

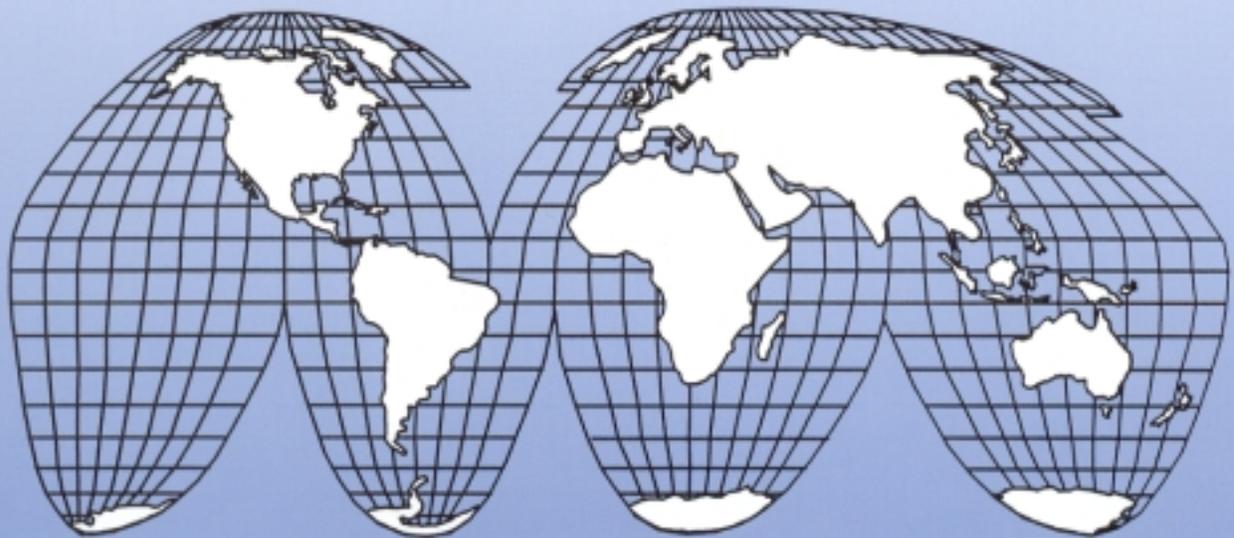
USAID

OFFICE OF INSPECTOR GENERAL

**Audit of the Inter-American Foundation's
Financial Statements, Internal Controls, and
Compliance for the Fiscal Year Ended
September 30, 2002**

Audit Report No. 0-IAF-03-002-C

January 29, 2003



Washington, D.C.

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January 29, 2003

MEMORANDUM

FOR: Inter-American Foundation President,
David Valenzuela

FROM: IG/A/FA, Alvin A. Brown /s/

SUBJECT: Audit of the Inter-American Foundation's Financial Statements, Internal Controls, and Compliance for the Fiscal Year Ended September 30, 2002 (Report No. 0-IAF-03-002-C)

We contracted with the independent certified public accounting firm of Gardiner, Kamy & Associates, P.C. (GKA) to audit the financial statements of the Inter-American Foundation as of September 30, 2002 and for the year then ended. The contract required that the audit be done in accordance with generally accepted government auditing standards; Office of Management and Budget's (OMB) Bulletin, Audit Requirements for Federal Financial Statements; and the General Accounting Office/President's Council on Integrity and Efficiency Financial Audit Manual.

In its audit of the Inter-American Foundation (IAF), Gardiner, Kamy & Associates found

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- IAF had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- IAF's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- no reportable noncompliance with laws and regulations it tested.

In connection with the contract, we reviewed GKA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on IAF's financial statements or internal control or on whether IAF's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. GKA is responsible for the attached auditor's report dated January 3, 2003 and the conclusions expressed in the report. However, our review disclosed no instances where GKA did not comply, in all material respects, with generally accepted government auditing standards.

The report does not contain recommendations for your comment and IAF management did not comment on the report.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of GKA during the audit. If you have questions concerning this report, please contact Andrew Katsaros at (202) 712-4902.

**INTER-AMERICAN FOUNDATION
(IAF)**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2002 and 2001**

and

INDEPENDENT AUDITOR'S REPORT THEREON

INTER-AMERICAN FOUNDATION (IAF)

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Inter-American Foundation

Message from the President

In Fiscal Year 2002 the IAF gained recognition for both the organizational changes it has made and its continuing status as the most innovative, effective and economical U.S. government development agency. The Senate Foreign Operations Subcommittee of the Committee on Appropriations commended IAF management for its accomplishments. The Inspector General of the U.S. Agency for International Development praised the IAF's program management and evaluation functions. When coupled with the Inspector General's report earlier in the year on the IAF's flawless financial management performance, the IAF's leaps forward are evident.

Over the year the IAF was asked to participate in the Partnership for Prosperity, a joint initiative of the governments of the U.S. and Mexico. The IAF was also appointed head of the mission of the U.S. delegation to a special Organization of American States session on decentralization and selected as co-sponsor of a major conference on corporate social responsibility held to carry out objectives undertaken at the Summit of the Americas.

The IAF provided counsel to the senior National Security Council staff on the structuring of the President's new Millennium Challenge Account. The Assistant Secretary of State called upon the IAF to help reduce poverty in rural Central America in connection with the upcoming Free Trade Agreement of the Americas. Perhaps most dramatic is the number of invitations extended to IAF program and management staff to speak on the implications of remittances and transnationalism—the newest development area.

I am pleased to introduce the IAF's Fiscal Year 2002 financial statements, which reflect this mobilization and recognition of IAF capabilities. The improvements and efficiencies made possible by actions taken during Fiscal Years 2000, 2001 and 2002, including staff reductions, outsourcing of administrative functions, and increased interaction with the development and foreign policy community, have provided a solid basis for the achievements that follow. We expect continuing improvement in IAF policy, management, operations and contribution to the development effort.

MANAGEMENT DISCUSSION AND ANALYSIS

The Inter-American Foundation (IAF) is a resourceful, agile, cost-effective agency efficient in its operations, and is innovative and effective in its grassroots and local development programs. The IAF learns from its experience, and uses the lessons learned to improve its own grantmaking decisions and to advance the knowledge and success of development practitioners, donors and policy makers.

Mission and Organizational Requirements

Congress created the IAF in 1969 to carry out the following mission on behalf of the American people:

Strengthen the bonds of friendship and understanding among the peoples of this hemisphere;

Support self-help efforts designed to enlarge the opportunities for individual development;

Stimulate and assist effective and ever-wider participation of the people in the development process;

Encourage the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere.

The IAF strategic plan for 2003-2007 and the Fiscal Year 2004 presentation to the Office of Management and Budget were based on four main institutional goals derived from this statutory basis, 30 years of experience and the current context:

Support the most promising and innovative means to foster sustainable grassroots and local development and economic independence.

Foster communication, learning and reflective practice.

Make the most of available resources (efficiency, counterpart).

Be the preeminent organization in the areas of grassroots development and participatory democracy in Latin America and the Caribbean.

Central to the IAF's approach to development is its posture of responsiveness. IAF neither designs nor implements projects. Rather, it responds with attentiveness, analysis, and, when approved, grant funds for development ideas and projects designed by community level organizations and local non-governmental organizations in Latin America and the Caribbean.

Listening to and supporting the best development ideas coming from the grassroots is the most important way in which IAF achieves all four of the goals assigned to it in the original legislation.

The IAF seeks to reflect the values it fosters. In both the programs it supports and its internal processes, the following principles are essential: innovation, partnership, self-sufficiency, democratic practices and social responsibility.

The IAF carries out its work based on three main instruments: grant-making, results measurement and dissemination, and learning activities.

Performance Goals, Objectives, and Results

Grants promote the formation of partnerships among grassroots and private organizations, local governments and businesses to define and resolve issues of local concern that help reduce poverty and improve the quality of life of people. The IAF also helps to build the institutional capacity of grassroots organizations to address the social and economic needs of their members.

The IAF's Grassroots Development Framework provides each grantee with a means of setting goals to be achieved in the development project and provides a balanced mechanism for reporting results. This information is aggregated to permit broader analysis.

The networking of persons and the building of linkages help small producers gain access to markets and forge partnerships for mutual benefit. *Both local and international businesses are critically important stakeholders in their respective communities and should play an active role for the betterment of the community. In this respect, the IAF continues to seek out a broad range of relationships with corporations and other businesses to bring their resources and ideas to bear on the solutions to local problems.*

The strengthening of democracy, in addition to building strong national institutions that can guarantee the rule of law, also requires engaged and active citizens at the local level. The IAF is making a far-reaching contribution to forging more democratic, just, and less impoverished countries in Latin America and the Caribbean through its work at the grassroots level.

Illustrative Projects Funded in Fiscal Year 2002

In Fiscal Year 2002, the IAF made grants to eight non-governmental organizations (NGOs) in Mexico to support groundbreaking partnerships they initiated with businesses to produce significant, practical improvements in low-income communities. These NGOs are forging relationships with enterprises eager to put into practice contemporary notions of corporate social responsibility and participatory development. Private sector involvement ranges from cash donations to mobilizing local support, providing volunteers, offering expertise and participating in NGO leadership. The alliances take several forms:

- **Partnering with Mexican Businesses**

Through its partnership with BIMBO, Mexico's largest bakery corporation, *FinComún, Servicios Financieros Comunitarios* will expand its micro-enterprise loan program in Mexico City. BIMBO representatives will personally introduce FinComún credit advisors to BIMBO's low-income clients who might benefit from micro-finance and credit services. An

alliance with two local businesses, Cementos Chihuahua and Supermercados Smart, will allow *Fundación Habitat y Vivienda (FUNHAVI)* to increase its home improvement loans to low-income families in Ciudad Juárez, across the border from El Paso, Texas. Cementos Chihuahua supports FUNHAVI's publicity campaigns and sells the new loan recipients construction materials at discounted prices. All loan repayments are deposited at local outlets of Supermercados Smart, a grocery chain, which donates accounting services.

- **Enlisting Business Leaders**

ProNatura Chiapas and *Alternare* have invited successful businesspeople to serve on their boards of directors and in advisory capacities. These business leaders provide financial and marketing expertise, promote further cooperation with the private sector, and assist in raising funds.

- **Mobilizing Resources for Community Foundations**

Businesses and philanthropic leaders will mobilize financial resources and volunteers for the grant-making operations of *Fundación Comunitaria de la Frontera Norte* in Ciudad Juárez; *Fundación del Empresariado Sonorense*, a statewide foundation whose membership consists of 6,000 business leaders in Ciudad Obregón, Hermosillo and Nogales in Sonora, which shares a border with Arizona; and 10 community foundations across Mexico supported by *Centro Mexicano para la Filantropía*.

- **Tapping a Corporate Spectrum**

Niños y Crías will promote natural resource conservation in 11 protected areas through community-based education campaigns initially supported with resources from Banco Nacional de Mexico, Hewlett Packard-Mexico, the David and Lucile Packard Foundation, Patagonia, Inc., and Aveda Corporation, among other Mexican and U.S. businesses. More corporations are expected to donate in the future. Additionally, committees representing each protected area will raise cash or in-kind contributions from local businesses, including production of community outreach materials and air time on television and radio stations.

Grants Funded in Fiscal Year 2002

In Fiscal Year 2002 the IAF funded \$7,899,656 in grants of appropriated funds and \$5,478,275 in grants of Social Progress Trust Funds, for a grand total of \$13,377,931. The grants (both new and supplemental) are divided among primary program areas as follows:

Business Development/Management	34 grants for a total of \$7,191,000
Food Production/Agriculture	14 grants for a total of \$2,483,000
Education/Training	18 grants for a total of \$2,304,000
Community Services	4 grants for a total of \$ 920,000
Research & Dissemination	4 grants for a total of \$ 480,000

Grants were divided geographically among [Argentina](#), Brazil, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Latin America (regional), Mexico, Nicaragua, Perú, and [Venezuela](#).

NOTE: Only supplemental grants were funded in Argentina and Venezuela; there were no new grants awarded in these two countries. There were neither new grants nor supplemental grants in Bolivia, Costa Rica or Panamá.

Evaluation and Dissemination

The IAF is committed to sharing the experiences and learning of grantees. By tracking results and studying organizations, the IAF is able to gain insight into what works in the development process. The Evaluation Unit is housed in the Office of Operations to provide independence from the Office of Programs and to allow for close interaction with the staff responsible for IAF's Grant Evaluation and Management System (GEMS) database. The Evaluation Unit continues to focus on perfecting the Grassroots Development Framework (GDF), incorporating grant results into GEMS, developing a new capacity to utilize GEMS for studies and comparative analysis, and implementing a rigorous schedule of grant evaluations. The Evaluation Unit also participates with other Foundation offices in special learning activities, conferences, and dissemination activities.

The IAF also supports training and other programs, such as exchanges among grantees, to increase their ability to learn from each other. The sharing of knowledge among those similarly situated is a powerful force in development. Moreover, many former IAF fellows and other trainees are now in positions of national and international authority.

Fiscal Year 2002

Analysis of Financial Statements and Stewardship Information Systems, Controls, and Legal Compliance

During Fiscal Year 2002, the shift initiated during Fiscal Year 2000 toward a more externally oriented, programmatically focused organization was fully realized. Management's overarching concerns for Fiscal Year 2000 were: reorganizing operations functions, improving communication between budgetary and accounting personnel, initiating new programmatic vehicles and representing the IAF in significant international and domestic fora.

Reorganizing Operations Functions

Having outsourced procurement, contracting, accounting, certification, disbursement, and travel management functions to the U.S. Department of the Treasury, Bureau of Public Debt ("BPD") during Fiscal Year 2000, the IAF completed the outsourcing process by franchising personnel to the U.S. Department of the Interior (which had been handling payroll for some time) during Fiscal Year 2001 and both budget and Equal Employment Opportunity functions to BPD during Fiscal Year 2002.

Given the range of functions being performed for the IAF by other U.S. Government agencies, management revisited the IAF organizational structure and modified it to consolidate oversight of interagency relationships in a single operations office under an experienced vice president.

The Senate Appropriations Subcommittee on Foreign Operations commended the IAF's management improvements in its report on the Fiscal Year 2003 appropriations.

Budgetary and Accounting Functions

The IAF expects that the final step of franchising budgetary operations to the same provider that performs accounting services and consolidating operations functions in one office with executive supervision marks the final step in overhauling the way the IAF does business. The U.S. Office of Management and Budget has expressed strong support for the institutional improvements the IAF has made.

New Programmatic Vehicles

The Foundation began launching two groundbreaking corporate and investment-oriented initiatives in Fiscal Year 2002. First, the Foundation has formed a network with the leading corporate foundations in Latin America and the Caribbean. It is devoted to streamlining operations, harmonizing results reporting and improving information-sharing. The IAF expects the network to become an ideal vehicle for businesses to contribute to communities, a standard-bearer in operational capacity and a key source of information worldwide.

The IAF is testing the feasibility of channeling capital to grassroots and local organizations that need assistance bridging the gap between grant financing and longer-term commercial financing or equity investment. The Foundation may provide grants for technical assistance and risk mitigation. It will help community-owned organizations form legal entities and attract investors.

Possible partners include U.S. foundations, socially oriented mutual funds, international organizations, individuals, U.S. and local businesses and other governments.

The IAF continues to support enterprise and entrepreneurship in an ever-changing global environment. The U.S. Embassy in El Salvador recently expressed strong support for Foundation grants to agriculture projects with business components, because they provide livelihoods for farmers who could be eclipsed under the free trade agreement the United States is promoting in the region.

Representing the IAF

Throughout Latin America and the Caribbean, development practitioners, politicians, policy makers, academics, donors, and civil society organizations know, respect, and emulate the IAF and its work. Yet in the United States few are aware of the IAF, its purpose, and its value.

During Fiscal Year 2001 the IAF began to raise its profile; many of the seeds it planted came to fruition in 2002. Not only did the IAF sponsor conferences; IAF management and staff delivered addresses and participated substantively in a number of fora. For example, the IAF President was selected to participate in the high level U.S. Government – Government of Mexico Partnership for Prosperity; the National Security Council has conferred with IAF executive management and its Board on a range of topics; and the IAF has conceptualized and helped to organize several significant conferences on topics such as corporate social responsibility and transnationalism.

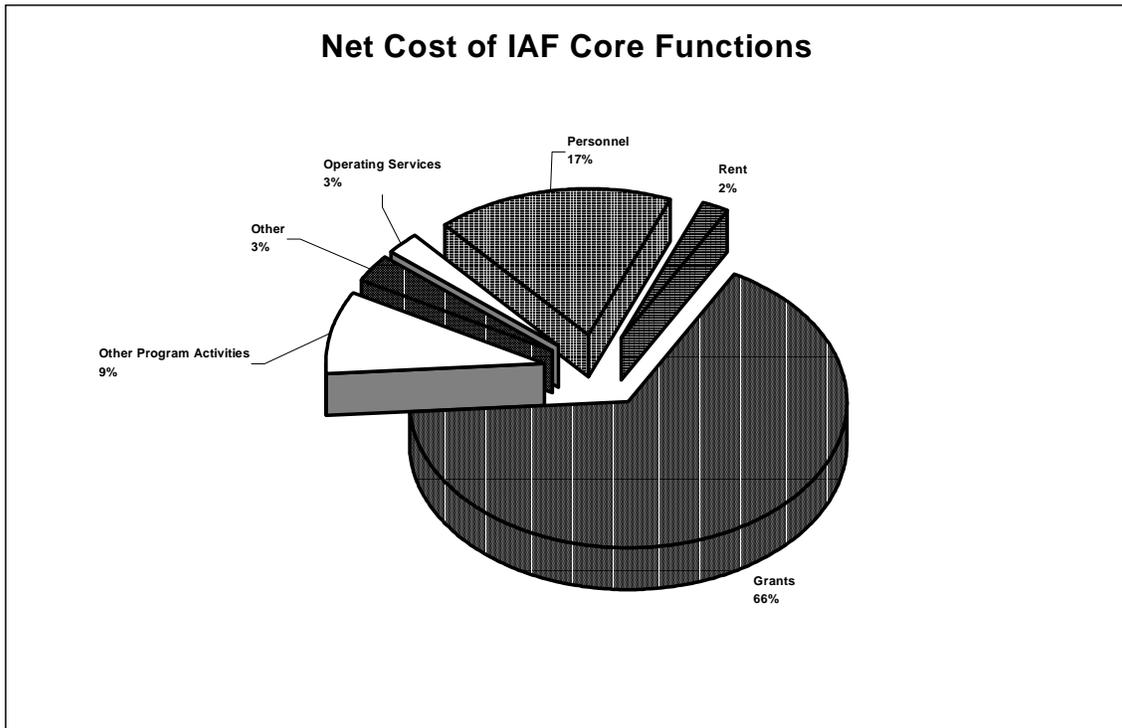
Fiscal Year 2002 was notable for the IAF in that Congress praised its management and raised its funding. The IAF is expanding efforts to inform Congress, fostering understanding of the IAF approach and building support for a solid base of funding.

The IAF also invited, and was pleased to receive the acceptances of, an impressive new group of IAF Advisory Council members. This talented group will enhance greatly the IAF's capacity to fulfill its mission.

Net Cost of Core Functions

The activity reported in the Statement of Net Cost reflects the resources used by the IAF during the year. Program costs of \$23,057,518 reflected a 9 percent increase from Fiscal Year 2001, an increase of \$1,831,317 in resources used.

Fiscal Year 2002 noted \$21,867,409 in Obligations Incurred. Personnel and benefits increased from \$3,386,719 in Fiscal Year 2001 to \$3,875,003 in Fiscal Year 2002, reflecting the replacement of key personnel lost during the past three fiscal years. This reflects an increase of almost 14 percent, a difference of \$488,284. The chart below shows the net costs incurred for the IAF Core Functions in Fiscal Year 2002. As reflected in the chart below, 75 percent of the total operating costs were for programmatic activities.



Fund Balance with U.S. Treasury

Total resources available from the U.S. Treasury for Fiscal Years 2002 and 2001 were \$28,716,567 and \$39,644,906, respectively. The difference of \$10,928,339 reflects an increased spending level in FY 2002 and a cancellation of \$1.4 million of Fiscal Years 96/97 appropriations. The Social Progress Trust Fund (SPTF) agreement was amended during Fiscal Year 2002 to provide all remaining funds until they are exhausted--in approximately 15 years. See Note One in the Financial Statements for funding source information and Note Seven for the end of year net position.

Limitations on Financial Statements

These financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3513. While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

Independent Auditor's Report on Financial Statements

Office of the Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the accompanying Balance Sheet of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of September 30, 2002 and 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years then ended. These financial statements are the responsibility of the management of the IAF. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IAF as of September 30, 2002 and 2001, and its net costs, changes in net position, budgetary resources, and the reconciliation of budgetary obligations to net cost for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in IAF Management's Discussion and Analysis (Overview) section is not a required part of the financial statements but is supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. Although we have read the information presented, such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 3, 2003 on our consideration of the IAF's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read in conjunction with this report.

/s/

Gardiner, Kamy & Associates

January 3, 2003

INTER-AMERICAN FOUNDATION
Balance Sheet
As of September 30, 2002 and 2001

	2002	2001
ASSETS:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 28,716,567	\$ 39,644,906
Total Intragovernmental	28,716,567	39,644,906
Accounts Receivable	1,084	77,278
Advances and Prepayments (Note 3)	4,809,249	3,247,441
General Property, Plant and Equipment (Note 4)	21,554	84,722
Total Assets	\$ 33,548,454	\$ 43,054,347
LIABILITIES		
Intragovernmental		
Accounts Payable	\$ 127	\$ 65,487
Other	49,785	98,849
Total Intragovernmental	49,912	164,336
Accounts Payable	358,857	228,168
Other	770,451	447,548
Total Liabilities (Note 5)	1,179,220	840,052
Commitments and Contingencies (Note 6)	-	-
NET POSITION		
Unexpended Appropriations (Note 7)	31,191,649	42,323,583
Cumulative Results of Operations (Note 7)	1,177,585	(109,288)
Total Net Position	32,369,234	42,214,295
Total Liabilities and Net Position	\$ 33,548,454	\$ 43,054,347

INTER-AMERICAN FOUNDATION
Statement of Net Cost
For the Years ended September 30, 2002 and 2001

	2002		2001
Program Costs			
Intragovernmental Gross Costs	\$ 1,560,926	\$	1,566,717
Less: Intragovernmental Earned Revenue	-		-
Intragovernmental Net Costs	1,560,926		1,566,717
Gross Costs With the Public	21,496,592		19,659,484
Less: Earned Revenues From the Public	-		-
Net Costs With the Public	21,496,592		19,659,484
Total Net Cost	23,057,518		21,226,201
Net Cost of Operations (Note 8)	\$ 23,057,518	\$	21,226,201

INTER-AMERICAN FOUNDATION

Statement of Changes in Net Position

For the Years ended September 30, 2002 and 2001

	2002		2001	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ (109,288)	\$ 42,323,583	\$ (46,107)	\$ 47,899,727
Prior Period Adjustments (Note 9)	-	-	-	3,431,977
Beginning Balances, as Adjusted	(109,288)	42,323,583	(46,107)	51,331,704
Budgetary Financing Sources:				
Appropriations Received		13,110,674		12,000,000
Other Adjustments (Rescissions, etc.)		(1,469,112)		(26,400)
Appropriations Used	22,773,496	(22,773,496)	20,981,721	(20,981,721)
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	189,895		181,299	
Other (Note 10)	1,381,000		-	-
Total Financing Sources	24,344,391	(11,131,934)	21,163,020	(9,008,121)
Net Cost of Operations	23,057,518		21,226,201	
Ending Balances	\$ 1,177,585	\$ 31,191,649	\$ (109,288)	\$ 42,323,583

Statement of Budgetary Resources
For the Years ended September 30, 2002 and 2001

	2002	2001
BUDGETARY RESOURCES:		
Budget Authority		
Appropriations Received	\$ 13,106,950	\$ 12,000,000
Unobligated Balance		
Beginning of Period	9,749,523	16,101,027
Spending Authority from Offsetting Collections		
Earned		
Collected	1,384,724	35,000
Receivable from Federal Sources	-	(47,515)
Subtotal	24,241,197	28,088,512
Recoveries of Prior-Year Obligations		
Actual	2,752,149	5,818,890
Permanently Not Available		
Cancellations of Expired and No-Year Accounts Pursuant to Public Law	(1,464,112) (5,000)	- (26,400)
Total Budgetary Resources	\$ 25,524,234	\$ 33,881,002
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred		
Direct		
Category B	\$ 21,867,409	\$ 24,131,480
Subtotal	21,867,409	24,131,480
Unobligated Balance		
Apportioned		
Balance, Currently Available	2,090,491	7,591,869
Unobligated Balances Not Yet Available		
Apportioned for Subsequent Periods		
Other	1,566,334	2,157,653

Total Status of Budgetary Resources	<u>\$ 25,524,234</u>	<u>\$ 33,881,002</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Obligated Balance, Net, Beginning of Period	29,895,383	29,206,721
Obligated Balance, Net, End of Period		
Undelivered Orders	(24,106,399)	(29,291,342)
Accounts Payable	(953,344)	(604,041)
Outlays		
Disbursements	23,950,900	17,679,315
Collections	(1,384,724)	(42,872)
Subtotal	<u>22,566,176</u>	<u>17,636,443</u>
Less: Offsetting Receipts	-	-
Net Outlays	<u>\$ 22,566,176</u>	<u>\$ 17,636,443</u>

Inter-American Foundation
Statement of Financing
For the Years ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Resources Used to Finance Activities		
Obligations Incurred	\$ 21,867,409	\$ 24,131,480
Less: Spending Authority from Offsetting Collections and Recoveries	(4,136,873)	(5,806,376)
Obligations Net of Offsetting Collections and Recoveries	17,730,536	18,325,104
Less: Offsetting Receipts		
Net Obligations	<u>17,730,536</u>	<u>18,325,104</u>
Other Resources		
Imputed Financing from Costs Absorbed by Others	189,895	181,299
Other Resources (Note 10)	<u>1,381,000</u>	-----
Net Other Resources Used To Finance Activities	1,570,895	181,299
Total Resources Used to Finance Activities	<u>19,301,431</u>	<u>18,506,403</u>
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, and Services and		
Benefits Ordered But Not Yet Provided	3,662,136	2,656,616
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>3,662,136</u>	<u>2,656,616</u>
Total Resources Used to Finance the Net Cost of Operations	<u>22,963,567</u>	<u>21,163,019</u>
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liabilities	31,866	9,296
Total Components of Net Cost Operations That Will Require or Generate Resources in Future Periods	31,866	9,296
Components Not Requiring or Generating Resources		
Depreciation and Amortization	41,179	47,560
Other	<u>20,906</u>	<u>6,325</u>
Total Components of Net Cost of Operations That Will not Require or Generate Resources	<u>62,085</u>	<u>53,885</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>93,951</u>	<u>63,181</u>
Net Cost of Operations	<u>\$ 23,057,518</u>	<u>\$ 21,226,200</u>

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Inter-American Foundation (The Foundation), a U.S. government corporation, was established pursuant to part IV of the Foreign Assistance Act of 1969 (22 U.S.C. 290f (a)). The Foundation provides grants to help non-governmental and community-based organizations in Latin America and the Caribbean implement their own ideas for development and poverty reduction.

The management of the Foundation is vested in a nine-person Board of Directors appointed by the President of the United States. Six Board members are drawn from the private sector and three from among officers or employees of agencies of the U.S. Government concerned with inter-American activities. As of December 16, 2002, three private sector positions on the Board were filled. The Board appoints the Foundation's president who acts as the chief executive officer.

B. Basis of Presentation

These financial statements are provided to meet the requirements of the Government Management and Reform Act (GMRA) of 1994. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and Statement of Financing.

These financial statements have been prepared to report the financial position and results of operation of The Foundation. These statements were prepared from the books and records of The Foundation in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements.

The Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the Statement of Financing for Fiscal Year 2001 have been restated to comply with OMB 01-09 disclosure requirements.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over use of Federal funds.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program (JFMIP) established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountants (AICPA) Council designated FASAB as the accounting standards authority for Federal government entities.

D. Funding Sources

The Foundation's grant program is funded by (1) appropriation from the budget of the United States, (2) agreement with the Inter-American Development Bank covering the Social Progress Trust Fund (SPTF), and (3) donations from the private sector. No-year appropriations remain available until expended, while multi-year appropriations are available for the period prescribed by the applicable statute. Appropriations are used, within statutory limits, for programmatic, operating and capital expenditures for essential personal property. Appropriations are recognized as revenues at the time the related program or administrative expense are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

The Foundation has an agreement with the Inter-American Development Bank (IDB) to receive funds from the SPTF to finance part of the Foundations grant program. The IDB is an international financial organization established to promote the economic and social development of member countries. The United States' participation in IDB is authorized and governed by the Inter-American Development Bank Act (22 U.S.C. 283). Within the Bank, the United States established the SPTF in 1961 and provided appropriations to SPTF through 1964. The Bank was designated as the administrator for the SPTF and committed the original SPTF appropriations to loans. Repayments of these loans are recycled by the IDB in accordance with the original agreement and subsequent provision for additional loans, technical cooperation programs, and financing of the Inter-American Foundation program.

Pursuant to a 1973 amendment to the Foreign Assistance Act of 1961, the Bank provides funds to finance social development projects. These funds are made available in U.S. dollars upon request by the Foundation, subject to denomination availability and exchange controls. In 2002, the STPF agreement was amended to make available all remaining funds until exhausted.

E. Fund Balance with Treasury

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. See Note 2 for additional information.

F. Accounts Receivable

Intra-governmental accounts receivable represent amounts due from other governmental agencies. Non-governmental accounts receivable represent amounts due from non-federal entities.

G. Advances and Prepayments

Payments in advance of receipt of goods and services are recorded as prepaid charges at the time of the prepayment and recognized as expenditures/expenses when the related goods or services are received. See Note 4 for additional information.

H. General Property, Plant, and Equipment, Net

The Foundation’s property, plant and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Foundation’s capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. Service lives are shown below. See Note 3 for additional information.

<u>Description</u>	<u>Life</u>
ADP Equipment	3
Office Furniture and Equipment	10

I. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by The Foundation as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation or SPTF funding. Liabilities for which an appropriation has not been enacted or SPTF funds received are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

J. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

K. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken,

funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

L. Retirement Plans

The Foundation's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and The Foundation makes a mandatory 1 percent contribution to this account. In addition, The Foundation makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. In accordance with Federal employee benefit policies, matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, The Foundation remits the employer's share of the required contribution. The Foundation's contribution to employee pension plan were \$380,851 for Fiscal Year 2002 and \$325,058 for Fiscal Year 2001. In addition, The Foundation costs for health and life insurance were \$256,063 for Fiscal Year 2002, and \$224,599 for Fiscal Year 2001.

The Foundation does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Office of Personnel Management.

M. Grant Disbursements and Administrative Expenses

Grant disbursements include payments in advance of performance under contractual obligations. Evidence of performance is determined by review of periodic expenditure reports. All Foundation expenditures for grants over \$35,000 are independently verified using the Foundation's audit guidelines. The Foundation's administrative expenses are funded solely by appropriated funds.

N. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed

financing source is recognized by the receiving entity for costs that are paid by other entities. The Foundation recognized imputed costs and financing sources in fiscal years 2002 and 2001 to the extent directed by the OMB.

O. Non-Entity Assets and Liabilities

The Foundation did not hold any Non-Entity assets or liabilities as of September 30, 2002 and 2001.

Note 2. Funds with U.S. Treasury

Entity fund balance includes balances that are available to pay liabilities and to finance authorized purchase and grant commitments. The Foundation maintains all funds with the United States Treasury.

	<u>2002</u>	<u>2001</u>
Appropriated Fund	\$ 15,984,802	\$ 16,120,818
Gift Fund	173,503	175,660
Social Progress Trust Fund (SPTF)	<u>12,558,262</u>	<u>23,348,428</u>
Total Entity Funds	<u>\$ 28,716,567</u>	<u>\$ 39,644,906</u>

Status of Fund Balance with Treasury

	<u>FY 2002</u> <u>(In Dollars)</u>	<u>FY 2001</u> <u>(In Dollars)</u>
Unobligated Balance		
Available	\$ 2,090,491	\$ 7,591,869
Unavailable	1,566,333	2,157,653
Obligated Balance not yet Disbursed	<u>25,059,743</u>	<u>29,895,384</u>
Total	<u>\$ 28,716,567</u>	<u>\$ 39,644,906</u>

Note 3. Advances and Prepayments

Grant payments are recorded as an advance and amortized over the estimated useful period covered by the agreement. First time grant payments are amortized over an eight-month period. Subsequent payments are amortized over a six-month period. Prepayments are also made to select government agencies and vendors in advance of receiving the goods or service. Advances

are also permitted for employee travel, although none were outstanding at the end of either 2002 or 2001. Advances and prepayments are detailed on the following page:

	<u>2002</u>	<u>2001</u>
Prepayments to Government Agencies	\$ 98,036	\$ 412,749
Grant Advances	<u>4,711,213</u>	<u>2,834,692</u>
Total Advances and Prepayments	<u>\$ 4,809,249</u>	<u>\$ 3,247,441</u>

Note 4. Property, Plant and Equipment

The balance of Property, Plant, and Equipment is as follows:

September 30, 2002

<u>Description</u>	<u>Depreciation Method</u>	<u>Service Life</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP Equipment	Straight Line	3 years	\$ 127,893	\$ 127,893	\$ -
Office Furniture	Straight Line	10 years	<u>108,012</u>	<u>86,458</u>	<u>21,554</u>
Total			<u>\$ 235,905</u>	<u>\$ 214,351</u>	<u>\$ 21,554</u>

September 30, 2001

<u>Description</u>	<u>Depreciation Method</u>	<u>Service Life</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP Equipment	Straight Line	3 years	\$ 171,380	\$ 145,699	\$ 25,681
Office Furniture	Straight Line	10 years	<u>274,820</u>	<u>215,779</u>	<u>59,041</u>
Total			<u>\$ 446,200</u>	<u>\$ 361,478</u>	<u>\$ 84,722</u>

Note 5. Liabilities

The accrued liabilities for The Foundation are comprised of program expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

Note 5. Liabilities (continued)

Liabilities Covered by Budgetary Reserves

Intragovernmental		
Program expenses	\$ 2,016	\$ -
Payroll Taxes Payable	<u>47,896</u>	<u>164,336</u>
Total Intragovernmental	49,912	164,336
Program Expenses	705,268	327,187
Payroll Accrual	197,986	154,518
Payroll Taxes Payable	<u>177</u>	<u>-</u>
Total Liabilities Covered by Budgetary Resources	953,343	646,041

Liabilities Not Covered by Budgetary Resources

Unfunded Leave	<u>225,877</u>	<u>194,011</u>
Total Liabilities	<u>\$ 1,179,220</u>	<u>\$ 840,052</u>

Note 6. Commitments and Contingencies

In the course of its grant-making activities, The Foundation has unliquidated grant obligations which, in the absence of violations or cancellations of the grant agreements, will require disbursements. Unliquidated grant obligations at September 30, 2002 and 2001 total approximately \$22,900,000 and \$29,100,000, respectively.

As of September 30, 2002 and 2001, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

Note 7. Net Position

The Inter-American Foundation's net position is composed of unexpended appropriations and the cumulative results of operations. Net position as of September 30, 2002 and 2001 consisted of the following:

Note 7. Net position (continued)

	<u>2002</u>	<u>2001</u>
Unobligated		
Available	\$ 2,090,491	\$ 7,658,296
Unavailable	1,566,333	2,091,227
Undelivered Orders	28,915,648	32,574,060
Non-appropriated Funds	<u>(1,380,823)</u>	<u>-</u>
Total Unexpended Appropriations	31,191,649	42,323,583
Cumulative Results of Operations	<u>1,177,585</u>	<u>(109,288)</u>
Net Position	<u>\$ 32,369,234</u>	<u>\$ 42,214,295</u>

The category Undelivered Orders consists of the following:

	<u>2002</u>	<u>2001</u>
Unexpended Obligations - Unpaid	\$ 24,106,399	\$ 29,291,342
Unexpended Obligations - Prepaid	4,809,249	3,247,440
Other	<u>-</u>	<u>35,278</u>
Total Undelivered Orders	<u>\$ 28,915,648</u>	<u>\$ 32,574,060</u>

Note 8. Program Costs

Expenses are detailed on the following page.

Note 8. Program Costs (continued)

	<u>FY 2002</u>	<u>FY 2001</u>
Personnel compensation	\$ 2,962,475	\$ 2,597,544
Personnel benefits other than pension, health, and life insurance	275,079	230,406
Pension -- CSRS	152,119	149,164
Pension -- FERS	228,731	175,894
Health insurance	250,617	219,744
Life insurance	5,446	4,855
Benefits to former employees	536	9,112
Travel and transportation of persons	313,067	278,785
Transportation of things	19,043	9,781
Rents, communication, utilities and misc. charges	560,958	571,576
Printing and reproduction	156,781	23,879
Other services	2,145,248	2,094,719
Supplies and materials	33,277	25,176
Equipment	63,438	73,956
Grants, subsidies, and contributions	15,859,703	14,726,610
Insurance claims and indemnities	<u>31,000</u>	<u>35,000</u>
Total	\$23,057,518	\$21,226,201

Note 9. Prior Period Adjustments

Prior Period Adjustments were recorded in fiscal year 2001 for several items that were not properly recorded in prior fiscal years. A prepayment to a government agency was improperly expensed in fiscal year 2000 in the amount of \$1,482,111. Grant Advances in the amount of \$4,809,383 were also expensed in fiscal year 2000 rather than being recorded as an advance. Accounts receivable of \$2,016,000, which had been improperly recorded, was also reversed. An extensive review of all of the asset and liability accounts was performed during 2001, which resulted in other adjustments totaling \$843,517. The net prior period adjustment totaled \$3,431,977. Assets were increased by \$3,602,722 and liabilities increased by \$170,745.

Note 10. Financing Sources - SPTF

The Statement of Financing reconciles the Financial Net Cost of Operations with obligation of budget authority. The Foundation's Statement of Budgetary Resources is based on its SF-133 in which the Foundation reports SPTF funds obtained from the IDB as offsetting collections earned.

The Foundation had no exchange revenue in fiscal year 2001 or 2002. For fiscal year 2002, the foundation received \$1,381,000 from the IDB, which was reported in its SF-133 as funds received from offsetting collections. The Foundation did not receive any funds in fiscal year 2001.

Note 11. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The 2004 Budget of the United States Government, with the Actual Column completed for fiscal year 2002, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2003. The 2003 Budget of the United States Government, with the Actual Column completed for fiscal year 2001, has been reconciled. There were three differences noted. Prior period adjustments of \$4,914,079 and prior year recoveries of \$5,524,612 were reported on the Statement of Budgetary Resources but not on the President’s Budget because they had not been identified when the President’s Budget was completed. Additionally, there was a difference of \$1,694,467 in unobligated balance brought forward for expired funds. This amount was correctly not reported on the President’s Budget due to expiration.

Note 12. Operating Lease

The Foundation occupies office space under a lease agreement, which is accounted for as an operating lease. The former lease expired on March 31, 2002 and was renewed for 10 years, expiring March 31, 2012. Lease payments are increased annually based on the Foundation’s proportionate share of the building’s operating expenses and real estate taxes. The new agreement allows The Foundation an abatement credit in lieu of a build-out allowance that will be deducted from the monthly rent for the first 26 months of the lease. Total net rental expense was \$431,893 for fiscal year 2002 and \$448,017 for fiscal year 2001. Future minimum lease payments for office space as of September 30, 2002 are detailed below:

Schedule of Future Operating Lease Payments

	<u>Amount</u>
FY 2003	\$ 409,045
FY 2004	453,666
FY 2005	561,157
FY 2006	575,186
FY 2007	589,566
After Five Years	<u>2,894,481</u>
 Total Future Payments	 <u>\$ 5,483,101</u>

Independent Auditor's Report on Internal Control

Office of the Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the financial statements of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2002 and 2001, and have issued our report thereon dated January 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the IAF's internal control over financial reporting by obtaining an understanding of the IAF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the IAF's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

In addition, with respect to internal controls related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the U.S. Agency for International Development, the Office of Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

Gardiner, Kamyra & Associates

January 3, 2003

Independent Auditor's Report on Compliance with Laws and Regulations

Office of the Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the financial statements of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2002 and 2001, and have issued our report thereon dated January 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the IAF is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the IAF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the IAF.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report on whether the IAF's financial management systems substantially comply with the Federal financial management systems requirements (FFMSR), applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. The Administrative Resource Center of the Franchise Fund, Bureau of Public Debt, performs the accounting and reporting functions for the IAF. We are not the auditors of the Franchise Fund and did not perform tests of compliance with the FFMSR using the implementation guidance included in Appendix D of OMB Bulletin No. 01-02. Those tests were performed by other auditors whose report has been furnished to us. Our report, insofar as it relates to FFMSR compliance, is based solely on the report of the other auditors.

The report of the other auditors on the substantial compliance of the IAF with the requirements of FFMSR disclosed no instances of substantial non-compliance with the FFMSR. Our audit

tests disclosed no instances in which IAF did not substantially comply with Federal accounting standards and the U.S. Standard General Ledger requirements.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the U.S. Agency for International Development, the Office of Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

Gardiner, Kamy & Associates

January 3, 2003

**INTER-AMERICAN
FOUNDATION**

***MANAGEMENT LETTER
FISCAL YEAR 2002***

STATUS OF PRIOR YEAR FINDINGS



Office of the Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the Principal Statements (balance sheet and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as “financial statements”) of the Inter-American Foundation (IAF) as of and for the years ended September 30, 2002 and 2001, and have issued an unqualified opinion thereon dated January 3, 2003. In planning and performing our audits of the financial statements of the IAF, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We have not considered the internal control since the date of our report.

During our FY 2002 audit, we noted no matters involving the internal control and other operational matters. During our FY 2001 audit, we noted certain matters involving the internal control and other operational matters that were presented in our FY 2001 Management Letter for your consideration. For FY 2002, we performed follow up work on these issues and considered them to be satisfactorily resolved. For your convenience, a detail description of the issues and their resolutions are disclosed in the Status of Prior Year Findings attached.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. Our aim, however, is to use our knowledge of the IAF gained during our audits to provide comments and suggestions we hope will be useful to you. We realize that due to the complex nature of many of the issues and the lead time required to correct the situations noted, it is not practical to implement most of our recommendations at one time or in a short period of time.

We appreciate the cooperation and courtesies extended to us.

This report is intended for the information and use of the management of Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the Agency for International Development, Office of Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

January 3, 2003

/s/

Gardiner, Kamyra & Associates

Management Letter Comments (Status of Prior Year Findings):

During our FY 2001 audit, we noted the following:

CONDITION No. 1

The agency that processes the payroll for the Inter-American Foundation does not generate a payroll register that is easily retrievable by IAF.

During our audit of the salaries and benefits expense, we noted that a payroll register for each pay period is not generated by the processing agency nor is it available for review by the IAF. Instead, individual records are kept for each employee for each pay period. As a result, a record of all the employees who were paid for each pay period that shows earnings, deductions, government contributions and net pay is not easily available for review by management. To facilitate such a review, the processing agency must print a record for employees who were paid for that pay period and additional effort is required to summarize them.

RECOMMENDATION

We recommend that IAF request the processing agency to produce a Payroll Register for each pay period because it makes it easier to review and evaluate the validity and reasonableness of the payroll and benefit expenses.

FY 2002 FOLLOW UP STATUS OF THIS PRIOR YEAR FINDING:

IAF received a cost quotation from DOI in order for a detail payroll register that includes other payroll deductions to be produced. IAF management has only experienced a need for this on an occasional case-by-case basis. DOI can provide answers as needed for these occasional requests, and IAF management believes that this is sufficient information.

Conclusion:

We accept management's explanation and consider the issue close.

CONDITION No. 2

The Payroll Costs Distribution Data downloaded from the Department of Interior National Business Center (NBC) is not in the format that can be posted to the general ledger.

During our audit, we noted that the payroll costs distribution data available from NBC is not in a format that can be entered directly into the general ledger. As a result, IAF personnel has to manipulate the data and then reconcile to the NBC's summary totals before payroll costs

distribution information is sent to Bureau of Public Debt, Administrative Resource Center for posting to the general ledger.

RECOMMENDATION

We recommend that the payroll costs distribution data available from the Department of Interior National Business Center (NBC) should be in a format that can be entered directly to the general ledger.

FY 2002 FOLLOW UP STATUS OF THIS PRIOR YEAR FINDING:

We noted that the biweekly labor cost distribution file is now transferable from DOI to both IAF and BPD simultaneously.

Conclusion:

This issue is considered satisfactorily resolved.

CONDITION No. 3

A monthly internal control checklist was not adopted as part of IAF's internal control policy to monitor its accounting and reporting services provider.

During our review of findings and recommendations that were reported in prior years we noted that IAF did not adopt an internal control checklist as part of its internal control policy to monitor its accounting and reporting services provider. IAF had agreed to implement this procedure as part of its corrective action plan to comply with recommendations made by the Office of the Inspector General.

RECOMMENDATION

We recommend that IAF develop and implement a checklist to be used by management to document its monitoring, reviewing and evaluating activities.

FY 2002 FOLLOWS UP STATUS OF THIS PRIOR YEAR FINDINGS:

Our FY 2002 follow up work revealed that IAF personnel are completing an Internal Control Checklist on a monthly basis.

Conclusion:

IAF has implemented our recommendation and the issue is considered satisfactorily resolved.