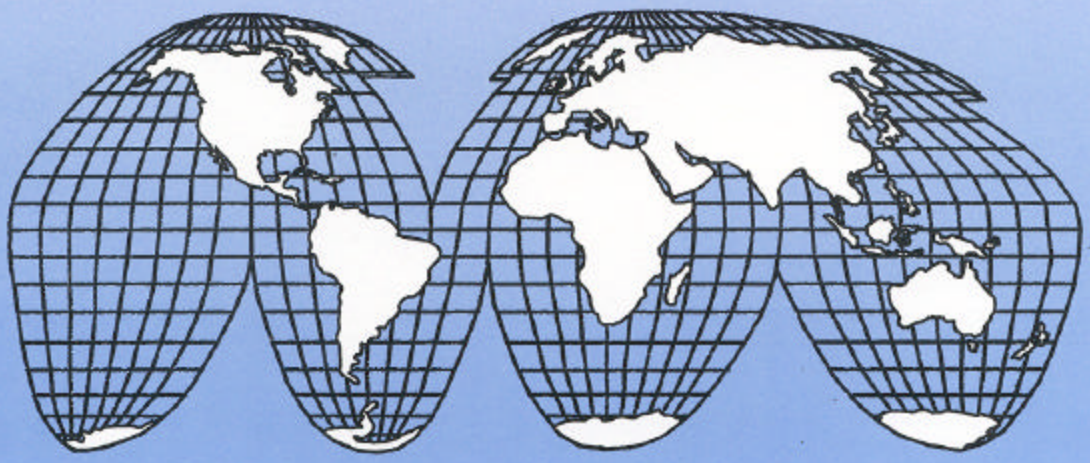
USAID

OFFICE OF INSPECTOR GENERAL

Report on Agreed-Upon Procedures at the Inter-American Foundation

Report No. 0-IAF-01-013-F

September 28, 2001



U.S. Agency for International Development
Washington, D.C.

U.S. Agency for
International
Development

Financial Audits Division

MEMORANDUM

FOR: Mr. David Valenzuela

FROM: IG/A/FA, Alvin Brown

SUBJECT: Final Report on Agreed-Upon Procedures Performed at the Inter-American Foundation (Report No. 0-IAF-01-013-F)

The attached report summarizes the results of agreed-upon procedures performed at the Inter-American Foundation by the firm of Gardiner, Kamya & Associates (GKA). Through the work performed under contract by Gardiner, Kamya & Associates, we have determined that the Inter-American Foundation has made significant progress toward the resolution of findings reported in its fiscal year 2000 financial statement audit report. No recommendations were made in this report.

The report prepared by the firm of Gardiner, Kamya & Associates is included in its entirety in Appendix I. Your comments from the draft report have been incorporated into this final report, and are included in Appendix II.

We appreciate the cooperation and courtesies that your staff extended to my staff, and to the staff of Gardiner, Kamya & Associates during the agreed-upon procedures. If you have questions concerning this report, please contact Andrew Katsaros at (202) 712-4902.

Attachment (as stated)

Table of Contents

Management Comments and Our Evaluation	3
Appendix I - Gardiner, Kamya & Associates Report on Agreed-Upon Procedures	4
Appendix II - Management Comments	13

Management Comments & Our Evaluation

Although the Report on Agreed-Upon Procedures prepared by Gardiner, Kamya & Associates did not contain any findings or recommendations, IAF management provided comments to the draft report and was largely pleased with the results. Through the performance of agreed-upon procedures, the firm of Gardiner, Kamya & Associates determined that the Inter-American Foundation has taken significant corrective action to address findings reported in its fiscal year 2000 financial statement audit.

IAF management expressed concerns with the presentation or implication of several statements in the draft report. This final report has been modified in consideration of several of these concerns which both IAF and OIG management considered to be minor.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

INDPENDENT ACCOUNTANT'S REPORT

ON

APPLYING AGREED-UPON PROCEDURES

Review of Corrective Action
Implemented By

INTER AMERICAN FOUNDATION

Submitted By:

Gardiner, Kamya & Associates, P.C.
1717 K Street, N.W.
Washington, DC 20036

Gardiner, Kamya & Associates, P.C.

Management Consultants and Certified Public Accountants
Washington, D.C.

Independent Auditor's Report on Applying Agreed-Upon Procedures

The Inspector General
United States Agency for International
Development
1300 Pennsylvania Avenue,
Washington, D.C. 20523

We have performed the procedures described below, which were agreed to by the Office of the Inspector General (OIG), United States Agency for International Development (USAID), solely to assist you in ascertaining the status of the corrective actions taken to date by Inter-American Foundation (IAF) in response to the recommendations made by the OIG to alleviate the conditions reported by the independent auditor of IAF's fiscal year (FY) 2000 financial statements.

Our Objectives were to:

- determine if IAF has developed a Corrective Action Plan to address the deficiencies noted by the OIG in the audit of IAF's FY 2000 financial statements;
- determine if IAF has implemented corrective actions;
- evaluate the corrective actions taken so far and assess the results; and
- determine the expected completion date of the implementation of corrective actions.

This engagement to apply agreed-upon-procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the OIG. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Details of Procedures Performed and Findings

Corrective Action Plan

To determine whether IAF had addressed the issues raised by the OIG and the Independent Auditor in the FY 2000 financial statement audit, we interviewed responsible IAF officials and requested a copy of any corrective action plan that may have been developed in response to the audit. We also inquired into actions taken regarding the specific findings as noted below. IAF was not required to prepare a formal corrective action plan, but did take sufficient corrective action to address prior findings and recommendations reported by the OIG.

We found that:

- It is IAF's understanding that they have a period of one year after reaching an agreement with the OIG regarding the audit findings to implement corrective actions; and

- Ten months prior to the issuance of the OIG Report on IAF's FY 2000 Financial Statements, IAF outsourced its accounting, reporting and procurement functions to the Bureau of Public Debt, Administrative Resource Center in Parkersburg, West Virginia. This contributed to the improvements noted herein.

Prior OIG Finding No. 1: IAF did not prepare complete, reliable, and timely financial statements that were based on its general ledger.

GKA's Review Procedures:

- Inquired into and documented actions taken to ensure that a balanced general ledger is maintained;

- Inquired into and documented actions taken to ensure that all transactions are properly supported and documented;

- Inquired into and documented actions taken to ensure that financial statements are submitted within 45 – 60 days after the end of the fiscal year;

- Reviewed the Memorandum of Understanding between IAF and the Administrative Resource Center to determine whether it provides for corrective actions as recommended by the OIG in its audit report of IAF's FY 2000 financial statements; and

- Visited the Administrative Resource Center's facility in Parkersburg, West Virginia, interviewed responsible personnel and reviewed their accounting policies and procedures as they relate to IAF.

GKA's Findings:

- IAF has entered into a contract with the Administrative Resource Center to provide procurement and accounting and reporting services. In addition, the Memorandum of Understanding provides for the production of accounting reports, including the general ledger, within 3 days after the close of the accounting period, except at yearend, when multiple closings of the general ledger are required;

- The contract provides for an unqualified audit opinion on financial statements and notes;

- There is currently a balanced cumulative general ledger for FY 2001;

- The Administrative Resource Center has scheduled the production of auditable year end financial statements for FY 2001 for IAF no later than December 31, 2001;

- In the effort to produce auditable financial statements for FY 2001, the Administrative Resource Center has undertaken three tasks to ensure that IAF's beginning balances are supported by the necessary documents and posted to the correct general ledger accounts. Two of these tasks (Tasks (i) and (ii) below) were not completed as of July 9, 2001. They were expected to be completed by August 31, 2001.

  (i) Review of FY 1996 to FY 2000 obligations – Per the Administrative Resource Center, a listing of obligations for the period was given to IAF personnel for further research to determine if the obligated funds should be deobligated. Once the information is received, the beginning general ledger balance will be adjusted accordingly.

  (ii) Review of September 30, 2000 Fund Balance reconciliation items – A detailed listing of September 30, 2000 reconciling items is currently being prepared by the Administrative Resource Center and will be sent to IAF for further research. Once the necessary information is received, the Administrative Resource Center will make the appropriate adjustments to the beginning balance of the general ledger.

  (iii) The Administrative Resource Center has not recorded the amounts, which were on IAF's general ledger as of September 30, 2000. Instead, it reviewed each balance, examined supporting documentation for each account, and recorded only those amounts that were supported. It has documented in a spreadsheet, the amounts recorded by the Administrative Resource Center, the amounts recorded by IAF, and the differences. The differences were posted to general ledger account numbers 3100, 3310, 4610, or 4650 for further investigation.

- The Administrative Resource Center is awaiting IAF's approval of its methodology for recording and amortizing grant advances or to develop other procedures that comply with established accounting standards; and

Prior OIG Finding No. 2: IAF did not provide Management's Discussion and Analysis (MD&A) which describes the activities and achievements of the organization for FY 2000.

GKA's Review Procedures:

- Requested IAF's plan to provide MD&A in FY 2001; and

- Inquired if IAF has commenced the writing of an MD&A, and requested a copy of the draft document if one exists.

GKA's Findings:

- IAF legal counsel is in the process of writing the MD&A. The document is not yet finalized. However, IAF provided GKA with a copy of the draft document that appears to address the relevant issues.

Prior OIG Finding No. 3: IAF did not fully comply with the Prompt Payment Act. Several instances of late payment of invoices and non-payment of the associated interest penalty were noted.

GKA's Review Procedures:

- Requested IAF's plan to comply with the Prompt Payment Act (the Act); and

- Selected a random sample of disbursements for the period October 1, 2000 to May 15, 2001 and reviewed for compliance with the Prompt Payment Act.

GKA's Findings:

- Procurement and disbursement functions were outsourced to the Administrative Resource Center as of October 1, 2000. From a review of the Memorandum of Understanding between IAF and the Administrative Resource Center, and interviews with various IAF and Administrative Resource Center personnel, it appears that there are policies and procedures in place to ensure compliance with the Prompt Payment Act; and

- Sixty (60) disbursements (made between October 1, 2000 and June 15, 2001) were randomly selected and tested for compliance with the Act. Only one deviation was noted.

Prior OIG Finding No. 4: IAF expensed $1,671,533 in FY 2000, although practically no services were rendered to IAF or contracted for by IAF.

GKA's Review Procedure:

- Requested an analysis of this transaction and evaluated the propriety of the correcting journal entry.

GKA's Findings:

- Of the $1.6 million, $180,000 was recorded as an expenditure for services rendered by the Administrative Resource Center in FY 2000;

- The remaining $1.4 million was recorded as an advance from IAF to the Administrative Resource Center for services to be rendered in FY 2001 and FY 2002; and

- The Administrative Resource Center has recorded this transaction under two different appropriations through a general ledger entry debiting an advance (asset) account and crediting an unexpended appropriation, on the proprietary side, and by debiting downward adjustment of a prior period expenditure and crediting unexpended obligations – unpaid, on the budgetary side.

Prior OIG Finding No. 5: The Fund Balance with Treasury account is not regularly reconciled. Differences are not promptly investigated and resolved.

GKA's Review Procedures:

- Obtained and reviewed all reconciliations from October, 2000 to May, 2001;

- Determined if the services contract with the Administrative Resource Center eliminates the segregation of duties weakness noted by the auditors;

- Determined the procedures that IAF has implemented to monitor the Administrative Resource Center's recording and reporting of financial information.

GKA's Findings:

- Accounting functions were outsourced to the Administrative Resource Center as of October 1, 2000;

- The Administrative Resource Center performs the reconciliation monthly, as soon as the appropriate Treasury's reports are available which is around the last week of the following month. Normally,

    (i) they are performed by the end of the following month;

(ii) they contain evidence of supervisory review;

(iii) the General Ledger balances are agreed to amounts on Treasury reports; and

(iv) reconciling items are investigated and resolved.

- From a review of the Memorandum of Understanding between IAF and the Administrative Resource Center, a review of the Administrative Resource Center's policies and procedures noted, and interviews with various IAF and Administrative Resource Center personnel, it appears that the Administrative Resource Center's policies and procedures are sufficient to ensure that incompatible functions are segregated;

- Currently, the Administrative Resource Center's personnel are working on a project to review September 30, 2000 Fund Balance reconciling items. The objective is to analyze the items and post appropriate journal entries based on the results of the analysis;

- From a review of IAF's accounting policies and procedures (Organization's Handbook – the Red Book), and interviews with IAF personnel, it appears that the reconciliations performed by the Administrative Resource Center are not reviewed by IAF. IAF relies solely on the Administrative Resource Center to perform this function.

Prior OIG Finding No. 6: Supporting documentation is not properly prepared, maintained, and easily retrievable for review. Specifically:

A. Grant Advances: IAF was unable to prepare a complete, accurate, and reconciled analysis of the grant advances in a timely manner;

B. Grant Receivables: IAF did not provide supporting documentation that substantiated the existence and completeness assertions pertaining to grants receivable; and

C. Accounts Payable: Search for unrecorded liabilities could not be performed because the financial reports of IAF did not contain data that identified the required source documents.

GKA's Review Procedures:

- Requested IAF's plan to ensure that supporting documentation is maintained and easily retrievable for review. Evaluated this plan based on our request for invoices and reconciliations;

- Toured IAF's office facility and reviewed storage areas and filing systems;

- Requested IAF's plan to:

  (a) record grant transactions, periodically monitor amounts recorded and amounts reclassified, and ensure that all grant transactions are adequately supported;

  (b) ensure that a current listing of all disbursements is available for review; and

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  (c) communicate differences and discrepancies in the accounting records to senior management.

GKA's Findings:

- A policy regarding record keeping procedures was recently drafted and will be included in the organization's handbook;

- Documentation supporting transactions is filed and maintained in both IAF's and the Administrative Resource Center's office facilities and is easily retrievable;

- Currently, plans are to prepare a grant disbursement schedule at the end of the year. This schedule will analyze the amounts disbursed, expensed, and capitalized. Based on this analysis, an appropriate amount will be recorded as an outstanding advance at year-end. The Administrative Resource Center will seek IAF's approval of this method before it is implemented;

- There is a wide disparity between the FY 2000 financial statements balance and the balance recorded on the schedule, ($600,000 per FY 2000 financial statements vs. $6 million per grant advance schedule). The $600,000 will be expensed and an appropriate portion of the $6 million capitalized after further investigation and analysis;

- Approximately $2 million of the $2.7 million shown as accounts receivable in the FY 2000 financial statements is due from the Social Progress Trust Fund (SPTF). The remaining $600,000 is the unexpended grant advance. IAF maintains that it has support for SPTF balance;

- The Administrative Resource Center's accounts payable policies and procedures appear to be appropriate and its year-end cutoff procedures memorandum for FY 2001 is designed to capture year-end liabilities information. The Administrative Resource Center will distribute the FY 2001 year-end cutoff memorandum to all clients, including IAF, by the end of August, 2001; and

- IAF has designated a fiscal specialist to monitor the Administrative Resource Center's accounting. However, due to other work pressure, monitoring the accuracy and completeness of Administrative Resource Center-produced accounting records is not yet being performed on a regular basis by IAF.

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We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of USAID OIG and IAF management, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Washington, D.C.
July 9, 2001

Management Comments

Inter-American Foundation

An Independent Agency of the U.S. Government

August 16, 2001

Mr. Everett Mosley
Inspector General
U.S. Agency for International Development
1300 Pennsylvania Avenue, N.W.
Washington, D.C. 20523

Subject: Draft Independent Auditor's Report (undated) transmitted August 7, 2001

Dear Mr. Mosley

The Inter-American Foundation (the "Foundation") is pleased to note that the agreed upon procedures (the "Draft Report") undertaken by Gardiner, Kamya & Associates ("Gardiner") reveal that the Foundation has addressed all issues identified in the April 2, 2001 Report of Audit (the "Report of Audit") issued by your office.

We were disappointed to note, however, the Draft Report's implication that the Foundation was required to prepare a Corrective Action Plan ("CAP") before Gardiner began its work.

First, the Inspector General Act, as amended, and OMB Circulars A-50 and A-123, provide, in sum, that management must make a decision regarding Office of Inspector General audit recommendations within a six-month period and that implementation of management's decision should be completed within one year to the extent practicable. Yet the Gardiner exercise was initiated only two months following the Report of Audit—four months before the CAP was due.

Second, and perhaps more troubling, the Draft Report refers to the Foundation's lack of a written CAP. We had expressed concern that notwithstanding steps we had taken to implement the recommendations, your report would still begin by saying: "The Foundation does not have a written CAP." On June 6, 2001, you and your staff assured us that would not happen. You stated, "We are interested in substance over form." Our external affairs director repeated that exchange in meetings on, respectively, June 7, 2001

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Management Comments

and July 19, 2001, at which Gardiner personnel were present. In both instances, your Director of Financial Audits confirmed that no written CAP was being sought.

Accordingly, we request that you follow through on your assurances to us by asking Gardiner the reference in the Draft Report or by emphasizing in your accompanying report that the Foundation's substantive progress has been significant, and that a written CAP is not due until October 2, 2001.

We would also like to make three additional comments on the Draft Report. The statement that the Foundation has taken corrective action by outsourcing to the Bureau of the Public Debt (BPD) the accounting, reporting, and the procurement functions is incorrect. The reason for outsourcing these functions was to reduce the Foundation's overhead costs. Moreover, the outsourcing was implemented before the Report of Audit was initiated; hence it could not have been in response to it.

Gardiner's finding of one deviation in the analysis of sixty (60) disbursements is based on a $1.98 in interest due but not paid. Gardiner could not confirm that this information was given to anyone at the Foundation—despite frequent requests for such items. In fact, we learned of it today.

Gardiner's finding that cash reconciliations performed by BPD are not reviewed by the Foundation is misleading. BPD has informed us that virtually no customers review BPD's monthly cash reconciliatons. Yet the Draft Report implies that this is imprudent.

Notwithstanding these relatively minor issues, on the whole we are satisfied with the Draft Report and trust that it will allay any concerns that were raised in the Report of Audit.

Sincerely yours,

/s/ Carolyn Karr (acting)

David Valenzuela
President

cc: The Board of Directors