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# **USAID**

## **OFFICE OF INSPECTOR GENERAL**

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**Management Report Prepared in Connection with the  
Audit of the Inter-American Foundation's Financial  
Statements for the Fiscal Year Ended  
September 30, 2001**

**Audit Report No. 0-IAF-02-005-F**

**March 20, 2002**



**Washington, D.C.**

**U.S. Agency for International Development**



U.S. Agency for  
International  
Development

*Office of Inspector General  
Financial Audits Division*

## **MEMORANDUM**

**FOR:** Mr. David Valenzuela

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

**SUBJECT:** Management Report Prepared in Connection with the Audit of the Inter-American Foundation's Financial Statements for the Fiscal Year Ended September 30, 2001 (Report No. 0-IAF-02-005-F)

The enclosed management report prepared by Gardiner, Kamy & Associates, P.C. (GKA) in connection with the Audit of the Inter-American Foundation's Financial Statements for the Fiscal Year Ended September 30, 2001, is provided for your information. The auditors made three separate observations with three corresponding recommendations in the enclosed report.

The management report prepared by GKA is included in its entirety in Appendix I. Your comments from the report are included in Appendix II. Based on the comments provided, we consider final management decisions to have been reached on each of the three recommendations included in this report.

We appreciate the cooperation and courtesies that your staff extended to my staff, and to the GKA staff during the audit. If you have questions concerning this report, please contact Andrew Katsaros at (202) 712-4902.

Enclosure (as stated)

**INTER-AMERICAN  
FOUNDATION**

***MANAGEMENT LETTER  
FISCAL YEAR 2001***

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**INTER-AMERICAN FOUNDATION  
MANAGEMENT LETTER  
FY 2001**

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To the Board of Directors and the President  
Inter-American Foundation

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 year ended September 30, 2001, and have issued an unqualified opinion thereon dated February 1, 2002. In planning and performing our audit of the financial statements of the IAF, we considered its internal control structure 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 structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented in this report for your consideration. For your convenience, a description of the organization of this letter is provided in the Report Overview Section. These issues and recommendations, all of which have been discussed with the appropriate members of IAF’s Management, are intended to improve the internal control structure or result in other operating efficiencies.

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 audit 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. We will review the status of these comments during our next audit engagement. We will be pleased to meet with you or your staff at your convenience to furnish any additional information or to assist you in implementing the recommendations.

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 the 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, Kamya & Associates, P.C.

February 1, 2002.

**INTER-AMERICAN FOUNDATION (IAF)**

**MANAGEMENT LETTER**  
**REPORT OVERVIEW**

The Inter-American Foundation (IAF), 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 financial support through grant or loan programs to local organizations in Latin America and the Caribbean for self-help developmental projects designed to improve the social and economic conditions of the people.

The Inter-American Foundation is governed by a nine member Board of Directors, each appointed by the President of the United States of America, and confirmed by the Senate for six-year terms. Under the Foreign Assistance Act, six board members are from the private sector, and three are officials or employees of U.S. Government Agencies concerned with Inter-American affairs. Currently, the three U.S. Government appointees are the Assistant Secretary of State for Inter-American Affairs, the Assistant Administrator of the U.S. Agency for International Development, and the U.S. permanent Representative to the Organization of American States.

During our audit of the financial statements of *IAF*, we noted other issues, not considered to be material weaknesses or reportable conditions, involving the internal control structure and general operations that are opportunities for strengthening internal controls and operating efficiency. These issues and our recommendations thereon are described in detail in this report. Our recommendations are designed to improve the accuracy of financial reporting, increase the efficiency of certain managerial and operational processes, and/or enhance internal controls.

We encourage you to review the details provided and recommend that the recommendations be implemented as soon as possible in order to strengthen the *IAF*'s internal controls and to augment operating efficiencies.

**INTER-AMERICAN FOUNDATION  
MANAGEMENT LETTER  
Year Ended September 30, 2001**

**CONDITION No. 1**

The reports that are provided by the U.S. Department of the Interior (USDI), the agency that processes the payroll for IAF, should be modified to facilitate the easy retrieval, review and timely recording of payroll expenses by pay period.

- (A) The Department of the Interior does not generate a payroll register that is easily retrievable by IAF.

During our audit of the payroll costs, we noted that a payroll register is not generated by the processing agency for each pay period. 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 each employee who was paid for that pay period and additional effort is required to collate and summarize the details.

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

During our audit, we noted that the payroll data prepared by USDI National Business Center (NBC) is not in a format that allows direct posting to IAF's general ledger. As a result, IAF personnel must manipulate the data before payroll costs distribution information is sent to Bureau of Public Debt for posting to the general ledger.

**RECOMMENDATIONS**

- (A) We recommend that IAF request that USDI produce a detailed Payroll Register for each pay period, to facilitate the review and evaluation of the payroll and benefit expenses.
- (B) We recommend that the payroll costs distribution generated by the NBC should be in a format that can be posted directly to the general ledger.



**INTER-AMERICAN FOUNDATION  
MANAGEMENT LETTER  
Year Ended September 30, 2001**

**CONDITION No. 2**

An internal control checklist recommended by the OIG was not adopted as part of IAF's internal control policy to periodically 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 policy to document its periodic monitoring, reviewing and evaluating activities to ensure that the accounting services provider is performing the agreed-upon functions in a timely manner.

## Management Comments

### Comments of the Inter-American Foundation (IAF) On Gardner, Kamya P.C. Draft Management Report

#### General Comments

We are pleased that no reportable conditions were identified during the audit of the Principal Financial Statements for the Fiscal Year Ended September 30, 2001. Our review of the two recommendations reported in the management report revealed that they center on services outsourced to other U.S. Government agencies.

Below are our comments on the recommendations.

#### Recommendation 1

- A. We are currently exploring the possibility of the U.S. Department of Interior's (USDI) National Business Center (NBC) producing a detailed Payroll Register as recommended. We have requested that USDI provide us with cost estimates to determine the cost feasibility of this report. A final determination as to whether the requested report warrants the probable outlay of resources will be made after all the relevant facts have been analyzed and evaluated.
- B. It is not possible or practicable to have the payroll costs distribution generated by NBC posted directly to the IAF's general ledger. NBC and BPD's systems and data are not currently compatible. We have reviewed proposals submitted by BPD to service our payroll needs. However, our review and analysis found that the additional cost was not justifiable or reasonable considering our limited resources.

#### Recommendation 2

Although we found no written recommendation from the OIG recommending that the IAF adopt an internal control checklist as part of its control policy to monitor the accounting and reporting by the service provider, we are exploring the feasibility of this suggestion. We do agree that it is good policy to have a procedure in place that will monitor the accuracy of the data and reports. However, we do not think it advisable for federal personnel to replicate work also being done at public expense. A final determination as to the extent and nature of a checklist will be made after the relevant facts have been analyzed and evaluated.