work Study Programs		2,136,114	2,136,114		0
Course Readers/ Printing at UWC		267,274	(0)		267,274
Textbook Purchases		579,738	574,829		4,909
Office Administration Costs (Trust)		56,124	52,987	993	2,144
	3,000,000	3,039,250	2,763,930	993	274,327
Surplus of Expenditure over Income		(62,910)			

2.2.2 Notes to the Fund Accountability Statement

- **Basis of Accounting**

The Fund Accountability Statement is prepared a cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

DTET maintained a separate call account to account for funds received and monies transferred to the current account to cover expenditures incurred under the USAID grant agreement.

- **Revenues**

Revenues represent amounts advanced and reimbursed by USAID in cash during the period of review under the grant agreement.

- **Expenditures**

Expenditures represent amounts reimbursed by USAID in cash during the period of review under the grant agreement based on costs incurred.

- **Balance of funds**

The balance of funds at October 15, 1993 represented expenditures incurred in excess of income received from USAID. There are no amounts owing at the close-out of the grant.

2.2.3 Sample Selection Criteria

The scope of this audit included only the revenue and expenditure of the DTET grant agreement with USAID for the period August 17, 1990 to October 15, 1993. DTET is responsible for maintaining all original supporting documentation of agreement expenditures.

Our methodology included the following selection of the revenue and expenditure transactions for detailed audit testing:

Revenue

All (100%) revenue received from USAID was vouched to the bank statements and public vouchers from USAID to DTET were confirmed.



Expenditure

Our selection of expenditure transactions for detailed testing was based on a predetermined amount and a judgemental selection of additional transactions based upon potential risk. The sample profile is as follows:

	Total Costs (Actual) R	Sample Selected R	Percentage Selected %	Not Reviewed %
Work study programs	6,280,176	6,280,176	100	0
Course readers	785,786	0	0	100
Text books	1,704,429	1,202,684	71	29
Office Administration Costs	165,004	148,712	90	10
	8,935,396	7,631,572	85	15

2.3 Findings and Recommendations

2.3 Ineligible Costs

Finding No. 1 on Ineligible Office Administration Costs of R2,919

We noted that the grantee incurred and claimed from USAID office administration costs of R2,919 which were not incurred for the purpose of the project funded by USAID. This resulted in R2,919 in costs being questioned as ineligible. A breakdown of the ineligible costs is included under Exhibit I to this report.

In terms of the grant agreement, Mandatory Standard Provisions, "The recipient shall be reimbursed for costs incurred in carrying out the purposes of this agreement which are determined by the agreement officer to be reasonable, allocable and allowable in accordance with the terms of this agreement". Allocable costs shall mean those costs which are necessary to the agreement. A statutory audit is not required in terms of the grant agreement, and therefore any costs related to that audit are not project-related.

The reason for including these ineligible costs in the claim from USAID could not be determined.



Recommendation No. 1

We recommend that USAID consider the allowability of statutory audit fee costs incurred and claimed under this grant and give approval for the cost to be allocable to the project.

Unsupported Costs

2.3.2 Finding No. 2 on Lack of Supporting Documentation of R806,521

We were unable to locate supporting documentation for expenses incurred and claimed from USAID of R806,521. This resulted in the amount being questioned as unsupported costs. A breakdown of the unsupported costs is included under Exhibit II to this report.

In terms of the grant agreement, Mandatory Standard Provisions, "the recipient shall maintain books, records, documents and other evidence in accordance with the recipient's usual accounting procedures to sufficiently substantiate charges to the agreement".

As a result of the lack of documentation, we were unable to determine whether the costs were reasonable, allocable and allowable to the grant agreement.

Discussion

It was noted that of the total unsupported costs of R 806,521, R 785,786 related to a line item referred to as course readers. This expenditure relates to photostatting and printing carried out by the main printing department at the University of Western Cape during 1990 of lecture and reading material used by University students. We were unable to obtain any form of documentation as adequate evidence to support these printing costs. At the exit conference of this audit, DTET and USAID officials agreed that some form of management representation may be adequate to support these costs.

Recommendation No. 2

We recommend that management consider the unsupported costs noted in Exhibit II and provide USAID with some alternative acceptable evidence or representation to support the claim for the costs incurred. Thereafter, we recommend that USAID determine the allowability of the questioned costs.

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Price Waterhouse



3 INTERNAL CONTROL STRUCTURE

3.1 Independent Auditor's Report

We have audited the Fund Accountability Statement of the Desmond Tutu Educational Trust (DTET) under USAID Cooperative Agreement number No. 674-0309-G-SS-0032 with USAID for the period from August 17, 1990 to October 15, 1993.

Except for not conducting an external quality control review by an unaffiliated audit organization and not complying with the continuing education requirements as stipulated in paragraphs 6-9 of chapter three of Government Auditing Standards (1994 revision), (as described in our report on the Fund Accountability Statement) we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement of DTET for the period from August 17, 1990 to October 15, 1993 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of DTET is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in accordance with the basis of accounting described in Section 2.2.2 to the Fund Accountability Statement.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report we have classified the significant internal control structure policies and procedures insofar as they relate to DTET into the following categories:



CONTROL ENVIRONMENT

- General awareness of grant agreement provisions and regulations;
- Personnel, travel and procurement procedures;
- Organization structure and management.

ACCOUNTING SYSTEM

- General record keeping;
- Bank account and reconciliations;
- Quarterly reporting to USAID/South Africa;
- Claiming reimbursements from USAID/South Africa.

CONTROL PROCEDURES

- Authorization of payments;
- Disbursement control procedures; and
- Travel and per diem cost control procedures.

For all of the internal control structure 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 the control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the Fund Accountability Statement and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement.

We noted no matters involving the internal control structure and its operation that we consider to be material and reportable weaknesses as defined above. We noted four matters involving the internal control structure and its operations that we have reported to the management of the Desmond Tutu Educational Trust (DTET) in a separate letter included under Appendix B.

Financial 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 information of the United States Agency for International Development and the management of DTET but this is not intended to limit the distribution of the report if a matter of public record.

Price Waterhouse

November 4, 1996



3.2 Introduction

3.2.1 Definition

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- the control environment;
- the accounting system; and
- control procedures.

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

In Section 3.3 below, we have described our findings and recommendations arising under these three elements of the auditee's internal control structure.

3.2.2 Work Performed

Our review of the internal control structure was directed towards those significant policies and procedures which relate to the nature of project funding arrangements. These policies and procedures are as follows:

CONTROL ENVIRONMENT

- General awareness of grant agreement provisions and regulations;
- Personnel, travel and procurement policies and procedures;
- Organization structure and management.



ACCOUNTING SYSTEM

- General record keeping;
- Bank account and reconciliations;
- Quarterly reporting to USAID/South Africa;
- Claiming reimbursements from USAID/South Africa.

CONTROL PROCEDURES

- Authorization of payments;
- Disbursement control procedures;
- Travel and per diem cost control procedures.

3.3 Findings and Recommendations

Although the internal controls were weak at the time of this grant, we tested the current control policies and procedures, and we noted no matters involving the internal control structure that we consider to be material, reportable conditions.

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Price Waterhouse



4 COMPLIANCE WITH CONTRACT PROVISIONS AND U.S. GOVERNMENT REGULATIONS

4.1 Independent Auditor's Report

We have audited the Fund Accountability Statement of the Desmond Tutu Educational Trust (DTET) for the period August 17, 1990 to October 15, 1993 (see Section 2.2) and have issued our report thereon dated October 25, 1996.

Except for not conducting an external quality control review by an unaffiliated audit organization and not complying with the continuing education requirements as stipulated in paragraphs 6-9 of chapter three of Government Auditing Standards (1994 revision), (as described in our report on the Fund Accountability Statement) we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatements.

Compliance with laws, regulations, and contract terms applicable to DTET is the responsibility of management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of DTET's compliance with certain provisions of contract terms, laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Fund Accountability Statement. The results of our tests of compliance disclosed no material instance of non-compliance.

We noted immaterial instances of non-compliance, that we have reported in Section 4.3.



Except as described above the results of our tests of compliance indicate that, with respect to the items tested, DTET complied in all material respects with the provisions referred to in the third paragraph of this report, and with respect to the items not tested nothing came to our attention that caused us to believe that the DTET had not complied, in all material respects, with those provisions.

Financial information contained in this report may be privileged. The restrictions of 19 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of DTET, USAID but this is not intended to limit the distribution of the report, if a matter of public record.

Prisc Waterhouse

November 4, 1996



4.2 Introduction

USAID requires all grantees regardless of the country or legal entity, to comply with the terms of conditions included in the contract, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by an individual USAID mission or by USAID/Washington.

Procedures performed in this audit to test compliance with the grant agreement and related provisions included:

- a review of agreement provisions and related regulations to identify those provisions and regulations which could have a material affect on the financial statements; and
- audit procedures including detailed testing to evaluate DTET's compliance with these provisions and regulations.

4.3 Findings and Recommendations

4.3.1 Finding No. 3 on Interest Received Refunded to USAID

The Trust sent a letter to the project officer of USAID in August 1993 advising her that an amount of R227,006 had accrued in interest on this grant's funds and the Trust requested USAID's approval for the interest monies to be refunded to the Trust for program expenses. We noted that this interest amount (at 3.38 exchange rate prevailing at the time) of \$67,161.54 was deducted from a claim made by the Trust to USAID. We were unable to locate USAID's approval for the interest earned to be utilized to liquidate program-related expenditure. This is in non-compliance with the grant agreement. In terms of the grant agreement Attachment I, IV, "any interest earned from funds provided under this Agreement must be returned to USAID".

Discussion

Our understanding of the treatment of interest by USAID is that it be separately accounted for by the recipient. The management of DTET have indicated that they offset interest earned against overall claims. If USAID and DTET had a separate understanding of the treatment of interest earned, this will resolve the above finding.

Recommendation No. 3

We recommend that USAID confirms its approval of the treatment of interest earned.



4.3.2 Finding No. 4 on Separate Bank Account

We noted that DTET opened a checking account in January 1991 and a call account on March 27, 1991 to account for USAID funds. All USAID cash advanced and reimbursements, and all disbursements for USAID project goods and services were made from these accounts.

However, we noted that during the period under review, the Trust received funds from another donor. These funds have been accounted for in the above USAID bank accounts. This is a non-compliance with the grant agreement.

In terms of the grant agreement Attachment I, IV, "the recipient shall open a separate bank account to be used solely for funds provided under this Agreement".

Discussion

We noted that separate bank accounts are now being opened to account separately for other donor's funds.

Recommendation No. 4/Auditors Comments

We recommend that USAID accept the non-compliance noted during the period under review as a result of the Trust's efforts to comply with the agreement requirements. No further action required.

4.3.3 Finding No. 5 on Non-submission of Monthly Vouchers for Reimbursement

We noted that the Trust submitted claims for reimbursement which consist of three- to six-month periods. We were unable to determine how frequently the disbursement reports were submitted to USAID. This is a non-compliance with the grant agreement.

In terms of the grant agreement Attachment I, IV, "each month after the initial advance, the Recipient will submit to the USAID Controller's office a voucher for reimbursement based on expenses incurred during the previous month".

Discussion

The Trust submitted claims from USAID on a quarterly basis due to the semesters covered by the University to which the grant monies were channelled coinciding with these quarters. Although the claims were not prepared in the format suggested in the grant agreement, they were adequate for USAID purposes.



Recommendation No. 5

We recommend that USAID accepts the format and frequency of the claims made by the Trust.

4.3.4 Finding No. 6 on Non-submission of Semi-annual Progress Reports

We noted that only two semi-annual progress reports were submitted to USAID during the period of the grant. These two progress reports covered the periods February 1, 1990 to November 30, 1990 and April 1, 1993 to September 30, 1993.

In terms of the grant agreement Attachment I, IV, "the Trust will provide semi-annual progress reports to USAID summarizing the status of student support provided under this Agreement".

Recommendation No. 6

We recommend that the Trust and USAID attempt to locate the missing semi-annual progress reports.

4.3.5 Finding No. 7 on Non-Compliance with Special Provisions

We were unable to determine whether the Trust provided satisfactory evidence that proper financial management systems had been established prior to the disbursement of funds.

In terms of the grant agreement Attachment I, XI, A, "Prior to the disbursement of funds or to the issuance of any commitment documents under the Agreement, the Recipient shall provide, in form and substance satisfactory to USAID, evidence that proper financial management systems for accounting and record keeping exist with respect to funds provided under this Agreement".

Discussion

We located the financial review performed by Pema Lakha in August 1990 which noted that the Trust was in the process of being formed, therefore there was no history of the financial management capabilities. The financial review therefore detailed the accounting systems and controls that would be implemented by the Trust. These controls could not be tested.



Recommendation No. 7

We recommend that USAID confirm that they received satisfactory evidence that proper financial management systems had been established prior to disbursement of funds, either in the form of a follow-up financial review or other tests of controls or that USAID took steps to determine that adequate controls had been implemented by the Trust.

4.3.6 Finding No. 8 on Title to and Use of Property

The Desmond Tutu Educational Trust funded the costs of textbooks acquired by the University of the Western Cape from 1990 through 1992. These textbooks represent capital assets. The Trust wrote to the project officer at USAID in August 1993 requesting permission to donate the books to the University. The books were assets of the Trust, held at the University's library, and were reflected on the Trust's balance sheet at the time. The Trust also requested written approval of the donation of textbooks of R579,373. This expenditure represents the cost of textbooks purchased in the 1991 and 1992 academic years. Textbooks purchased in 1990 of R1,125,056 were reflected as program expenses in the Income Statement of the Trust and were not capitalized.

In terms of the grant agreement Attachment 3, Standard Provisions:

"TITLE TO AND USE OF PROPERTY (GRANTEE TITLE) (MAY 1996)

(This provision is applicable only when the Government vests title to property in the grantee).

- (a) Title to all property financed under this grant shall vest in the grantee.
- (b) The grantee agrees to use and maintain the property for the purpose of the grant.
- (c) With respect to property having an acquired value of \$1,000 or more, the grantee agrees to report such items to the grant officer as they are acquired and to maintain a control system which will permit their ready identification and location.
- (d) Within thirty calendar days after the end of the grant, the grantee will provide a list to the grant officer of each items that has an appraised value of \$1,000 or more with a detailed proposal of what the grantee intends to do with that property. If the grant officer does not respond within 120 calendar days, the grantee may proceed with the disposition



of the property. However, if the grantee uses the property for purposes other than those of the grant or sells or leases the property, AID shall be reimbursed for its share of the property unless the grant officer authorizes AID's share of the income from selling or leasing the property to be used as program income. This share is based upon the percentage of AID's contribution to the grantee's program. If AID paid 100% of the grantee's costs, then AID would receive 100% of the selling cost less a nominal selling fee of \$100".

With respect to item (c) above, we were unable to locate any form of register or other control system which would permit ready identification and location of the textbooks. With respect to item (d) above, we could not locate a list of the assets donated.

Recommendation No. 8

We recommend that USAID confirms that it concurred with the Trust's decision to donate books to the University of the Western Cape in order that the grant agreement compliance issue regarding title to and use of property can be adequately closed-out, and that the Trust ensures that in future grants, an adequate control system is maintained with respect to property having an acquired value of US\$1,000 or more.

APPENDICES



APPENDIX A

LIST OF REPORT RECOMMENDATIONS

Finding No.	Recommendations
1	We recommend that USAID consider the allowability of statutory audit fee costs incurred and claimed under this grant and give approval for the cost to be allocable to the project.
2	We recommend that management consider the unsupported costs noted in Exhibit II and provide USAID with some alternative acceptable evidence or representation to support the claim for the costs incurred. Thereafter, we recommend that USAID determine the allowability of the questioned costs.
3	We recommend that USAID confirms its approval of the treatment of interest earned.
4	We recommend that USAID accept the non-compliance noted during the period under review as a result of the Trust's efforts to comply with the agreement requirements. No further action required.
5	We recommend that USAID accepts the format and frequency of the claims made by the Trust.
6	We recommend that the Trust and USAID attempt to locate the missing semi-annual progress reports.



Finding No.	Recommendations
7	We recommend that USAID confirm that they received satisfactory evidence that proper financial management systems had been established prior to disbursement of funds, either in the form of a follow-up financial review or other tests of controls or that USAID took steps to determine that adequate controls had been implemented by the Trust.
8	We recommend that USAID confirms that it concurred with the Trust's decision to donate books to the University of the Western Cape in order that the grant agreement compliance issue regarding title to and use of property can be adequately closed-out.

APPENDIX B

MANAGEMENT LETTER

Price Waterhouse



November 4, 1996

Professor JC de Villiers
The Desmond Tutu Educational Trust
13 Greenwich Grove
Station Road
RONDEBOSCH
7700

Dear Professor de Villiers

MANAGEMENT LETTER FOR THE PERIOD ENDED OCTOBER 1993

During our audit of the fund accountability statement of DTET for the period ended October 1993, we examined certain aspects of the Trust's previous and existing system of internal accounting control. Accompanying this letter is a report to management setting out the weaknesses noted by us at the time of our examination. Formal comments to items noted in this management letter are not required.

It should be appreciated that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily to enable us to express an opinion on the fund accountability statement. Our comments, therefore, cannot be expected to include all possible improvements in internal control which a more extensive special examination might develop.

We wish to take this opportunity of expressing our appreciation of the co-operation and courtesy extended to us during the course of our audit work. We would be pleased to discuss any aspect of this report with you.

Yours sincerely
for PRICE WATERHOUSE

DOUG FRANKE



APPENDIX B

MANAGEMENT LETTER

Lack of Independent Review of Bank Reconciliations and Lack of Segregation of Duties

Due to the size of the DTET operation, the ideal segregation of duties is not possible. Accounting functions are often performed by the same person. In addition, bank reconciliations were not reviewed by a senior independent official.

Independent review of the bank accounts should be performed to facilitate timely detection of errors and any misapplication of funds.

Recommendation

We recommend that the manager review the bank reconciliation on a monthly basis, initialing the reconciliation as evidence of their review.

Non-cancellation of Supporting Documentation

We noted that supporting documentation is not cancelled once it has been paid. Good internal control ensures that all invoices and other supporting documentation are cancelled on payment to prevent resubmission into the payment system.

Recommendation

We recommend that all supporting documentation should be cancelled by means of a stamp marked "paid" by the check signatories once the check has been signed.

Lack of Contingency Plan

We noted that no comprehensive contingency disaster recovery plan has been developed covering the procedures to be adopted in the event of a disaster. This could result in loss of all financial and related information.

Good internal control procedures include the storing of back-up financial information off-site and establishment of other disaster recovery procedures. This also ensures integrity of information in the event of data corruption.

Recommendation

We recommend that the Trust seek advice and implement a sound disaster recovery plan.



Input completion

We noted that personnel responsible for inputting source documentation into the computer system do not sign or stamp the documents on completion of the input function. This could result in documents being captured more than once and processed in error.

Recommendation

We recommend that data capture personnel sign/initial or stamp source documentation after input is completed.

APPENDIX C

MANAGEMENT'S COMMENTS



THE DESMOND TUTU EDUCATIONAL TRUST

13 Greenwich Grove, Station Road, Rondebosch 7700.

Telephone (021) 686 5010

Fax (021) 686 2278

MANAGEMENT REPORT ON PRICE WATERHOUSE FINANCIAL AUDIT OF DESMOND TUTU EDUCATIONAL TRUST FOR THE PERIOD, AUGUST 17, 1990 TO OCTOBER 15, 1993

This report is a response from the management of the Desmond Tutu Educational Trust (DTET) to the draft Audit Report for the period August 1990 to October 1993. The auditors should note that the DTET as constituted during that period was different from the DTET as constituted today. We consulted extensively with our auditors M Brey and Associates who were responsible for the DTET audit at the time of the said grant. The Executive Director and the current staff joined the Trust after this period, that is post September 1994. The current management of the Trust has however received reassurance from the auditors that the audit was completed satisfactorily at the time.

During the conferences held between USAID, Price Waterhouse and the Desmond Tutu Educational Trust, it was clearly understood that at the time of the grant the University of the Western Cape was the only recipient of Trust funds and was largely responsible for the retention of the necessary documentation. The systems currently in place at the DTET were not yet in place and clearly the relationship between the DTET and USAID was less structured. Having said that though, and given the fact that the exit audit took place so many years later, the auditors found most of the information that they were seeking.

We would like to respond to some very specific issues. Since the submission of this draft report, discussions between DTET, Price Waterhouse and USAID clarified the question around the R3 000.00 paid to M Brey and Associates and it was agreed that USAID would recommend that this should be accepted as an allowable cost.

Secondly on page 19 finding number 3 refers to interest refunded to USAID, and reads as follows:

'The Trust sent a letter to the project officer of USAID in August 1993 advising her that an amount of R227,006 had accrued in interest on this grant's funds and the Trust requested USAID's approval for the interest monies to be refunded to the Trust for program expenses. We noted that this interest amount (at 3.38 exchange rate prevailing at the time) of \$67,161.54 was deducted from a claim subsequently made by the Trust to USAID. We were unable to locate USAID's approval for the interest earned to be utilized to liquidate program-related

expenditure. This is in non-compliance with the grant agreement. In terms of the grant agreement Attachment I, IV "any interest earned from funds provided under this Agreement must be returned to USAID".

We must point out that Price Waterhouse might not be aware of the claiming system that exists between USAID and DTET. It is normal practice for the Trust to deduct the interest amount from the overall claim made at any given period. This does not suggest that the interest earned was utilised for programme purposes. What it does mean is that we (USAID and the Trust) avoid having to send funds back and forth. The Trust does not keep the interest. Finding number 3 therefore becomes irrelevant.

Finding number 4 on the question of a separate bank account refers to the Trust receiving funds from another donor. The other donor was the Netherlands Government which had donated the amount of R141,428.00 to the Trust. Failure to open a separate bank account at the time must be indicative of the nature of the systems in place. However, the Trust has since then reported satisfactorily to the Netherlands and there is no longer any other donor funding in USAID accounts. Separate bank accounts are now opened to account separately for other donors' funds as required.

In response to finding number 5 on the non-submission of monthly vouchers for reimbursement, it has been pointed out during discussions that the Trust submitted claims to USAID on a quarterly basis due to the semesters covered by the University, to which the grant monies were channelled, coinciding with these quarters. USAID always determined the format of the claims and it is important to note that this format did in fact change a couple of times at the request of USAID. The changes were not necessarily reflected in the grant agreement but all submissions responded adequately to USAID requirements.

Finding number 6 refers to non-submission of semi annual progress reports. It is important to note that since 1993 biannual reports have been submitted to USAID on a regular basis. However, the Trust would request that USAID attempt to locate the missing progress reports since one would have thought that USAID would have in place systems of ensuring submission of progress reports. There is therefore no reason to believe that these were not submitted. The Trust is also attempting to locate whatever documents are still available from the pre 1993 period. This is another indicator of the loopholes that have since been tightened by both the Trust and USAID.

In response to finding number 7, it is for USAID to confirm that they were satisfied that management systems were in place to manage USAID funding of Desmond Tutu Educational Trust programmes. USAID always received audited reports from the Trust and was then able to determine that adequate controls had been implemented by the Trust.

The schedule of unsupported costs indicates that of the total amount of R806 522.32, and an amount of R14, 431.00 was spent on text books, R6,305.32 on office administration and R785,786.00 on course readers. The Trust management in concurrence with USAID decided to donate these books to the University of the Western Cape.

The expenditure also relates to Photostatting and printing carried out by the main printing department at the University of the Western Cape during 1990 of lecture and reading material supplied to University students. The inability to access documentation as evidence to support these printing costs largely has to do with the fact that the University did not retain documentation for more than two to three years. Six years have since elapsed. It is important to remember that an audit was done on the donation. There were no material objections at the time from USAID. However, the auditors are still trying to dig into their archives and we would request that USAID do the same.

The process of auditing and closing out a completed project six years after completion, has been a learning process for the DTET and I am sure all others involved. The fact that more than 90% of the total grant has been accepted by Price Waterhouse as being correct (refer Fund Accountability Statement), shows that the money was spent for the purpose that it was granted for, and that there was a high level of accountability on the part of "The Trust" and the University, even though there were no stringent requirements made by USAID at the time. Since 1990, operation systems within, organisations and levels of co-operation between NGO's and their project partners have become more sophisticated. We hope that this has been in evidence in the relationship between USAID and the Trust. The Trust management is confident that the funds were used appropriately and there is no reason to suspect otherwise. It is important to note that the controls currently in place at the DTET came about as a result of the new management, Board and consultants employed. It is therefore important to distinguish between the systems in place during the period 1990 to 1993 and 1993 to date.

In conclusion the DTET would like to thank Price Waterhouse for its recommendations in further improving systems to ensure the best results.

25 February 1997

EXHIBITS



Exhibit I

DESMOND TUTU EDUCATIONAL TRUST
SCHEDULE OF INELIGIBLE COSTS

Check #	Date	Payee	Amount R	Reason
101	12/31/91	M Brey and Associates	3,000.00	Not for the purpose of the project
		Net of underclaim and other immaterial ineligible expenses	(81.00)	Not for the purpose of the project
			<u>2,919.00</u>	



Exhibit II

DESMOND TUTU EDUCATIONAL TRUST

SCHEDULE OF UNSUPPORTED COSTS

<u>Check #</u>	<u>Date</u>	<u>Payee</u>	<u>Budget Line Item</u>	<u>Amount</u> <u>R</u>	<u>Reason</u>
-	1990	University of Western Cape(UWC	Course Readers	785,786.00	1
-	31/12/91	Postmaster	Office Administration	368.34	1
-	07/10/91	D Agar	Office Administration	851.40	1
78	18/11/91	D Agar	Office Administration	600.00	1
35	08/08/91	Safety Gate	Office Administration	430.00	2
-	26/08/91	Office Equipment	Office Administration	353.18	3
-	1991	Excess of claim over paid/vouche	Textbooks	6,404.00	1
-	1992	Excess of claim over paid/vouche	Textbooks	8,027.00	1
-	1992	Audit Fees	Office Administration	600.00	1
-	1992	Accounting fees	Office Administration	365.00	1
-	17/12/92	UWC - Rent	Office Administration	2,300.00	1
-	17/12/92	UWC - Telephone	Office Administration	191.00	1
91	05/02/92	Protea Security	Office Administration	92.40	1
119	01/05/92	Protea Security	Office Administration	30.80	1
125	01/06/92	Protea Security	Office Administration	30.80	1
150	17/12/92	Protea Security	Office Administration	30.80	1
-	17/12/92	Protea Security	Office Administration	61.60	1
				<u>806,522.32</u>	
				Course Readers	785,786.00
				Textbooks	14,431.00
				Office Administration	6,305.32
				<u>806,522.32</u>	

- 1 = No supporting documentation
- 2 = No invoice - located quotation
- 3 = Goods returned to supplier - credit passed