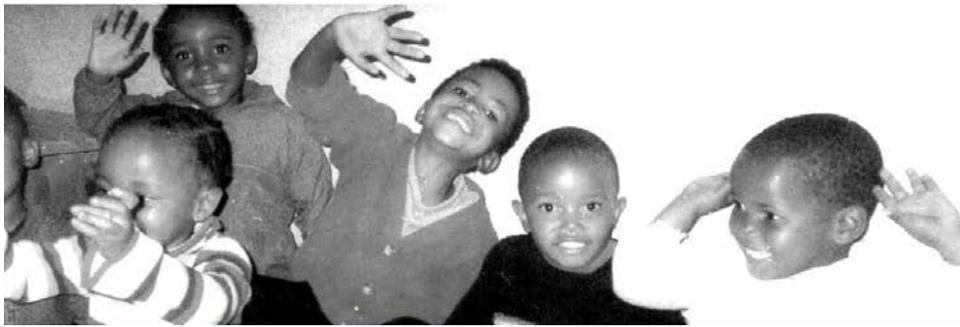




HEARTBEAT

Centre for Community Development



**FINANCIAL CLOSE OUT AUDIT REPORT
OF THE
USAID AGREEMENTS
Sub agreement number 674-A-00-08-00002-00
with
Heartbeat Centre for Community Development
for the period
1 OCTOBER 2011
to
30 SEPTEMBER 2012**

NEXIA SAB&T

13 December 2012

Heartbeat Centre for Community Development

The Directors
P.O. Box 72294
Lynwood Ridge
Pretoria

Dear Sirs

TRANSMITTAL LETTER

We have completed the United States Agency for International Development (hereafter referred to as USAID) sub-recipient fund accountability statement audit of sub-agreement No. 674-A-00-0800002-00 between the FHI 360 previously known as Academy for Educational Development (AED) and Heartbeat Centre for Community Development (hereafter referred to as Heartbeat) for the period 1 October 2011 to 30 September 2012.

May we express our appreciation to the management and staff of Heartbeat for the assistance afforded to us in the course of this assignment.

Please contact our offices should you require any additional information or clarification.

Yours faithfully



Nexia SAB&T

Per: S Kleovoulou
Registered Auditor
13 December 2012
Centurion
Pretoria

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1. BACKGROUND

On **01 December 2009**, the U.S. Agency for International Development (USAID), mission to **South Africa** approved the **674-A-00-08-00002-00** (program), which provides \$ 1 745 006 to Heartbeat for the period 1 October 2009 to 30 September 2012.

1.1. Brief History

Heartbeat was formed in response to South Africa's "lost" generation of Orphaned and Vulnerable Children (OVC) made so primarily by the HIV/AIDS scourge, not only to address their immediate needs but to enable them with a better future. South Africa sits with an estimate of around 2 million AIDS orphans. Heartbeat's model of care has been, and is still being, developed over time in response to the ever changing needs of the children.

Heartbeat is a Non Government Organisation (NGO) / Public Benefit Organisation (PBO) that exists to empower the Orphan and Vulnerable Children (OVC) to reach their full potential through quality service provision, development and capacity building. Heartbeat believes that the family system is the most basic form of support that a child needs.

The Heartbeat model is based on 4 leading principles:

- Children's rights (encompassed in the SA Constitution, the African Charter and the United Nations Convention on the rights of the child)
- Community based
- Development Approach
- Partnerships

In the nine years since its inception, Heartbeat has successfully worked with partners to implement projects in 7 provinces, collectively meeting the needs of 55 000 orphans and vulnerable children. Heartbeat is reaching these children through

- a) their own direct project initiatives and;
- b) the training and mentorship initiative.

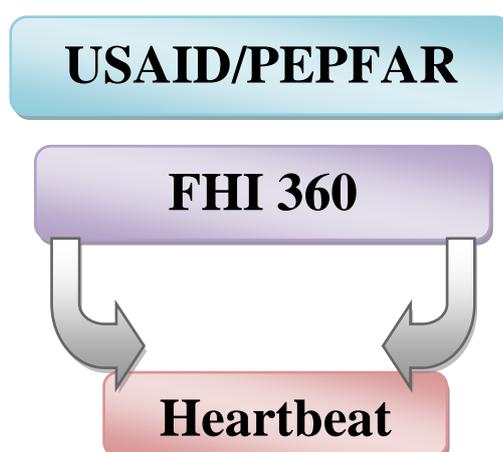
In addition to the direct services provided to their beneficiaries, Heartbeat conducts Mentoring and Training through the Tswelopele programme. This programme aims to capacitate and empower community based organisations working with OVC, in extending Heartbeat's reach within South Africa. The Tswelopele Mentoring and Training programme includes course work, internships as well as practical implementation that has been accredited by SETA. On graduation, the participant organisation should have a fully operational response to OVC in their community.

1.2. Vision and mission

“Heartbeat is a nurturing organisation, empowering orphaned and vulnerable children (OVC) and those who support them to be responsible leaders to the future.”

Heartbeat’s vision is that all children in Africa are happy and have opportunities to fulfil their dreams. Their mission is to empower orphaned and vulnerable children to reach their full potential, through quality service provision, development and capacity building.

1.3. Structure of USAID flow of funds



1.4. Strategic objectives

Heartbeat’s strategy is to provide holistic support to the children in its programme, in order to give them the best possible chance to reach their full potential.

Heartbeat’s goal is to empower orphaned and vulnerable children to reach their full potential, through quality service provision, development and capacity building.

Through Heartbeat’s programmes children will:

- Have adult presence in their home
- Be emotionally balanced
- Attend school
- Participate in community/Heartbeat activities
- Be integrated into their communities like “normal children”

Heartbeat’s objectives are to:

- Provide care for orphaned and vulnerable children and to empower and capacitate vulnerable children
- Provide the basic material support to children
- To widen the reach of social assistance through access program
- Providing OVC with the opportunities to achieve academic excellence through educational support

- To increase Heartbeat staff capacity to care and protect the rights of orphaned and vulnerable children
- To increase the capacity of Non-Government Organisations (NGO's) and CBO's to care for orphaned and vulnerable children through Tswelopele Mentoring and Training programme

Program description:

Heartbeat focuses on serving children in need of care and support. Its approach involves direct services to children provided by Heartbeat Child Care Workers and through strengthening community response, by building the capacity of selected Community Based Organisations (CBO's).

Heartbeat currently operates in 7 provinces, namely Gauteng, Free State, Mpumalanga, Limpopo, Kwa-Zulu Natal, Eastern Cape and the Northern Cape.

The overall aim of the programmes is to contribute to the positive transformation of the whole child.

These programmes are sustainable and focused and consist of different products and services. The approach used is to utilise project sites (called after school centres) and conducting regular home visits done by the Child Care Workers (CCW's). Specific goals and objectives are :

- Increased provision and protection of the rights of orphaned and vulnerable children.
- Increased community capacity to care for and protect the rights of orphaned children.

In order to achieve these goals, our specific objectives are:

- To provide for the psychosocial rights of orphaned and vulnerable children;
- To provide for the intellectual and educational rights of orphaned and vulnerable children;
- To ensure access to or to directly provide for the physical rights of orphaned and vulnerable children;
- To develop a culture of support for orphaned and vulnerable children within communities; and
- To ensure quality project management and maximum service impact

TARGET BENEFICIARIES

Beneficiaries

The Programme will target orphans and vulnerable children under the age of 18, through the following mechanisms:

Children Empowerment Programme

This program aims to provide holistic support for children through child protection, child participation and psycho-social support, to ensure that the child's basic needs are met, giving each child the opportunity to become healthy, resilient and well developed.

Heartbeat's Children's Empowerment strategy is to provide circles of support around each child. The first step is to provide an adult presence in the child's home. This is done through

Heartbeat's Child Care Workers (CCW's), who conduct regular home visits according to Heartbeat's models.

Heartbeat also recognises that many children are severely traumatized from death of one or both parents and in need of professional counselling. The organisation therefore appoints Social Workers and Auxillary Social Workers where possible to perform this task. Resourcing however is a national challenge with only 25% of required Social Workers qualified and able to conduct psychosocial intervention services.

Heartbeat trains their CCW's and After School Centre (ASC) facilitators (Chozas) to provide basic support to children. Heartbeat aims to provide basic support to children. Heartbeat aims to reach children in groups through workshops conducted at the ASC's. Heartbeat also conducts puppet shows at crèches, ECD centres and primary schools in the communities Heartbeat operates in. These activities focus on Child Protection, Child Participation and Psychosocial support.

Heartbeat is looking at empowering primary and high school vulnerable children on life skills which will be conducted through soccer programmes and conducting workshops during the school holidays on child protection and gender related issues.

The CCW can refer children who are not sufficiently helped through group activities to a Social Worker for individual or group counselling.

Heartbeat recognises that it is important for all its staff to work with children from the same approach and therefore all Children Empowerment staff (CCW's, Chozas and Social Workers) are trained in "Creative communication techniques" by an external consultant who is also responsible for the supervision of Social Workers.

Child Care Workers will visit children in their homes to ensure a basic level of child wellbeing including emotional and physical health, hygiene, household functioning and consistent attention to education.

Social Workers present activities to support and empower children. They provide children with individual counselling, support groups, youth camps, and puppet shows. Social Workers also engage other relevant service providers to assist with foster care placements and child protection. A range of workshops are offered to the beneficiaries throughout the year. Topics include child abuse, HIV and AIDS, gender equality and teenage pregnancy.

Education Programme

This programme ensures that each child in the Heartbeat programme may exercise their constitutional right to education thereby having the opportunity to develop to their full potential. It provides the necessary assistance to help them succeed in school, as well as bridge the gaps left by a lack of education before the child joined the Heartbeat program.

For a child to perform well at school all his basic needs must be met. Once a child's physical and emotional needs have been addressed, work can begin on addressing educational gaps and needs. Through the Educational Programme Heartbeat aims to supply children with school uniforms and stationery, distributed with the help of the CCW's. CCW's also provide homework assistance to children. Holiday schools will be conducted to support grade 10 to 12 students with specific subjects such as Maths, Science and English. A need for career guidance was identified

by children and Heartbeat is looking at expanding this to include psychometric testing through a partner.

Access Programme

This programme ensures that the child's basic rights are met and that they access basic services for free. These services include : shelter, water and electricity; access to free basic education; access to government social security services (e.g. social grants); basic health care and the right to name and nationality.

Heartbeat enables eligible children to achieve basic needs through accessing government social services by assisting with ID application and registration of birth certificates.

Heartbeat's Community Development Facilitators (CDF) engage with local municipalities to register poor families on the indigent programme (free water, shelter and electricity) and school governing bodies are contacted through Community Child Care Forums to assist in exempting the Heartbeat children from school fees.

Heartbeat's CCW's identify children in need of the above services and refer them to the CDF.

Material Support Programme

This programme provides food gardens for the children at the After School Centres as well as ensuring that uniforms, stationery, food parcels and other material provisions reach the child.

Heartbeat recognises that children's emotional needs cannot be reached before their physical needs are addressed. Through Heartbeat's Material Support Programme, blankets and food parcels are distributed to the children. Heartbeat's CCW's assist in the distribution of blanket and food parcels.

Food security is another strategic goal of this area with all After School Centres (ASC's) having a food garden. The food collected from these gardens primarily feed the children at 11 of the ASC's. Heartbeat's aim is to broaden these to reach all their existing ASC's. The expansion of the food gardens will include training on all aspects of nutrition for both the children and the communities, and to create sustainability for the Heartbeat child.

Mentoring and Training Programme

This programme was developed in response to the fact that Heartbeat is constantly approached by other organisations for training and advice on the implementation of its community based OVC care model. The program was first piloted in the Eastern Cape in 2004.

The principle behind the Mentoring and Training Programme has been to increase the number of children whose lives Heartbeat impacts on by mentoring and training other organisations to do what Heartbeat does in the self-same way. This works consistently with organisation to implement the Tswelopele Mentoring and Training Programme. This has meant providing ongoing training and provision of a mentor who works consistently with the organisation to implement the plan. The process takes a minimum of two years.

Heartbeat's strategy as mentioned above is to provide holistic support to the children in its programme, in order to give them the best possible chance to reach their full potential.

Major sources of finance

The major sources of finance are donations/grants received from government, foundations and private funders.

Employee structure

The total number of employees dedicated to the project, consist of 231 employees.

2. AUDIT OBJECTIVES AND SCOPE

2.1. Audit objectives

Nexia SAB&T was appointed by Heartbeat and approved by FHI 360 to conduct a financial audit of USAID resources managed by the recipient under the Orphan and Vulnerable Children (OVC) agreement number 674-A-00-0800002-00 from 1 October 2011 to 30 September 2012, in accordance with U.S. Government Auditing Standards and USAID's "Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines)."

The specific objectives of the audit as set out in our Terms of Agreement with Heartbeat Centre for Community Development were as follows:

- audit the fund accountability statement and express an opinion as to whether the fund accountability statement presents fairly, in all material respects, co-operative revenues received and costs incurred for the period then ended in conformity with the terms of the agreement and generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
- evaluate and obtain a sufficient understanding of the recipient's internal control structure related to the USAID-funded program, access control risk, and identify reportable conditions, including material internal control structure weaknesses. This evaluation will include the internal controls related to required cost sharing contributions;
- perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost sharing) and applicable laws and regulations related to USAID-funded program. All material instances of non-compliance and all indications of illegal acts should be identified. Such tests should include the compliance requirements related to required cost sharing contributions;
- perform an audit of the indirect cost rate if the recipient has been authorised to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient;

2.2. Audit scope

The scope of this audit included:

- an examination of the financial reports submitted by Heartbeat to USAID and FHI 360;
- a review of compliance with the provisions of the cooperative agreement;
- an evaluation of the internal control structure of Heartbeat as they relate to USAID funded programs;
- an evaluation of the cost sharing contribution made by Heartbeat to USAID; and
- an audit of the indirect cost rate, if applicable.

The period of review of this financial audit covered all co-operative revenue received and expenditure incurred during the period 1 October 2011 to 30 September 2012.

2.3. Scope limitation

Nexia SAB&T does not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.45 of US Government Auditing Standards. Our practice in South Africa currently maintains and makes reference to literature surrounding US Government regulations pertaining to USAID audits and sends professional staff to US Government Auditing Standards (GAGAS) continuing education classes each year.

Nexia SAB&T has not had an external quality control review by an unaffiliated organisation as required by Chapter 3, paragraph 3.52 of US Government Auditing Standards, since no such program is offered by professional organisations in South Africa. We believe that the effects of this departure from US Government Auditing Standards are not material as we are subjected to quality control reviews by the Independent Regulatory Board for Auditors (IRBA).

2.4. Methodology

Nexia SAB&T prepared its audit work plan and carried out its audit fieldwork at Heartbeat's office in Pretoria. The financial audit report was prepared and reviewed at the offices in Pretoria.

The principle audit steps performed included the following:

Fund accountability statement

- reviewed direct and indirect costs billed to and reimbursed by FHI 360 and costs incurred but pending reimbursement by FHI 360, identifying and quantifying any questioned costs. All costs that are not supported with adequate documentation or are not in accordance with the agreement terms were reported as questioned;
- a review of general and project ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by FHI 360 to the program and general ledgers;
- review procedures used to control the funds, including their channeling to contracted financial institutions or other implementing entities. Review the bank accounts and the controls on those bank accounts. Perform positive confirmation of balances;
- determine whether advances of funds were justified with documentation, including reconciliations of funds advanced, disbursed, and available. Ensure that all funding received by Heartbeat from FHI 360 was appropriately recorded in Heartbeat's accounting records and that the records are periodically reconciled with information provided by FHI 360;
- determine whether program income and reimbursements, if any, representing recoveries of direct and indirect costs, were recorded as income or as credits to program cost accounts. If any revenue was earned by Heartbeat from program funding, the amounts should be questioned in the fund accountability statement if not credited as reductions to the program costs or used to further the program objectives;
- review 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;

- review direct salary charges to determine whether salary rates were reasonable for that position, in accordance with those approved by FHI 360 when FHI 360 approval is required, and supported by appropriate payroll records;
- determine if overtime was charged to the program and whether it was allowable under the terms of the agreement. Determine whether allowances and fringe benefits received by employees were in accordance with the agreement and applicable laws and regulations. Unallowable salary charges will be questioned in the fund accountability statement;
- a review of travel and transportation charges to determine whether they were adequately supported and approved. Travel charges, which are not supported with adequate documentation or not in accordance with agreement regulations, will be questioned in the fund accountability statement;
- a review of commodities procured by the Heartbeat as well as those directly procured by USAID for Heartbeat's use. Determine whether (a) commodities were accounted for; (b) control procedures exist and have been placed in operation to adequately safeguard the commodities, and (c) commodities were used for their intended purposes in accordance with the agreement;
- a review of technical assistance and services procured by Heartbeat as well as those procured directly by USAID for Heartbeat; ensure that technical assistance and services were (a) adequately supported by Heartbeat as required by the terms of the agreement, and (b) properly accounted for;
- a review of the allocation method to determine that the indirect cost pool and distribution base include only allowable items in accordance with agreement terms and regulations when indirect costs were charged to USAID using provisional rates. Indirect cost rates will be calculated after all adjustments have been made to the pool base; and
- a review of un-liquidated advances to Heartbeat and pending reimbursement by FHI 360 when performing final close out audits. Ensure that Heartbeat returned any excess cash to FHI 360. Also ensure that all assets (inventories, fixed assets, commodities etc.) procured with program funds were disposed of in accordance with the terms of the agreement.

Internal Control Structure

- obtain sufficient understanding of the internal control structure to plan the audit and to determine the nature and extent of tests to be performed;
- assess inherent risk and control risk, and determine the combined risk;
- summarize the risk assessments for each assertion in a working paper;
- evaluate the control environment, the adequacy of the accounting systems, and control procedures;
- evaluate the internal controls established to ensure compliance with cost sharing requirements, including both provision and management of the contributions; and
- the study and evaluation of other policies and procedures that may be relevant if they pertain to data used in applying our auditing procedures.

Compliance with agreement terms and applicable laws and regulations

- identify the agreement terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement;
- determine if payments have been made in accordance with agreement terms and applicable laws and regulations;

- determine if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms;
- identify any costs not considered appropriate, classifying and explaining why these costs are questioned;
- determine whether any technical commodities directly procured by USAID is accounted for as required by the agreement or applicable cost principles;
- determine if the amount of cost sharing funds was calculated and accounted for as required by the agreement or applicable cost principles;
- determine if the cost sharing funds and technical assistance, as applicable, were provided according to the terms of the agreement;
- determine whether those who received services and benefits were eligible to receive them; and
- determine whether Heartbeat's financial reports (including those on the status of cost sharing contributions) and claims for advances and reimbursement contain information that is supported by books and records.

Follow up on prior audit recommendations

Review the status of actions taken on findings and recommendations reported in prior audits of USAID-funded programs.

General-purpose financial statements

Examine Heartbeat's general-purpose financial statements on an organization-wide basis.

Other audit responsibilities

- Hold an entrance conference and exit conference with Heartbeat; and
- institute quality control procedures to ensure that sufficient competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

Close-out audit

- Conduct a close out audit as required by the Guidelines for Financial Audits Contracted by Foreign Recipients and in terms of U.S Government Auditing Standards.

3. SUMMARY OF AUDIT RESULTS

3.1. Fund Accountability Statement

The results of our tests disclosed questioned costs, amounting to ZAR1 595 (USD200), in the Fund Accountability Statement which are presented in Section 3.9 of this report.

3.2. Internal Control Structure

Our evaluation of the internal control structure identified the following reportable conditions which are discussed in detail under Section 3 of this report.

- Overpayment of leave gratuities **(note 3.9.2)**
- Proof of employees' banking details not on employee files **(note 3.9.3)**
- Timesheets not completed per funder **(note 3.9.4)**

3.3. Compliance

During the reporting period no material inconsistencies of non-compliance with the cooperative agreement, Orphan and Vulnerable Children (OVC) agreement number 674-A-00-0800002-00, and any illegal acts were identified.

3.4. Indirect Cost Rate

The audit objectives did not include the review of the indirect cost rates as the organization does not operate on an indirect cost rate approach.

3.5. Cost sharing

The audit objectives did not include the review of a cost sharing schedule as the organization does not operate on a cost sharing approach.

3.6. General-purpose financial statements

The last audit of the sub-recipient's general-purpose financial statements was performed by JTC Auditors for the financial year ended 28 February 2011. These financial statements were available for review as at the date of this report. The audit of the general purpose financial statements for the year ended 29 February 2012 has not been completed at date of this report.

3.7. Status of prior period recommendations

As part of our audit, we have reviewed the status and actions of the findings and recommendations included in the prior year report and the status thereof:

Management should implement procedures to ensure that all claims submitted to the FHI 360 agree to the relevant supplier/vendor invoices, and that these claims are reviewed for accuracy before submission to the FHI 360. **The auditors have conducted verification of direct costs in the current year. Similar findings were observed in the current year; refer to 3.9.1 and 3.9.2**

Proof of banking details should be kept on employee files;
Changes to banking details of employees should not be made without confirmation of bank details. **The auditors have conducted verification of direct costs in the current year. Similar findings were observed in the current year; refer to 3.9.3**

3.8. Close-out audit

Conducted a close out audit in respect of SA Heartbeat as required by the Guidelines for Financial Audits Contracted by Foreign Recipients and in terms of U.S Government Auditing Standards. No issues have been identified and the entity complied in all material respects with the required close-out procedures.

3.9. FINDINGS, RISKS AND RECOMMENDATIONS

3.9.1. Supporting documents did not agree to expenses claimed

Criteria

In terms of Mandatory Standard Provisions For Non-U.S, Nongovernmental Recipients Attachment 5 Section 2a of the USAID Co-operative Agreement with the recipient, "The recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award in accordance with generally accepted accounting principles formally prescribed by the U.S., the co-operating country, or the International Accounting Standards Committee to sufficiently substantiate charges to this award."

Condition

The following differences were identified between the amount claimed from the FHI 360 and the invoice for the following expenditure:

Ref	Date	Description	Invoice no	Amount claimed (R)	Correct Amount to be claimed (R)	Difference (R)
1	17 April 2012	Kitskopie: Stationery - Various Head Office (20% of R10 030.83)	AD 065	2 006.17	1 759.79	246.37
2	17 April 2012	Compuport: Stationery - Various Head Office & Projects (20% of R 8 798.97)	AC067	1 759.79	411.05	1 348.74
Total						1 595.11

Effect

- Non-compliance with the Mandatory Standard Provisions for Non-U.S., Nongovernmental Recipients Attachment 3 Section 2a of the USAID Cooperative Agreement with the recipient;
- The risk is that Fund Accountability Statement might be misstated;
- Costs incurred might be disallowed by the FHI 360/USAID.

Cause

- The entity's management had not undertaken the necessary steps to ensure compliance with the terms and conditions of the Co-operative Agreement;
- The above miscalculation was due to an oversight by the responsible personnel.

Recommendation

Management should implement procedures to ensure that all claims submitted to the FHI 360 agree to the relevant supplier/vendor invoices, and that these claims are reviewed for accuracy before submission to the FHI 360.

Management comments

Accepted

Ref1: 20% was calculated on invoice amount including vat

Ref2: 20% was calculated on the wrong invoice amount

3.9.2. Incorrect leave amount paid to employee

Criteria

In terms of Mandatory Standard Provisions For Non-U.S, Nongovernmental Recipients Attachment 5 Section 2a of the USAID Co-operative Agreement with the recipient, "The recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award in accordance with generally accepted accounting principles formally prescribed by the U.S., the co-operating country, or the International Accounting Standards Committee to sufficiently substantiate charges to this award."

Condition

Even though the leave gratuity paid to an employee was not claimed from the FHI 360, the following internal control deficiency was identified:

Leave gratuity paid out to an employee who has resigned during the period under review was incorrectly calculated. The details are as follows:

Employee	Basic Salary	Leave Payout (per client)	Accumulated leave days	Rate per day based on 21.67	Recalculated Leave payout	Difference
Cindy Vermaak	R 23 540.00	R14 521.83	9.75	R 1 086.29	R 10 591.37	(R3 930.46)

Cause

- The above was due to an oversight by the responsible personnel;
- The calculation was done manually and the incorrect amount of leave days was used.

Effect

- The risk is that Fund Accountability Statement might be misstated;
- Costs incurred might be disallowed by the FHI 360/USAID.

Recommendation

Leave pay out calculations should be reviewed by a senior official, before the leave pay is being paid out, to ensure the accuracy of the calculation.

Management comments

- A Leave Register was updated on Pastel Payroll;
- This is to ensure better control of employee's leave

3.9.3. Banking details not on employee files

Criteria

In terms of Mandatory Standard Provisions For Non-U.S., Nongovernmental Recipients Attachment 3 Section 2a of the USAID Cooperative Agreement with the recipient, "The recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award in accordance with generally accepted accounting principles formally prescribed by the U.S., the cooperating country, or the International Accounting Standards Committee to sufficiently substantiate charges to this award."

Condition

The confirmation of the bank details of the following employees were not kept on the employee file:

- Poppy E Nkambule-Team Leader Emthonjeni
- Sizakele Mavis Lekhuleni-CDF Emthonjeni
- Sarinah Setati-Choza Tembisa
- Tshadi Jeanette Ramano-CDF Tembisa
- Johanna Seoka - SAO Tembisa
- Bahedile Talita Tlali-CDF Botshabelo
- Matshidiso Annacletta Mokoteli-Team Leader Botshabelo
- Priscila Zanele Mathebula-SAO Emthonjeni
- Steve Monareng-SAO Vosloorus
- Gideon Rabophala-SAO Katlehong
- Phetole Seodi-COO HO
- Mavis Khumalo-Choza Nellmapuis
- Elizabeth Komana-SAO Nellmapuis
- Harrieth Meilwe Nakana-Choza Wedela
- Meisie Dirupu Ramadimetsa Chauke-SAO Bakenberg
- Kgadile September Majadibodu-CDF Bakenberg
- Contance Mayela-Team Leader Nellmapuis

Cause

The above was due to an oversight by the responsible personnel.

Effect

- Salaries may be paid into incorrect bank accounts;
- Possible circumvention of internal controls.

Recommendation

- Proof of banking details should be kept on employee files;
- Changes to banking details of employees should not be made without confirmation of bank details

Management comments

- New Proof of banking details form will be utilize to all employees;
- Most of Heartbeat's employee's has the old format on file (P Seodi was sent as an example)

3.9.4. Timesheets not completed per funder

Criteria

In terms of Mandatory Standard Provisions For Non-U.S., Nongovernmental Recipients Attachment 3 Section 2a of the USAID Cooperative Agreement with the recipient, "The recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award in accordance with generally accepted accounting principles formally prescribed by the U.S., the cooperating country, or the International Accounting Standards Committee to sufficiently substantiate charges to this award."

Condition

As per Cooperative agreement 674-A-00-08-00002-00, paragraph 13 of Modification of 7, the management plan indicates the total percentage amount of salaries to be claimed from the FHI 360 for specific employees. The entity has claimed the salaries correctly according to this agreement.

The details however, with regard to the funder, on which, a specific amount of time is spent on, is not included on the timesheets. Accordingly the percentage time spent per funder can't be determined but the costs claimed per individual are in line with the percentages allocated in the cooperative agreements.

Effect

- Costs incurred might be disallowed by the FHI 360 or the USAID.

Cause

This is as a result of predetermined rates being agreed upon between the prime and the sub recipient.

Recommendation

Timesheets should be updated to include the time spent per funder to ensure the accurate claiming of time from the funders.

Management comments

- Predetermined rates were agreed upon between Heartbeat and the UGM;
- Individual Employees are not aware of the percentage per donor covered towards their salaries. In addition to this they will not know that they must only note 5% towards FHI360 per month on their timesheets.

4. FUND ACCOUNTABILITY STATEMENT

4.1. Independent auditors' report

Heartbeat Centre for Community Development

The Directors
P.O. Box 72294
Lynwood Ridge
Pretoria

Dear Sirs

We have audited the fund accountability statement of Heartbeat Centre for Community Development for the period 1 October 2011 to 30 September 2012, presented in table 1, page 24 and 25. The fund accountability statement is the responsibility of Heartbeat's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit of the fund accountability statement in accordance with US Government Auditing Standards and USAID's "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines). 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 audit provides a reasonable basis for our opinion.

We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.46 of the US Government Auditing Standards. However our practice in South Africa currently maintains and makes reference to literature surrounding US Government regulations pertaining to USAID audits and professional staff is subject to continuing education on US Government Auditing Standards (GAGAS).

We have not had an external quality control review by an unaffiliated organisation as required by Chapter 3, paragraphs 3.5 and 3.55 of US Government Auditing Standards, since no such program is offered by professional organisations in South Africa. We believe that the effects of this departure from US Government Auditing Standards are not material because the Independent Regulatory Board for Auditors of South Africa has subject us to quality control reviews and we participate in the Nexia International worldwide internal quality review programme.

In our opinion the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed for the year then ended in accordance with the terms of the agreement and conformity with the basis of accounting as described in **Note 4.2.1**.

In accordance with U.S. Government Auditing Standards, we have also issued our reports for the period 1 October 2011 to 30 September 2012, on our consideration of Heartbeat's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit 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 audit.

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



Nexia SAB&T

Per: S Kleovoulou
Registered Auditor
13 December 2012
Centurion
Pretoria

Table 1: Fund Accountability Statement in USD

	<i>BUDGET USD</i>	<i>ACTUAL USD</i>	<i>INELIGIBL E COSTS USD</i>	<i>UNSUPPORTED COSTS USD</i>	<i>REFERENCE NOTES</i>
OPENING BALANCE: 01 October 2011		-188 142			
REVENUE:					
Agreement – Number: 674-A-00-08-0002- 00	310 406	606 476			
Total Revenue	310 406	606 476			
COST INCURRED					
Salaries	152 055	149 966			
Travel and Transport	28 421	184 609			
Equipment	0	0			
Other Direct Costs	125 772	21 191		200	4.2.8
Indirect Costs	4 159	54 138			
Total costs incurred	310 406	409 904		200	
Total Fund Balance	-	8 430			

Table 2: Fund Accountability Statement in ZAR

	<i>BUDGET ZAR</i>	<i>ACTUAL ZAR</i>	<i>INELIGIB LE COSTS ZAR</i>	<i>UNSUPPORTE D COSTS ZAR</i>	<i>REFERENC ENOTES</i>
OPENING BALANCE: 01 October 2011		-1 497 614			
REVENUE:					
Agreement - Number: 674-A-00-08-0002- 00	2 470 834	4 827 551			
Total Revenue	2 470 834	4 827 551			
COST INCURRED					
Salaries	1 210 355	1 193 731			
Travel and Transport	226 234	1 469 487			
Equipment	0	0			
Other Direct Costs	1 001 142	168 678		1 595	4.2.8
Indirect Costs	33 103	430 941			
Total costs incurred	2 470 834	3 262 837		1 595	
		67 100			

Deficit balance per opening FAS	-1 497 614
Funds received	4 827 551
Expenditure	-3 262 837
Surplus for the year	<u>67 100</u>
Unsupported expenditure refunded	-7 875
New surplus	59 225
Balance per bank statement	71 578
Less monies for expenses incurred only transferred to general account subsequent to year end	
September 2012 expenses	<u>-12 854</u>
Reconciled bank balance	58 724
Difference	501

The reconciled bank balance will be utilised subsequent to 30 September 2012, for agreed upon final close out costs.

4.2. NOTES TO THE FUND ACCOUNTABILITY STATEMENT

4.2.1. Basis of Accounting

The fund accountability statement is prepared on a cash basis of accounting. This is a comprehensive basis of accounting other than generally accepted accounting principles.

4.2.2. Budget

The Budget column represents the approved financial plan for the term of the Cooperative agreements from FHI 360 agreement, from – 1 October 2011 to 30 September 2012.

4.2.3. Rate of Exchange

The operational currency is in ZAR. Figures have been translated at the average exchange rate, USD 1.00 = ZAR 7.96.

4.2.4. Revenue

Cooperative agreements from FHI 360 - Represents amounts received in cash from FHI 360 for the period of review under the cooperative agreements and exclude awards received from other donors.

Funds received from FHI 360 were vouched to bank statements of Heartbeat.

4.2.5. Costs incurred

Costs incurred represent amounts paid in cash and incurred during the period of review under the agreement.

4.2.6. Sample selection criteria

Heartbeat is responsible for maintaining all original supporting documentation for co-operative expenditure. Advances are paid by FHI 360 to Heartbeat against which expenditures incurred are liquidated.

Our methodology included the selection of revenue and expenditure transactions for audit testing.

4.2.7. Expenditure

We selected a sample of expenditure transactions for testing under the cooperative agreement. The selection was based on a predetermined amount and a judgmental selection of additional transactions based upon potential risk.

4.2.8. Ineligible and Unsupported Costs Schedules

Note No.	Description	Other direct costs (ZAR)	Ineligible Costs	
			total cost (ZAR)	total cost (USD)
3.9.1	Supporting documents did not agree to expenses claimed	1 595.11	1 595.11	200.39
		1 595.11	1 595.11	200.39
			Rand = USD \$	7.96

5. INTERNAL CONTROL STRUCTURE

5.1. Independent auditors' report on Internal Control

The Directors
Heartbeat Centre for Community Development
P.O. Box 72294
Lynwood Ridge
Pretoria

Dear Sirs

We have audited the fund accountability statement of Heartbeat Centre for Community Development for the period 1 October 2011 to 30 September 2012 and have issued our report on it dated 13 December 2012.

Except for not having a continuing education program which meets U.S. Government Auditing Standards specific requirements, and not conducting an external quality control review by an unaffiliated audit organisation (as described in our report on the fund accountability statement) we conducted our audit 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 audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement and cost-sharing schedule.

In planning and performing our audit of the fund accountability statement of Heartbeat Centre for Community Development for the period from 1 October 2011 to 30 September 2012, we obtained an understanding of the internal control structure. We considered the entity's internal control over financial reporting (internal control) as a basis for designing our audit procedures the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies and material weaknesses have been identified. However as discussed below, we identified certain deficiencies in internal control that we considered to be significant.



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial or fund accountability statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the entity's internal control to be significant deficiencies:

Our evaluation of the internal control structure identified the following reportable conditions which we consider to be significant deficiencies in internal control:

- Overpayment of leave gratuities (**note 3.9.2**);
- Proof of employees' banking details not on employee files (**note 3.9.3**); and
- Timesheets not completed per funder (**note 3.9.4**)

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 and cost-sharing schedule.

The management of Heartbeat 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 unauthorised use or disposition; transactions are executed in accordance with management's authorisation and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in **note 4.2.1** to the fund accountability statement.

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

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 material weaknesses as defined above.

This report is intended for the information of Heartbeat and 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.



Nexia SAB&T

Per: S Kleovoulou
Registered Auditor
13 December 2012
Centurion
Pretoria

5.2. Notes to the Internal Control Structure Report

5.2.1. *Introduction*

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.

Our review of the internal control structure was directed towards those significant policies and procedures, which relate to the nature of project funding arrangements.

6. COMPLIANCE WITH PROVISIONS, LAWS AND REGULATIONS

6.1. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

Heartbeat Centre for Community Development

The Directors
P.O. Box 72294
Lynwood Ridge
Pretoria

Dear Sirs

We have audited the fund accountability statement Heartbeat Centre for Community Development as of and for the period 1 October 2011 to 30 September 2012 and have issued our report on it dated 13 December 2012.

Except for not having a continuing education program which meets U.S. Government Auditing Standards specific requirements, and not conducting an external quality control review by an unaffiliated audit organisation (as described in our report on the fund accountability statement) we conducted our audit 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 audit to obtain reasonable assurance about 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 Heartbeat South Africa is the responsibility of Heartbeat South Africa's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of Heartbeat South Africa'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.

The results of our tests disclosed no instance of noncompliance that are required to be reported here under U.S. Government Auditing Standards.

We noted certain immaterial instances of noncompliance that we have reported to the management of Heartbeat in our management report dated 13 December 2012.



This report is intended solely for the information of Heartbeat and U.S. Agency for International Development (USAID). However, upon acceptance by the USAID, this report is a matter of public record and its distribution is not limited.



Nexia SAB&T

Per: S Kleovoulou
Registered Auditor
13 December 2012
Centurion
Pretoria

Appendix A – Management Comments

Management has noted and reviewed the audit findings as detailed in this Report and will ensure that all recommendations are followed and controls/checks instituted where required to reduce the chances of human error.

Management would also wish to add that throughout this audit they have found the role of the auditors to be very supportive and this will further enhance and enrich management going forward to ensure that all US Aid Controls and Regulations are 100% complied with.