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OFFICE OF INSPECTOR GENERAL

CLOSEOUT AGREED-UPON-PROCEDURES REVIEW
OF USAID/SOUTH AFRICA'S RESOURCES
MANAGED BY THE DESMOND TUTU EDUCATIONAL
TRUST UNDER GRANT NO. 674-G-00-92-00038-00
AND SUB-AWARD UNDER CONTRACT NO. 674-C-
00-98-00030-00 FOR THE PERIOD JANUARY 1, 2001
TO MAY 31, 2003

AUDIT REPORT NO. 4-674-06-007-N
April 28, 2006

PRETORIA, SOUTH AFRICA

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



Office of Inspector General

April 28, 2006

MEMORANDUM FOR MISSION DIRECTOR, USAID/South Africa, Carleene Dei

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

SUBJECT: Closeout Agreed-Upon-Procedures Review of USAID/South Africa's Resources Managed by the Desmond Tutu Educational Trust under Grant No. 674-G-00-92-00038-00 and sub-award under Contract No. 674-C-00-98-00030-00 for the Period January 1, 2001 to May 31, 2003 (Report No. 4-674-06-007-N)

This memorandum transmits the subject report prepared by Agency-Contracted auditor, Moore Stephens BVK Inc. (Cape Town, South Africa).

The review was performed in accordance with the U.S. Comptroller General's Government Auditing Standards. The review had scope limitations that Moore Stephens BVK Inc. does not have continuing professional education and external quality control review programs that fully satisfy the requirements set forth in U.S. Government Auditing Standards.

On September 25, 1992, the U.S. Agency for International Development (USAID) approved grant number 674-G-00-92-00038-00 in respect of Work Study and Other Programs which provided funding of \$2,000,000 to the Desmond Tutu Educational Trust (DTET). Subsequent modifications to the agreement changed the expiry date of the grant to May 31, 2003. The funds were utilized for the development of an innovative financial assistance program for traditionally disadvantaged students, supporting work study programs, individual capacity building and academic development projects, and the development of an institutional capacity building program which assists historically black institutions.

This agreed-upon-procedures review was initiated by the mission because the agreement had ended, the recipient hadn't had an acceptable audit performed since 2001, and the recipient is no longer a legal entity which precluded the performance of a normal audit. The review covered \$1,181,675 in expenditures of USAID funds. The specific objectives of the review included:

- To provide a factual findings report on whether the fund accountability statement for the USAID-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period reviewed in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis),

- To perform tests to determine whether the recipient provided for, and accounted for its cost-sharing contributions in accordance with the terms of the agreement, and provide a factual findings report on this test, and
- To perform a review of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient.

The work conducted by Moore Stephens BVK Inc. constituted an agreed-upon-procedures review rather than an audit. Consequently, Moore Stephens BVK Inc. did not express an opinion on DTET's Fund Accountability Statements. The Mission, in consultation with the Regional Inspector General/Pretoria (RIG/Pretoria), agreed to exclude a review of internal control because the recipient is no longer a legal entity.

The review disclosed the following findings:

- Total questioned costs of \$1,265,375 (\$786,050 ineligible and \$479,325 unsupported).
- Total questioned ineligible cost-sharing contributions of \$407,639
- Thirteen material instances of noncompliance:
 - ineligible interest earnings,
 - unsupported audit fees,
 - unsupported other direct costs,
 - unsupported salary costs,
 - ineligible salary costs,
 - ineligible program costs,
 - unsupported travel and accommodation costs,
 - ineligible travel and accommodation costs,
 - unsupported indirect costs,
 - unsupported reconciling difference,
 - ineligible cash on hand,
 - ineligible cost-sharing contributions, and
 - unsupported costs relating to subcontracts under prime contract No. 674-C-00-98-00030-00

Therefore, we are making the following recommendations:

Recommendation No. 1: We recommend that USAID/South Africa determine the allowability of \$1,265,375 in questioned costs (\$786,050 ineligible and \$479,325 unsupported) detailed on page 16 of the Moore Stephens BKV Inc. report, and recover from the Desmond Tutu Educational Trust any amount determined to be unallowable.

Recommendation No. 2: We recommend that USAID/South Africa determine the allowability of \$407,639 in questioned ineligible cost-sharing contributions detailed on page 43 of the Moore Stephens BKV Inc. report, and recover from the Desmond Tutu Educational Trust any amount determined to be unallowable.

Recommendation No. 3: We recommend that USAID/South Africa ensure that the Desmond Tutu Educational Trust correct the thirteen instances of material noncompliance (ineligible interest earnings, unsupported audit fees, unsupported other direct costs, unsupported salary costs, ineligible salary costs, ineligible program costs, unsupported travel and accommodation costs, ineligible travel and accommodation costs, unsupported indirect costs, unsupported reconciling difference, ineligible cash on hand, ineligible cost-sharing contributions, and unsupported costs relating to subcontracts under prime contract no. 674-C-00-98-00030-00) detailed on pages 25-39 of the Moore Stephens BKV Inc. report.

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

CLOSEOUT AGENCY CONTRACTED AGREED-UPON PROCEDURES
REVIEW OF USAID/SOUTH AFRICA'S RESOURCES MANAGED BY
THE DESMOND TUTU EDUCATIONAL TRUST UNDER AGREEMENT
NO. 674-G-00-92-00038-00, SUB-AWARD UNDER CONTRACT NO.
674-C-00-98-00030-00 FOR THE PERIOD JANUARY 1, 2001 TO
MAY 31, 2003

PREPARED BY:

MOORE STEPHENS BKV
CHARTERED ACCOUNTANTS (SA)



Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

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Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

EXECUTIVE SUMMARY

1. Background

On September 25, 1992 the U.S. Agency for International Development (USAID), mission to South Africa approved grant number 674-G-00-92-00038-00 in respect of Work Study and Other Programmes which provided funding of \$2 000 000 to The Desmond Tutu Educational Trust. Subsequent modifications to the agreement changed the expiry date of the grant to May 31, 2003.

The Desmond Tutu Educational Trust (DTET) was established in 1990 with the purpose of soliciting funds for the development of tertiary education programmes in the Western Cape. The funds were utilized for the development of an innovative financial assistance programme for traditionally disadvantaged students, supporting work study programmes, individual capacity building and academic development projects; and the development of an institutional capacity building programme which assists historically black institutions. The following institutions and programmes were beneficiaries of these trust funds:

- University of the Western Cape
 - Work Study
 - Writing Centre
- University of Cape Town
 - Work Study
 - Writing Centre
 - Numeracy Centre
- University of Stellenbosch
 - Foundation
 - Mentorship
- Peninsula Technikon
 - Work Study
 - Writing Centre

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- Cape Technikon
 - Work Study
 - Writing Centre

Glossary of acronyms

The following is a glossary of acronyms used in our reports:

DTET	The Desmond Tutu Educational Trust
USAID	United States Agency for International Development
MSBKV	Moore Stephens BKV

Prior audit recommendations

A prior audit of Grant Agreement No. 674-G-00-92-00038-00 was performed by Nkonki Sizwe Ntsaluba Incorporated for the year ended December 31, 2001 and an audit report dated October 29, 2002 issued to USAID. There were no prior audit recommendations raised from the abovementioned audit.

Indirect cost rate

MSBKV were not able to obtain the Negotiated Indirect Cost Rate Agreement (NICRA), however the most recent modification, (No. 8), of the agreement included a provisional rate of 25% of salaries. Due to the recipient being unable to provide an indirect cost computation in accordance with the mandatory standard provision titled 'indirect cost rates – provisional', we were unable to review the computation of the indirect cost rate.

Internal Controls

Subsequent to the review period, DTET has ceased operations; therefore MSBKV was unable to assess the quality of internal controls present at the time of this report. As a result, the testing of internal controls was not included in the scope of the Agreed-upon-procedures Review.

1. Review objective and Scope

USAID/South Africa contracted Moore Stephens BKV Inc. to perform an Agreed-Upon Procedures Review of USAID Resources managed by The Desmond Tutu Educational Trust, under Agreement

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

No. 674-G-00-92-00038-00 for the period January 1, 2001 to May 31, 2003 in accordance with U.S. Government Auditing Standards. However, during our review, we determined that DTET was a sub recipient under USAID contract no. 674-C-00-98-00030-00 with The United Negro College Fund Special Programs Corporation. In accordance with paragraphs 1.22 and 1.23 of the Guidelines for Financial Audits Contracted by Foreign Recipient (June 2003 Revision), we have included this sub-award as part of this review.

The specific objectives of the review were to:

- Provide a factual findings report on whether the fund accountability statement for the USAID-funded programs presented fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID, for the period reviewed in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Perform tests as to whether the recipient provided and accounted for its' cost-sharing contributions in accordance with the terms of the agreement, and prepare a factual findings report thereon.
- Perform a review of the indirect cost rate(s) where the recipient has been authorized to charge indirect costs to USAID (using provisional rates) and USAID has not yet negotiated final rates with the recipient.

MSBKV have designed review programs and procedures in accordance with U.S. Government Auditing Standards, Chapter 4, to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred. Where evidence of such transactions exists, MSBKV have undertaken to immediately contact the Regional Inspector General (RIG) Pretoria Office. MSBKV have exercised due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

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Scope Limitation

MSBKV does not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.45 of U.S. Government Auditing Standards, June 2003 Revision. MSBKV does, however, have its own continuing education and training program.

MSBKV did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.52 of U.S. Government Auditing Standards, as no such program is offered by professional organizations in South Africa. In our opinion the effects of this departure from U.S. Government Auditing Standards are not material as MSBKV are subject to an internal quality control review program.

Review procedures

Review procedures comprised the following:

Fund Accountability Statement

1. Assisted with the preparation of the fund accountability statement.
2. Reviewed direct and indirect costs billed to and reimbursed by USAID and costs incurred but pending reimbursement by USAID, identifying and quantifying any questioned costs.
3. Reviewed general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by, USAID to the programs and general ledgers.
4. Reviewed the procedures used to control and channel funds to contracted financial institutions and other implementing entities. Reviewed the bank accounts and controls on these bank accounts. Performed positive confirmation of balances, as considered necessary.
5. Determined whether advances of funds were justified with documentation, including reconciliations of funds advanced, disbursed, and available.
6. Determined whether the program income was added to funds used to further eligible program objectives, to finance the non-federal share of the program or

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deducted from the program costs, in accordance with USAID regulations, other implementing guidance or in terms and conditions of the award.

7. Reviewed procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained and adequate controls were in place over the qualities and quantities received.
8. Reviewed direct salary charges to determine whether salary rates were reasonable for that position, in accordance with those approved by USAID, and supported by appropriate payroll records. Determined if overtime was charged and allowances and fringe benefits received were in accordance with the agreements and applicable laws and regulations.
9. Reviewed travel and transportation charges to determine whether they were adequately supported and approved.
10. Reviewed bank charges to determine whether they were adequately supported and reasonable, considering the size of the recipient and the amount of the award under management.
11. Reviewed commodities (e.g. supplies, materials, vehicles, equipment, tools, etc.) procured by the recipient as well as those directly procured by USAID for the recipient's use. Determined whether commodities existed or were used for their intended purposes in accordance with the terms of the agreements, and whether control procedures existed and were placed in operation to adequately safeguard the commodities.
12. Reviewed technical assistance and services, whether procured by the recipient or directly procured by USAID for the recipient's use. Determined if technical assistance and services were used for their intended purpose in accordance with the terms of the agreements.
13. When indirect costs were charged to USAID using provisional rates, reviewed the allocation method to determine that the indirect cost pool and distribution base included only allowable items in accordance with the agreement terms and regulations.

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Cost-sharing schedule

1. Assisted the preparation of the Cost-Sharing Schedule.
2. Reviewed the cost-sharing schedule to determine if the schedule was fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule.
3. Questioned all cost-sharing contributions which were ineligible or unsupported costs.

Indirect costs

1. Determined the actual indirect cost rates for the year whereby the recipient used provisional rates to charge indirect costs to USAID. The review of indirect costs included tests to determine whether the:
 - a) distribution or allocation base included all costs that benefited from indirect activities;
 - b) distribution or allocation base was in compliance with the governing USAID Negotiated Indirect Cost Rate Agreement (NICRA), if applicable;
 - c) indirect cost pool consisted of costs authorized by the USAID agreements and applicable cost principles;
 - d) indirect cost rates obtained by dividing the indirect cost pool by the base were accurately calculated; and
 - e) costs included in this calculation reconciled to the total expenses shown in the recipient's reviewed general purpose financial statements.

General-purpose financial statements

1. Reviewed the financial statements in accordance with South African Auditing Standards.

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Closeout procedures

1. Reviewed unliquidated advances to the recipient and pending reimbursement by USAID. Ensured that the recipient had returned any excess cash to USAID and that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the agreement. As an annexure to the fund accountability statement, present the balances and details of final inventories of non-expendable property acquired under the agreements.

Other review responsibilities

1. Held entrance and exit conferences with the recipient, RIG/Pretoria representatives and USAID Mission representative.
2. Instituted quality control procedures to ensure that sufficient competent evidence was obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under review. Our quality control procedures, at a minimum, ensured that:
 - a) reports and supporting working papers were reviewed by a partner who was not involved in the review process. The review has been documented in the working papers;
 - b) all quantities and monetary amounts involving calculations have been footed and cross-footed; and
 - c) all factual statements, numbers, conclusions and monetary amounts were cross-indexed to supporting working papers.
3. Ascertained whether the recipient ensured that audits of its sub recipients were performed to ensure accountability for USAID funds passed through to sub recipients. If sub recipient audit requirements were not met, this was disclosed in the auditor's report on the fund accountability statement and a qualification on the factual findings report was considered.
4. Obtained a management representation letter signed by the recipient's management.

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3. Summary of review results

Fund Accountability Statement

We performed agreed upon procedures to assist USAID in determining the validity of expenditure and completeness of income in the fund accountability statement for the 29 months ended 31 May 2003.

Questioned costs

The results of our tests disclosed the following material questioned costs as detailed in the Fund Accountability Statement: (1) \$785,800 in costs that are explicitly questioned as they are not program related, unreasonable or prohibited by the terms of the agreements; (2) \$479,325 in costs that are not supported with adequate documentation or did not have required approvals or authorizations.

Evaluation of Internal Controls

Subsequent to the review period, DTET has ceased operations; therefore MSBKV was unable to assess the quality of internal controls present at the time of this review report. As a result, the testing of internal controls was not included in the scope of the Agreed-upon-procedures Review.

Compliance with agreement terms and applicable laws and regulations

The results of our tests of compliance with agreement terms and applicable laws and regulations identified the following areas of non-compliance:

- Ineligible interest earnings,
- Unsupported audit fees,
- Unsupported other direct costs,
- Unsupported salary costs,
- Ineligible salary costs,

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- Ineligible program costs,
- Unsupported travel and accommodation costs,
- Ineligible travel and accommodation costs,
- Unsupported indirect costs,
- Unsupported reconciling difference,
- Ineligible cash on hand, and
- Ineligible cost sharing contributions
- Unsupported costs relating to Subcontracts under Prime Contract No. 674-C-00-98-00030-00

Indirect Cost Rate

MSBKV was not able to obtain the Negotiated Indirect Cost Rate Agreement (NICRA), but the most recent modification (No. 8) of the agreement included a provisional rate of 25% of salaries. However, because the recipient was unable to provide an indirect cost computation in accordance with the mandatory standard provision titled 'indirect cost rates – provisional', MSBKV was unable to review the schedule of computation of indirect cost rate.

Prior audit recommendations

Prior audit recommendations are not applicable as there have been no prior audit recommendations.

General purpose financial statements

MSBKV audited the general purpose financial statements according to South African Auditing Standards. A copy of these financial statements is available upon request.

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

Closeout procedures

In terms of the closeout procedures, DTET did not provide balances and details of non-expendable property (inventories, fixed assets) acquired under the agreement. As a result, we were not able to review the balances of non-expendable property acquired under the agreements.

Review of Cost-Sharing Contributions

The results of our review of the Cost-Sharing Contributions are as follows:

- Lack of control over the provision of and accounting for cost-sharing contributions.
- Prior periods Cost-Sharing Contributions were not audited, no reliance could therefore be placed on these amounts.

Management comments

Management of DTET was given a month, after their receipt of this report, to comment on our findings. This period has since expired, with no response from DTET, and the report is thus finalized without management comments.

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Independent Auditor's Report

Board of Trustees

The Desmond Tutu Educational Trust

PO Box 394

Kasselsvlei

7533

We have performed the procedures in the scope of work agreed with USAID on the fund accountability statement of The Desmond Tutu Educational Trust for the 29 months ended 31 May 2003. The fund accountability statement is the responsibility of The Desmond Tutu Educational Trust's management. Our responsibility is to express an opinion on the fund accountability statement based on our review.

Except as discussed in the following paragraphs, we conducted our review in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the review to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. A review includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. A review also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

We do not have a continuing education that fully satisfies the requirements set forth in chapter 3, paragraph 3.45 of the U.S. Government Auditing Standards. Moore Stephens does, however, have its own continuing education and training program.

We did not have an external quality control review by an unaffiliated audit organization as required by chapter 3, paragraph 3.52 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in South Africa. We believe that the effects of

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

this departure from U.S. Government Auditing Standards are not material because of the Internal Quality Control Review we exercise within our Firm.

The results of our tests disclosed the following material questioned costs as detailed in the fund accountability statement:

- (1) \$786,050 in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreements; and
- (2) \$479,325 in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.

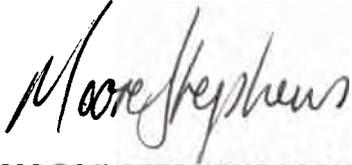
The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of USAID. Our procedures were performed solely to assist USAID in determining the validity of expenditure and completeness of income in the fund accountability statement for the 29 months ended 31 May 2003.

Because the procedures do not constitute an audit made in accordance with U.S. Government Auditing Standards, we do not express any assurance on the fund accountability statement for the 29 months ended 31 May 2003.

In accordance with U.S. Government Auditing Standards, we have also issued our report, on our tests of DTET's compliance with certain provisions of laws and regulations. This report is an integral part of a review performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent Auditor's Report in considering the results of our review.

This report is considered for the information of The Desmond Tutu Educational Trust and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

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MOORE STEPHENS BKV INC.

Chartered Accountants (S.A.)

Registered Accountants and Auditors

Cape Town

Date: *30 March 2006*

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Fund Accountability Statement

	BUDGET	ACTUAL	QUESTIONED COSTS		NOTES		
						INELIGIBLE	UNSUPPORTED
			US\$	US\$		US\$	US\$
Total income	2,066,857	1,185,200	2,287	-			
<u>Revenue</u>	2,066,857	1,181,413	-	-			
Grant No. 674-G-00-92-00038-00	1,784,468	899,024	-	-	3		
Subcontract under Prime Contract No. 674-C-00-98-00030-00	282,389	282,389	-	-			
<u>Interest earnings</u>							
Grant No. 674-G-00-92-00038-00		3,787	2,287		4		
<u>COSTS INCURRED</u>							
<u>Audit fees</u>							
Grant No. 674-G-00-92-00038-00	40,506	16,549	-	2,082	5		
<u>Consultancy/Evaluation</u>							
Grant No. 674-G-00-92-00038-00	2,584	-	-	-			
<u>Materials Development</u>							
Grant No. 674-G-00-92-00038-00	4,895	-	-	-			
<u>Other Direct</u>							
Grant No. 674-G-00-92-00038-00	14,488	3,030	-	3,030	6		
<u>Personnel</u>							
Grant No. 674-G-00-92-00038-00	274,431	136,129	61,436	74,692	7		
Subcontract under Prime Contract No. 674-C-00-98-00030-00	34,692	34,692	-	34,692	12.1		
<u>Programs</u>							
Grant No. 674-G-00-92-00038-00	1,374,255	713,896	713,896	-	8		
Subcontract under Prime Contract No. 674-C-00-98-00030-00	215,389	215,389	-	215,389	12.2		
<u>Travel and Accommodation</u>							
Grant No. 674-G-00-92-00038-00	4,387	2,577	93	2,483	9		
<u>Indirect</u>							
Grant No. 674-G-00-92-00038-00	68,922	27,105	-	27,105	10		
Subcontract under Prime Contract No. 674-C-00-98-00030-00	32,308	32,308	-	32,308	12.3		
Total costs incurred	2,066,857	1,181,675	775,425	391,781			
Outstanding fund balance	-	3,525	8,338	87,544	11		
Total questioned costs			786,050	479,325			

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Notes to the Fund Accountability Statement:

1. Basis of accounting

The Fund Accountability Statement is prepared on a modified cash basis.

2. Rates of exchange

The average exchange rate applicable at the time disbursements were made, was used, resulting in an exchange rate of 8.58 South African Rand for 1 US Dollar being applied to translate the costs incurred.

3. Revenue

USAID confirmed an amount less than the actual cash received from USAID during the period under review. The confirmation from USAID was based on the total expenses as per the disbursement forms during the period under review and not the cash amount paid.

4. Interest earnings

Interest earnings of \$2,287 are questioned as ineligible. In terms of article 3(b) of the Grant Agreement (Mandatory Standard Provisions), interest earned on advances must be remitted to USAID. However, the recipient may retain up to \$250 of interest earnings per account per year for administrative expenses. Administrative expenses are expenses incurred by the recipient for activities relating to accurate record keeping of interest earnings and remittance costs necessary to pay over the interest to USAID. The excess interest above the \$250 per bank account per year is therefore questioned as ineligible. (Refer note i under Findings and Recommendations on Compliance.)

5. Audit fees

Audit fees include an accrual of \$4,196.

5.1 Unsupported costs of \$2,082 comprise the following:

5.1.1 Costs of \$2,082. This represents costs for which there is no supporting documentation. (Refer note ii under Findings and Recommendations on Compliance.)

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

6. Other Direct costs

6.1 Unsupported costs of \$3,030 comprise the following:

- 6.1.1 Costs of \$3,030 for which there is no supporting documentation. (Refer note iii under Findings and Recommendations on Compliance.)

7. Personnel

7.1 Ineligible costs of \$61,436 comprise the following:

- 7.1.1 Salary costs of \$61,436. This represents salary costs which are considered to be indirect costs, and should have been applied for at the relevant indirect cost rate. These costs include the salaries of the Executive Director, Financial Manager and Administration Assistant. (Refer note v under Findings and Recommendations on Compliance.)

7.2 Unsupported costs of \$74,692 comprise the following:

- 7.2.1 Salary costs of \$69,451. This represents salary costs which are considered to be unsupported as no personnel activity reports have been maintained for the Programme Officer and Programme Assistant. There are also no signed employee contracts and job descriptions in place. (Refer note iv under Findings and Recommendations on Compliance.)
- 7.2.2 Salary costs of \$5,241. This represents fees for the Programme Auditor for which there is no supporting documentation. (Refer note iv under Findings and Recommendations on Compliance.)

8. Programs

8.1 Ineligible costs of \$713, 896 comprise the following:

- 8.1.1 Program costs of \$713, 896. This is ineligible in terms of the Mandatory Standard Provisions, as there are no sub agreements in place for the awarding of funds to sub recipients. (Refer note vi under Findings and Recommendations on Compliance.)

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9. Travel and Accommodation

9.1 Ineligible costs of \$93 comprise the following:

9.1.1 Travel costs of \$93 for a trustee to attend DTET's board meetings. This is considered to be an indirect cost and should have been applied for at the relevant indirect cost rate. (Refer note viii under Findings and Recommendations on Compliance.)

9.2 Unsupported costs of \$2,483 comprise the following:

9.2.1 Costs of \$2,483 for which there is no supporting documentation. (Refer note vii under Findings and Recommendations on Compliance.)

10. Indirect costs

10.1 Unsupported costs of \$27,105 comprise the following:

10.1.1 Indirect costs of \$27,105 which should have been applied for at a rate agreed upon in a written document, signed by both parties, detailing: (1) agreed upon final rates, (2) the bases to which the rates apply, (3) the fiscal year for which the rates apply and (4) the items treated as direct costs. No such agreement was in place during the period under review. The indirect cost rate used was a percentage of total salaries and wages. This is a contravention of the cost principles as laid out in OMB Circular A-122. (Refer note ix under Findings and Recommendations on Compliance.)

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11. Outstanding Fund Balance

Opening fund balance	\$118,380	
Current year surplus	\$3,525	
Closing Fund Balance	\$121,905	
Funds Employed:		
Initial Donation	\$2,914	
Non-Cash Items:		
Amount due from USAID	-\$28,938	11.1
Reconciling difference	-\$87,544	11.2
Total	\$8,338	
Bank and Cash Balance:		
Current Account	\$7,675	
Call Account	\$662	
Total cash on hand	\$8,338	11.3

11.1 Amount due from USAID

Advances requested after year-end relating to expenses incurred in period under review, to be reimbursed by USAID. These expenses have been included in the fund accountability statement on page 15 of this report.

11.2 Reconciling difference

11.2.1 Unsupported costs of \$87,544. This represents a reconciling item for which there is no supporting documentation. (Refer note x under Findings and Recommendations on Compliance.)

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11.3 Total cash on hand

11.3.1 Ineligible costs of \$8,338. This is ineligible in terms of the Mandatory Standard Provisions, which requires all unexpended funds to be repaid to USAID. (Refer note xi under Findings and Recommendations on Compliance.)

12. Subcontract under Prime Contract No. 674-C-00-98-00030-00

12.1 Personnel

Personnel costs of \$34,692 are questioned as unsupported.

12.2 Programs

Program costs of \$215,389 are questioned as unsupported

12.3 Indirect costs

Indirect costs of \$32,308 are questioned as unsupported.

At the time of the review the information and supporting documentation for the above costs were not available. We have thus assumed that the total costs as per the contract budget were incurred during the period of the review. (Refer note xiii under Findings and Recommendations on Compliance)

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Independent Auditor's Report on Compliance

The Trustees

The Desmond Tutu Educational Trust

PO Box 394

Kasselviei

7533

We have reviewed the fund accountability statement and cost sharing schedule of The Desmond Educational Trust for the period January 1, 2001 to May 31, 2003, and have issued our report thereon, dated January 12, 2006.

Except for not having a fully satisfactory continuing education program and not conducting an external quality control review by an unaffiliated audit organization, as described in our report on the fund accountability statement, we conducted our review in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the review to obtain reasonable assurance as to whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with agreement terms and laws and regulations applicable to The Desmond Tutu Educational Trust is the responsibility of The Desmond Tutu Educational Trust's management. As part of obtaining reasonable assurance as to whether the fund accountability statement is free of material misstatement, we performed tests on The Desmond Tutu Educational Trust's compliance with certain provisions of agreement terms and 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. We also performed tests of The Desmond Tutu Educational Trust's compliance with certain provisions of agreement terms and regulations applicable to the provision of cost-sharing contributions.

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

Material instances of noncompliance 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 and the cost-sharing schedule. The results of our compliance tests disclosed the following material instances of noncompliance, the effects of which are shown as questioned costs in The Desmond Tutu Educational Trust's 2003 fund accountability statement and cost-sharing schedule.

Material noncompliance:

- i. Ineligible interest earnings,
- ii. Unsupported audit fees,
- iii. Unsupported other direct costs,
- iv. Unsupported salary costs,
- v. Ineligible salary costs,
- vi. Ineligible program costs,
- vii. Unsupported travel and accommodation costs,
- viii. Ineligible travel and accommodation costs,
- ix. Unsupported indirect costs,
- x. Unsupported reconciling difference,
- xi. Ineligible cash on hand, and
- xii. Ineligible cost sharing contributions.
- xiii. Unsupported costs relating to Subcontracts under Prime Contract No. 674-C-00-98-00030-00

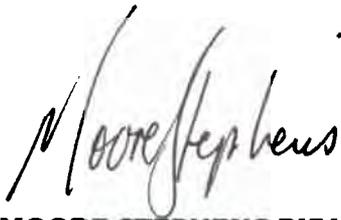
Our findings and recommendations on compliance provide further detail on these material non-compliances.

We considered these material instances of noncompliance when conducting our agreed-upon procedures review of The Desmond Tutu Educational Trust's fund accountability statement in accordance with the terms of the agreements and in conformity with the basis of accounting

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

described in note 1 to the fund accountability statement. This report does not affect our report on the fund accountability statement dated January 12, 2006.

This report is intended for the information of The Desmond Tutu Educational Trust and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



MOORE STEPHENS BKV INC.

Chartered Accountants (S.A.)

Registered Accountants and Auditors

Cape Town

Date: *30 March 2006*

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

FINDINGS AND RECOMMENDATIONS ON COMPLIANCE

i. Ineligible interest earnings

Criteria

In terms of the Attachment 3 (Mandatory Standard Provisions for Non U.S., Non Governmental recipient) of the grant agreement, Article 2 requires that the recipient must remit interest earned on advances to USAID. The recipient may however retain up to \$250 of interest earnings per account per year, for administrative expenses.

Condition

The following non-compliance was identified:

Interest earnings of \$2,287 are questioned as ineligible. The recipient has maintained a record of interest earnings on bank accounts held separately for USAID funds. The recipient has, however, not remitted any interest to USAID during the period under review. (Refer note 4 of the Fund Accountability Statement)

Cause

We are unable to determine the cause for the recipient not remitting interest earnings to USAID.

Effect

Interest earnings of \$2,287 representing the amount above the \$1500 allowable to be retained for client's two bank accounts for the three years is questioned as ineligible in the Fund Accountability Statement.

Recommendation

Management should annually reconcile and remit the interest earned on each bank account which is held for USAID purposes to USAID. Management must ensure that the \$250 retained for administrative expenditure is accurately calculated per bank account for each calendar year.

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USAID should determine the allowability of \$2,287 costs questioned as ineligible and recover from DTET any amounts determined to be unallowable.

ii. **Unsupported audit fees**

Criteria

In terms of Attachment 3 (Mandatory Standard Provisions for Non U.S., Non Governmental Recipient) of the grant agreement, Article 2 requires that the recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award. Accounting records that are supported by documentation will as a minimum be adequate to show all costs incurred under the award. The accounting records must be maintained with appropriate budget line items, non USAID costs should be separately disclosed and proper recording of the recipient's cost-sharing contributions should be undertaken.

Condition

Unsupported audit costs of \$2,082, for which there is no supporting documentation. (Refer note 5 of the Fund Accountability Statement)

Cause

Management was not aware that the accounting records did not comply with the requirements of the grant agreement and/or management was negligent in not maintaining proper controls over the supporting documents.

Effect

Costs of \$2,082 are questioned as unsupported in the fund accountability statement.

Recommendation

Management must maintain proper control over supporting documentation.

USAID should determine the allowability of \$2,082 costs questioned as unsupported and recover from DTET any amounts determined to be unallowable.

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

iii. Unsupported Other Direct Costs

Criteria

In terms of Attachment 3 (Mandatory Standard Provisions for Non U.S., Non Governmental Recipient) of the grant agreement, Article 2 requires that the recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award. Accounting records that are supported by documentation will as a minimum be adequate to show all costs incurred under the award. The accounting records must be maintained with appropriate budget line items, non USAID costs should be separately disclosed and proper recording of the recipient's cost-sharing contributions should be undertaken.

Condition

Unsupported Other Direct costs of \$3,030, for which there is no supporting documentation. (Refer note 6 of the Fund Accountability Statement)

Cause

Management was not knowledgeable that the accounting records did not comply with the requirements of the grant agreement and/or management was negligent in not maintaining proper controls over the supporting documents.

Effect

Costs of \$3,030 are questioned as unsupported in the fund accountability statement.

Recommendation

Management should maintain proper control over supporting documentation.

USAID should determine the allowability of \$3,030 costs questioned as unsupported and recover from DTET any amounts determined to be unallowable.

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

iv. Unsupported salary costs

Criteria

a) In terms of Office Management and Budget (OMB) Circular A-122, attachment B, principle 8.m, salaries charged to USAID must be supported by personnel activity reports. Such personnel activity reports must be maintained for all employees whose compensation is charged in whole or in part directly to the award. In addition, such activity reports maintained by non-profit organization must:

- Reflect an after-the-effect determination of the actual activity of each employee;
- Account for the total activity for which employees are compensated;
- Be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee;
- Be prepared at least monthly and must coincide with one or more pay periods; and
- Be supported by records indicating the total number of hours worked for each day.

b) In terms of Attachment 3 (Mandatory Standard Provisions for Non U.S., Non Governmental Recipient) of the grant agreement, Article 2 requires that the recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award. Accounting records that are supported by documentation will as a minimum be adequate to show all costs incurred under the award. The accounting records must be maintained with appropriate budget line items, non USAID costs should be separately disclosed and proper recording of the recipient's cost-sharing contributions should be undertaken.

Condition

- a) Unsupported salary costs of \$69,451. The recipient does not keep activity reports detailing time spent on USAID work activities for any of the employees involved with USAID funded programs. (Refer note 7 of the Fund Accountability Statement)
- b) Unsupported salary costs for the Programme Auditor of \$5,241, for which there is no supporting documentation. (Refer note 7 of the Fund Accountability Statement)

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Cause

- a) Management did not have knowledge of the requirements of the Grant Agreement and the Cost Principles of Circular OMB A-122.
- b) Management was not aware that the accounting records did not comply with the requirements of the grant agreement and/or management was negligent in not maintaining proper controls over the supporting documents.

Effect

- a) Due to inadequate activity reports being kept, staff members may have been remunerated from USAID funds when performing functions and duties not related to USAID activities. These salaries are questioned as unsupported.
- b) Costs of \$5,241 are questioned as unsupported in the fund accountability statement.

Recommendation

- a) Management must design and implement a time keeping system that fully conforms to the requirements listed in the criteria above; and maintain proper control over past and current staff records and files.

USAID should determine the allowability of \$69,451 costs questioned as unsupported and recover from DTET any amounts determined to be unallowable.

- b) Management should maintain proper control over supporting documentation.

USAID should determine the allowability of \$5,241 costs questioned as unsupported and recover from DTET any amounts determined to be unallowable.

v. **Ineligible salary costs**

Criteria

In terms of Office of Management and Budget (OMB) Circular A-122, attachment A, paragraph B1, these salary costs do not fall within the definition of a direct cost. Direct costs are those that can be identified specifically with a particular final cost objective, i.e, a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost.

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Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly.

Condition

Ineligible salary costs of \$61,436, representing the salary costs of the Executive Director, Financial Manager and Administration Assistant. These salary costs are for the overall objective of the trust and should therefore be part of indirect costs. (Refer note 7 of the Fund Accountability Statement)

Cause

Management did not apply the cost principles of OMB Circular A-122.

Effect

Salary costs of \$61,436 are questioned as ineligible in the Fund Accountability Statement.

Recommendation

Management must apply the cost principles of OMB Circular A-122.

USAID should determine the allowability of \$61,436 costs questioned as ineligible and recover from DTET any amounts determined to be unallowable.

vi. **Ineligible Program Costs**

Criteria

1. In terms of the Mandatory Standard Provision titled "accounting, auditing and records", subsection e:
Foreign organizations that provide USAID resources to other organizations to carry out the USAID program and activities shall be responsible for monitoring their subcontractors or sub grantees.
2. In terms of the Mandatory Standard Provision titled "sub-agreements":

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- a) Sub-awards shall be made only with responsible recipients who possess the potential ability to perform successfully under the terms and conditions of a proposed agreement. Consideration shall be given to such matters as integrity, record of past performance, financial and technical resources, or accessibility to other necessary resources. Awards shall not be made to firms or individuals whose name appears on the "Lists of Parties Excluded from Federal Procurement and Non-procurement Programs." USAID will provide the grantee with a copy of this list upon request.
 - b) All sub agreements shall, at a minimum, contain provisions to define a sound and complete agreement, in addition to those that are specifically required by any other provisions in this award. Whenever a provision within this award is required to be inserted in a sub agreement, the recipient shall insert a statement that in all instances, where USAID is mentioned, the recipient's name will be substituted. If sub agreements are being made to U.S. organizations, a suggested sub-award format incorporating 22 CFR 226 and Standard Provisions will be provided.
3. In terms of attachment 1, X.4 of the grant agreement, "the trust shall enter into sub-agreements with co-operating institutions in the Western Cape region."

Condition

Ineligible program costs of \$713,896. The recipient does not have any agreements with the sub recipients. (Refer note 8 of the Fund Accountability Statement)

Cause

Management was not applying the provisions of the Mandatory Standard Provisions for Non U.S., Non Governmental Recipients.

Effect

Program costs of \$713,896 are questioned as ineligible.

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Recommendation

Management must obtain agreements that conform to the requirements listed in the criteria above.

USAID should determine the allowability of \$713,896 costs questioned as ineligible and recover from DTET any amounts determined to be unallowable.

vii. **Unsupported Travel and Accommodation costs**

Criteria

In terms of Attachment 3 (Mandatory Standard Provisions for Non U.S., Non Governmental Recipient) of the grant agreement, Article 2 requires that the recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award. Accounting records that are supported by documentation will as a minimum be adequate to show all costs incurred under the award. The accounting records must be maintained with appropriate budget line items, non USAID costs should be separately disclosed and proper recording of the recipient's cost-sharing contributions should be undertaken.

Condition

Unsupported "Travel and Accommodation" costs of \$2,483 for which there is no supporting documentation. (Refer note 9 of the Fund Accountability Statement)

Cause

Management was not aware that the accounting records did not comply with the requirements of the grant agreement and/or management was negligent in not maintaining proper controls over the supporting documents.

Effect

Costs of \$2,483 are questioned as unsupported in the fund accountability statement.

Recommendation

Management should maintain proper control over supporting documentation.

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USAID should determine the allowability of \$2,483 costs questioned as unsupported and recover from DTET any amounts determined to be unallowable.

viii. Ineligible Travel and Accommodation costs

Criteria

In terms of Office of Management and Budget (OMB) Circular A-122, attachment A, paragraph B1, these travel and accommodation costs do not fall within the definition of a direct cost. Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost. Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly.

Condition

Ineligible "Travel and Accommodation" costs of \$93. This represents the "Travel and Accommodation" costs of a trustee to attend trustee meetings, which is for the overall objective of the trust and not program specific. (Refer note 9 of the Fund Accountability Statement)

Cause

Management did not apply the cost principles of OMB Circular A-122.

Effect

"Travel and Accommodation" costs of \$93 are questioned as ineligible in the Fund Accountability Statement.

Recommendation

Management must apply the cost principles of OMB Circular A-122.

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USAID should determine the allowability of \$93 costs questioned as ineligible and recover from DTET any amounts determined to be unallowable.

ix. **Unsupported indirect costs**

Criteria

Indirect cost rates must be in accordance with Article 16 in Attachment 3 (Required as applicable Standard Provisions for Non U.S, Non Governmental Recipient).

Article 16 sets out the criteria for indirect cost rates as follows:

- Provisional indirect cost rates shall be established for the recipient's accounting periods during the term of this award. Pending establishment of revised provisional or final rates, allowable indirect costs shall be reimbursed at the rates, on the bases, and for the periods shown in the Schedule of this award.
- The recipient not later than nine months after the close of each of its accounting periods during the term of this award, shall submit to the Agreement Officer proposed final indirect cost rates with supporting cost data. The proposed rates shall be based on the recipient's actual cost experience during that fiscal year. Negotiations of final indirect cost rates shall begin soon after receipt of the recipient's proposal.
- Allowability of costs and acceptability of cost allocation methods shall be determined in accordance with the applicable cost principles.
- The results of each negotiation shall be set forth in an indirect cost rate agreement signed by both parties. Such agreement is automatically incorporated into this award and shall specify (1) the agreed upon final rates, (2) the bases to which the rates apply, (3) the fiscal year for which the rates apply and (4) the items treated as direct costs. The agreement shall not change any monetary ceiling, award obligation, or specific cost allowance or disallowance provided for in this award.
- Pending establishment of final indirect cost rates for any fiscal year, the recipient shall be reimbursed either at negotiated provisional rates or at billing rates acceptable to the Agreement Officer, subject to appropriate adjustment when the final rates for the fiscal year are established. To prevent substantial overpayment or underpayment, the

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provisional or billing rates may be prospectively or retroactively revised by mutual agreement.

- Any failure by the parties to agree on any final rate(s) under this provision shall be considered a dispute within the meaning of the standard provision of the grant, entitled "Disputes".

Condition

Indirect costs of \$27,105 are questioned as unsupported. The recipient was unable to compute their actual cost experience or to supply us with a Negotiated Indirect Cost Rate Agreement (NICRA). (Refer note 10 of the Fund Accountability Statement)

Cause

Management was not applying the provisions of the Mandatory Standard Provisions for Non-U.S. Nongovernmental Recipients.

Effect

Indirect costs of \$27,105 are questioned as unsupported.

Recommendation

Management must apply the provisions as per the criteria listed above.

USAID should determine the allowability of \$27,105 costs questioned as unsupported and recover from DTET any amounts determined to be unallowable.

x. **Unsupported reconciling difference**

Criteria

In terms of Attachment 3 (Mandatory Standard Provisions for Non U.S., Non Governmental Recipient) of the grant agreement, Article 2 requires that the recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award. Accounting records that are supported by documentation will as a minimum be adequate to show all costs incurred under the award. The accounting records must be maintained with appropriate budget line items, non USAID costs should be separately

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disclosed and proper recording of the recipient's cost-sharing contributions should be undertaken.

Condition

Reconciling difference of \$87,544 for which there is no supporting documentation. (Refer note 11.2 of the Fund Accountability Statement)

Cause

Errors were not detected with the quality of reconciliations performed by management.

Effect

Reconciling difference of \$87,544 for which there is no supporting documentation.

Recommendation

Management should perform proper reconciliations.

USAID should determine the allowability of \$87,544 costs questioned as unsupported and recover from DTET any amounts determined to be unallowable.

xi. **Ineligible cash on hand**

Criteria

In terms of Attachment 3 (Mandatory Standard Provisions for Non U.S., Non Governmental Recipient) of the grant agreement, Article 3 requires the following:

At the time the award expires or is terminated, the following types of USAID funds shall immediately revert to USAID:

- 1) Funds obligated to the award, but which have not yet been disbursed to the recipient; or
- 2) Funds advanced but not yet expended by the recipient.

Notwithstanding (1) and (2) above, funds which the recipient has obligated in legally binding transactions applicable to this award will not revert to USAID.

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

Condition

An amount of \$8,338 is still available in recipient's bank accounts; this is an unexpended amount which should revert back to USAID. (Refer note 11.3 of the Fund Accountability Statement)

Cause

Management believes there will be further expenditure.

Effect

The bank balance of \$8,338 is questioned as ineligible.

Recommendation

The cash available must be paid over to USAID.

USAID should determine the allowability of \$8,338 costs questioned as ineligible and recover from DTET any amounts determined to be unallowable.

xii. **Ineligible Cost-sharing contributions**

Criteria

Matching of cost-sharing contributions must be in accordance with Article 20 in Attachment 3 (Required as applicable Standard Provisions for Non U.S, Non Governmental Recipient).

Article 20c sets out the criteria for all contributions, both cash and in-kind, made by the recipient. The contributions must meet all the following criteria:

- Are verifiable from the recipient's records;
- Are not included as contributions for any other U.S. Government assisted program;
- Are necessary and reasonable for proper and efficient accomplishment of project objectives;
- Are types of charges that would be allowable under the applicable Federal cost principles;
- Are not paid by the U.S. Government under another grant or agreement;
- Are provided for in the approved budget when required by USAID; and
- Conform to other provisions of this article.

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

Condition

Counterpart contributions of \$407,639 are not verifiable from the recipient's records. There is no control over the counterpart contributions to the various programs by the recipient, with the recipient not accounting for these contributions in its records. (Refer note 4 of the Cost-sharing Schedule)

Cause

Management was not applying the provisions of the Mandatory Standard Provisions for Non U.S, Non Governmental Recipients.

Effect

Counterpart contributions of \$407,639 are questioned as ineligible as they do not adhere to the requirements as per Article 20 above.

Recommendation

Management must only allow counterpart contributions that fully conform to the requirements listed in the criteria above. xiii. Subcontract under Prime Contract No. 674-C-00-98-00030-00.

USAID should determine the allowability of \$407,639 costs questioned as ineligible and recover from DTET any amounts determined to be unallowable.

xiii. Unsupported costs relating to Subcontracts under Prime Contract No. 674-C-00-98-00030-00

Criteria

In terms of Attachment 3 (Mandatory Standard Provisions for Non U.S., Non Governmental Recipient) of the grant agreement, Article 2 requires that the recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award. Accounting records that are supported by documentation will as a minimum be adequate to show all costs incurred under the award. The accounting records must be maintained with appropriate budget line items, a separation from costs incurred for non USAID purposes and proper recording of the recipient's cost-sharing contributions.

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

Condition

- a) Personnel costs of \$34,692 are questioned as unsupported.
- b) Program costs of \$215,389 are questioned as unsupported.
- c) Indirect costs of \$32,308 are questioned as unsupported.

At the time of the review, the supporting documentation and accounting information for the above costs were not available.

Cause

Management was not aware that the above subcontract's accounting information had to be included in the Fund Accountability Statement.

Effect

Costs of \$282,389 are questioned as unsupported.

Recommendation

USAID/South Africa must make a determination if the amount of \$282,389 questioned as unsupported is allowable. If there is supporting documentation, it must be in terms of the cost principles as laid down by OMB Circular A-122.

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

Independent Auditor's Report on the Computation of the Indirect Cost Rate

Board of Trustees

The Desmond Tutu Educational Trust

PO Box 394

Kasselsvlei

7533

In terms of the Mandatory Standard Provisions, Negotiated Overheads Rate – Provisional, the recipient not later than nine months after the close of each of its accounting periods during the term of the award, shall submit to the Agreement Officer final indirect cost rates with supporting data, based on recipient's actual cost experience during the term of the award. This provision further states that allowability of costs and acceptability of cost allocation methods shall be determined in accordance with OMB Circular A-122 (the applicable cost principles).

During our review the recipient was unable to provide the indirect schedule in accordance with the referenced mandatory standard provision. As a result we have been unable to review the schedule of computation of indirect cost rate.



MOORE STEPHENS BKV INC.

Chartered Accountants (S.A.)

Registered Accountants and Auditors

Cape Town

Date: 30 March 2006

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

Independent Auditor's Review Report on the Cost-Sharing Schedule

The Trustees

The Desmond Tutu Educational Trust

PO Box 394

Kasselvlei

7533

We have reviewed the accompanying schedule of counterpart contributions of The Desmond Tutu Educational Trust for the period 1 January 2001 to 31 May 2003. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). The purpose of our review was to determine if the cost-sharing schedule is fairly presented in accordance with the basis of accounting described in note 1 to the cost sharing schedule and to determine if cost-sharing contributions were provided in accordance with the terms of the agreements. We also considered internal control related to the provision of and accounting for cost-sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing schedule. Accordingly, we do not express such an opinion.

The results of our review disclosed the following material questioned costs as detailed in the cost-sharing schedule: (1) \$407,639 in ineligible costs which were not fairly presented in accordance with the basis of accounting used by the recipient to prepare the cost-sharing schedule.

In summary the findings are as follows:

- Lack of control over the provision of and accounting for cost-sharing contributions. Refer to finding xii under "Findings and Recommendations on Compliance" and note 4 under "Notes to the Cost sharing schedule".

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

- Prior period counterpart contributions were not audited. Refer to finding xii under "Findings and Recommendations on Compliance" and note 4 under "Notes to the Cost sharing schedule".

Since the recipient did not account for the cost sharing contributions and we were not able to satisfy ourselves with other procedures that cost sharing contributions took place, the scope of our work was not sufficient to enable us to express assurance on this cost sharing schedule.

This report is intended for the information of The Desmond Tutu Educational Trust and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



MOORE STEPHENS BKV INC.
Chartered Accountants (S.A.)
Registered Accountants and Auditors
Cape Town
Date: 30 March 2006

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

COST-SHARING SCHEDULE

FOR THE PERIOD JANUARY 1, 2001 TO MAY 31, 2003

	BUDGET	ACTUAL	SHORTFALL	QUESTIONED COSTS		NOTES
				INELIGIBLE	UNSUPPORTED	
CASH						
Grant No. 674-G-00-92-00038-00	\$407,639	\$407,639	-	\$407,639	-	4
IN-KIND						
Grant No. 674-G-00-92-00038-00	-	-	-	-	-	
TOTAL	\$407,639	\$407,639	-	\$407,639	-	

Closeout Agency Contracted Agreed-Upon Procedures Review of USAID/South Africa's Resources managed by The Desmond Tutu Educational Trust under Agreement No.674-G-00-92-00038-00, Sub-award under Contract No. 674-C-00-98-00030-00 for the period January 1, 2001 to May 31, 2003.

Notes to the Cost-Sharing Schedule – Agreement No. 674-G-00-92-00038-00

1. Basis of accounting

The Cost-Sharing Schedule is prepared for cash contributions on a cash basis with expenses recorded when actually paid.

2. The Cost-Sharing contributions under Grant Agreement No. 674-G-00-92-00038-00 has a life-of-project budget of \$407,639. The grant agreement expired on 31 March 2003.

3. Rates of exchange

3.1 An average exchange rate of 8.58 South African Rand for 1 US Dollar has been applied to translate the cash cost share contributions.

4. Cash cost share contributions

4.1 Ineligible cash cost share contributions of \$407,639 comprise the following (Refer note xii under Findings and Recommendations on Compliance.):

4.1.1 Program expenses of \$407,639 which are not verifiable from the recipient's records.

4.1.2 Prior period cost share contributions as reflected in the financial statements which were not audited making reliance on these balances not possible.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave, NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig