

# USAID

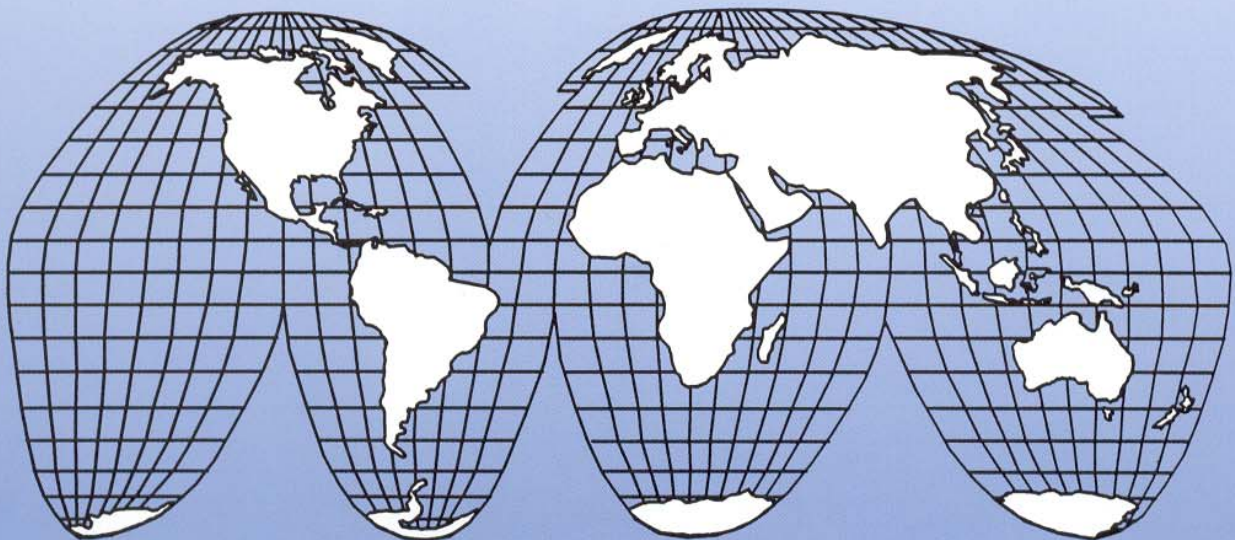
## OFFICE OF INSPECTOR GENERAL

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### Audit of Awarding and Monitoring of Grants by the Inter-American Foundation

**Audit Report Number 9-IAF-03-006-P**

**February 28, 2003**



**Washington, D.C.**



February 28, 2003

**MEMORANDUM**

**FOR:** IAF President, David W. Valenzuela

**FROM:** IG/A/PA Director, Dianne L. Rawl /s/

**SUBJECT:** Audit of Awarding and Monitoring of Grants by the Inter-American Foundation (Report No. 9-IAF-03-006-P)

This memorandum is our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have included this response as Appendix II.

This report includes four recommendations to improve the Inter-American Foundation's audit management system. In your written comments, you concurred with these recommendations and identified planned or undertaken actions to address our concerns. Consequently, we consider all recommendations to have received a management decision. The Foundation's audit committee must determine final action on these recommendations, and we request to be notified of the committee's actions.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during the audit.

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## **Summary of Results**

This audit was conducted to review the process used by the Inter-American Foundation (the Foundation) for selecting proposals for funding in fiscal year 2001 and to assess the systems the Foundation had in place to monitor selected grantee projects and project results, and audit funds provided to selected grantees. Our audit showed the following:

- For the two countries (Mexico and Peru) selected for review, the Foundation awarded grants in accordance with its policies and procedures (see page 7).
- For those grants sampled in four countries (El Salvador, Mexico, Nicaragua, and Peru) the Foundation implemented a system to monitor grantee projects and project results (see page 11).
- The Foundation instituted many aspects of a good audit management system. However, the Foundation needed to develop an audit universe and an annual audit schedule; formalize procedures for audit recommendation follow-up; and establish procedures for its quality control program (see page 15). We recommended that the Foundation establish a complete audit universe database and use the database to develop a centralized annual audit schedule to make sure that audits are conducted in a timely manner (see page 18). Also, we recommended that the Foundation establish written policies and procedures to implement an audit recommendation tracking system for audits performed by accounting firms under contract to the Foundation and to make sure that the system complied with the requirements of Office of Management and Budget (OMB) Circular A-50 (see page 20); an audit quality control program that complied with OMB Circular A-50 and General Accounting Office guidelines (see page 22); and an audit recommendation follow-up system in accordance with OMB Circular A-50 for those audits conducted by the General Accounting Office and USAID Office of Inspector General (OIG) (see page 22).

Foundation management concurred with all four audit recommendations and described actions the Foundation has planned or undertaken to implement the recommendations (see page 23).

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## **Background**

The Inter-American Foundation (the Foundation) is an independent agency of the United States Government created in 1969 as an experimental U.S. foreign assistance program. The mission of the Foundation is to promote sustainable

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grassroots development throughout Latin America and the Caribbean by providing cash grants to help community and nonprofit organizations implement their own creative ideas for development and poverty reduction. The average dollar value of active grants is approximately \$261,000.

The Foundation's headquarters and all its U.S.-direct hire employees are located in Arlington, Virginia. To compensate for the lack of an overseas presence, the Foundation has contracted the services of foreign citizens to provide oversight of and assistance to its grantees. The Foundation also contracts with overseas independent accounting firms to obtain audit services.

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 August 6, 2002, three private sector positions on the Board were filled, and three were vacant. The three public sector members had been nominated by the President and were awaiting Senate confirmation. The Board appoints the Foundation's president, who acts as the chief executive officer.

The Foundation receives the majority of its funding through an annual appropriation. Congress appropriated \$12 million for the Foundation in fiscal year (FY) 2001 and about \$13 million for FY 2002. The Foundation also receives funds provided from the Social Progress Trust Fund administered by the Inter-American Development Bank, consisting of payments on U.S. Government loans extended under the Alliance for Progress to various Latin American and Caribbean governments. As of August 6, 2002, the Social Progress Trust Fund had a balance of \$5 million, most of which was obligated in FY 2002 for grants.

Since 1972, the Foundation has made about 4,400 grants totaling approximately \$541 million to approximately 3,000 organizations. As of August 2002, the Foundation had 205 active grants totaling about \$53 million.

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## **Audit Objectives**

In November 1999, Public Law 106-113 amended the responsibilities of USAID's Office of Inspector General (OIG), under Section 8A(a) of the Inspector General Act of 1978, to include audit responsibility for the Inter-American Foundation. In line with this responsibility, this audit is one of a series undertaken by the OIG's Performance Audits Division and was designed to answer the following audit objectives for a representative sample of grants selected:

**Did the Inter-American Foundation award grants in accordance with Foundation policies and procedures?**

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**Did the Inter-American Foundation implement a system to monitor grantee projects and project results?**

**Did the Inter-American Foundation implement a system to audit funds provided to grantees?**

Appendix I contains a complete discussion of the scope and methodology for the audit.

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**Audit Findings**

**Did the Inter-American Foundation award grants in accordance with Foundation policies and procedures?**

For the two countries (Mexico and Peru) selected for review, the Foundation awarded grants in accordance with its policies and procedures. Nothing came to the auditors' attention to suggest that the Foundation followed different procedures in awarding grants in other countries.

The mission of the Foundation is to promote sustainable grassroots development throughout Latin America and the Caribbean. To that end, the Foundation provides cash grants to help community and nonprofit organizations in Latin America and the Caribbean implement their own creative ideas for development and poverty reduction. The Foundation believes that the best ideas for social and economic development come from people determined to improve the conditions of their lives and build a better future for their children.

Partnerships are also a centerpiece of the Foundation's approach to development in Latin America and the Caribbean. The Foundation believes the formation of partnerships among the public sector, non-governmental organizations and the private sector enhances sustainable development. Consequently, the Foundation's efforts focus on providing support to a variety of social investment partnership projects throughout the region.

The Foundation considers proposals that meet the following criteria:

- Offer innovative solutions to development problems among populations generally beyond the reach of traditional foreign assistance agencies.
- Demonstrate substantial beneficiary participation in project design and project management.



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- Generate practical benefits for the poor in ways that increase the capacity of poor people for self-help.
  - Strengthen the capacity of poor people's organizations, are technically feasible, and have the potential for eventual self-sustainability.
  - Provide counterpart contributions from the proponent organization, and, ideally, from other local supporters.

Also, the Foundation gives preference to awarding grants to organizations that have not recently received direct funding from U.S. Government agencies and to applications that demonstrate a strategy for forming development partnerships with private and public sector institutions.

The following two grants in Peru and Nicaragua, awarded prior to the period covered by this audit, illustrate mature grants awarded by the Foundation based on the criteria discussed above.

- On June 11, 1999, the Foundation approved a grant of \$216,700 to the Instituto Promoción y Desarrollo Agrario (IPDA), a small non-profit, non-governmental development organization in Peru founded in 1991 to provide technical training. Under the grant, IPDA provided training and supplies to help families in the outskirts of Lima to cultivate unused wasteland, grow crops, breed small animals for food, and sell agricultural products. Foundation funds were used to (1) pay the salaries of the staff and consultants who provided the training; (2) purchase equipment, including one vehicle and a computer; (3) buy supplies, including irrigation tubing, seeds, fertilizer, and tools; and (4) pay a share of the administrative costs. Foundation records show that the project resulted in the establishment of over 100,000 hectares<sup>1</sup> of gardens for over 1,000 poor beneficiaries by 13 organizations, including an orphanage with over 100 children.

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<sup>1</sup> One hectare is 10,000 square meters or about 2 1/2 acres.



Photograph of OIG auditor with two children taken on the grounds of the orphanage that was part of the project.

- On September 29, 1997, the Foundation approved a grant totaling \$330,000 to the Proyecto Aldea Global–Jinotega (PAGJINO), a non-profit rural development organization in Nicaragua founded in 1992. Amendments to the grant agreement extended the project from three years to seven years and increased the total funding to \$886,944. PAGJINO provides training, technical assistance, loans, and supplies to small-scale farmers to enable them to implement sustainable agricultural practices. Foundation funds were to be used to support training activities, pay salaries of field staff, purchase motorcycles, and pay a share of the administrative costs. The Foundation also contributed about \$107,600 to PAGJINO to establish and administer a loan fund to provide approximately 950 loans, ranging from \$75 to \$3,200, to small-scale farmers.



Photograph of a beneficiary showing auditors how training on erosion control has benefited her garden.

The Foundation maintains a *Program Office Operations Guide* (Operations Guide) that sets forth its policies, procedures and responsibilities for grant management and monitoring. The initial phase of grant management begins with the Foundation's invitation to prospective grantees to submit proposals via its Internet web page. The Operations Guide also sets forth the following procedures to be followed in awarding grants:

- Visit by Foundation staff to potential grantee organizations before the Foundation awards its grants.
- Reviews of grant proposals by Foundation staff and senior officers.
- Contact with cognizant U.S. embassies regarding the suitability of the grant applicant to receive a grant and the compatibility of the proposed activities with U.S. foreign policy interests.
- Notifications of approved grants by the President of the Foundation to the Board of Directors and Congressional oversight committees, such as the Foreign Operations Subcommittee of the House Appropriations Committee and the Western Hemisphere Subcommittee of the House International Relations Committee.
- Notifications of approved grants to the cognizant U.S. ambassadors and the beneficiary country's ambassadors in the United States.

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To determine whether the Foundation followed these procedures, we reviewed nine grants awarded to organizations in Mexico and Peru in FY 2001. Based on trip reports, faxes, and other documentation, we confirmed that Foundation officials followed all of the above procedures in awarding grants in these two countries. For example, Foundation officials made site visits to grant applicants in both these countries to discuss their proposals. They also provided the U.S. embassies with pertinent information on the proposed projects and sent the appropriate notifications as required by the Foundation's procedures.

### **Did the Inter-American Foundation implement a system to monitor grantee projects and project results?**

For those grants sampled in four countries (El Salvador, Mexico, Nicaragua, and Peru) the Inter-American Foundation implemented a system to monitor grantee projects and project results. Nothing came to the auditors' attention to suggest that the Foundation had not implemented equivalent systems to monitor grantee projects and project results in other countries where it had funded grant activities.

Grant monitoring consisted of those activities taken by the Foundation to track grant progress, including the use of resources and compliance with provisions of the grant. Monitoring also included implementing corrective actions when necessary and facilitating the gathering of results and lessons learned.

The Foundation's Operations Guide described a range of monitoring activities including: (1) verification visits, (2) review of progress reports, (3) close communication with grantees, (4) data verification, and (5) audits. The Operations Guide delegated these responsibilities as follows:

- The Foundation's Office of Programs, with a staff of 11 Washington-based representatives, had primary responsibility for monitoring grantee performance in the 17 countries where the Foundation had ongoing grant activities. This office's principal monitoring instruments consisted of annual field visits and reviews of grantee reports by the representatives. Nine local national "liaisons," contracted by the Foundation to monitor grantee performance and recommend technical assistance or training, as appropriate, assisted the Foundation's representatives.

### **Foundation Representatives**

The 11 Foundation representatives were the principal officers responsible for monitoring the progress of 232 active grants in 17 countries, as of March 2002. Representatives were required by the Foundation's Operations Guide to

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visit each grantee in their portfolio at least once a year. Files for the 14 grantees reviewed during this audit contained trip reports that showed representatives had made their required annual visits. The grantees also provided testimonial evidence that the Foundation representatives had made the required site visits. In addition to the representative's visit, available evidence showed that other Foundation officials, including the Foundation's President, had also visited the grantees.

The Operations Guide also required Foundation representatives to authorize grant disbursements following careful analysis and review of all pertinent reports. Such reports should include financial, programmatic, and, if applicable, grant/loan fund and audit reports.<sup>2</sup> The Foundation representative signs the disbursement request that certifies that the reports are correct. For the 14 grants sampled, Foundation representatives made the required certifications. Financial, programmatic, grant/loan fund, and audit reports were also on file at the Foundation.

Maintaining close communication with the grantee is one of the key activities listed in the Operations Guide for monitoring grants. Foundation representatives stated they maintained close communication through e-mail and telephone calls. Upon request, copies of recent e-mails of selected grants were provided. During our field visits, grantees and contractors also corroborated that the Foundation maintained close contact with grantees.

### **Liaisons**

In nine countries, the Foundation hired local nationals under contract to serve as a link between Foundation representatives and grantees. The contracts between these individuals and the Foundation included costs for salaries, administrative expenses, and travel costs. At the time of the audit, liaisons resided in and offered technical assistance and support to grantees in 9 of the 17 countries in which the Foundation operated. The Foundation planned to add more liaisons as its budget permitted. As a rule of thumb, there were liaisons in every country with at least 10 grants, except Mexico. As of August 2002, the Foundation had two Foundation representatives monitoring grants in Mexico and was in the process of contracting for a liaison for that country.

Liaisons act as the in-country "eyes and ears" of the Foundation representatives and provide technical assistance when problems develop. For example, the liaison in Peru explained that, when a grantee identified a need for technical assistance, the liaison suggested that the grantee contact certain organizations that could provide the needed expertise. When the needed

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<sup>2</sup> Representatives also needed to determine the status of any "pre-disbursement" conditions contained in the grant agreement before authorizing disbursements.

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expertise was unavailable, the liaison obtained approval from the cognizant Foundation representative to procure short-term expertise from a consultant.

The Operations Guide required liaisons to offer technical assistance and support to grantees. The scope of work for the liaison in Peru, as an example, listed several tasks that he was to accomplish. These included visiting active projects to review progress, coordinating training, and providing technical assistance for selected grantees. Specifically, the liaison was required to make at least one monitoring visit per year to each project site and submit field visit reports and monthly reports to his designated Foundation representative in Washington.

The Foundation had liaisons in two of the four countries selected for audit—Nicaragua and Peru—and grantee officials in both countries confirmed that the liaisons had made the required field visits and provided support. Foundation records also documented that, for the six projects visited by the OIG auditors, the liaisons had conducted required monitoring visits and submitted reports.

- The Foundation’s Office for Evaluation and Dissemination,<sup>3</sup> with one staff member assigned to monitor grant results, was responsible for collecting, analyzing, and reporting performance results data submitted by the grantees. Fifteen local national “data verifiers,” contracted by the Foundation to determine the accuracy of performance results data reported by grantees, assisted this office.

### **Data Verifiers**

The Foundation contracted 15 local nationals as data verifiers to verify six-month performance results data reported by grantees. The contracts between these individuals and the Foundation covered costs for services per visit and travel costs. Data verifiers reported to an evaluation specialist in the Foundation’s Office for Evaluation and Dissemination, an organizational arrangement designed to separate the function of verifying and validating results data from that of monitoring and helping grantees to achieve desired results (a function assigned to the Office of Programs).

The Operations Guide stated that data verifiers could enhance the Foundation representative’s monitoring efforts. The Foundation’s contract with its data verifier in Mexico illustrated the type of work expected from these individuals. This contract requires the data verifier to make at least three visits to each grantee. During an orientation visit, the data verifier and grantee are expected review indicators contained in the grant agreement and discuss

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<sup>3</sup> Divided into two offices in August 2002.

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the responsibility of the grantee to collect and report information on the indicators. The data verifier is then expected to visit the grantee every six months during the duration of the grant, review the grantee's six-month program reports, and verify the accuracy of all performance data included in the reports by reviewing grantee documents, interviewing grantee officials and beneficiaries, and comparing data to prior period reports. The data verifier is required to submit a verification report on each grantee to the evaluation specialist in Washington. The data verifier is also expected to make a final visit to verify, clarify, and complete, if necessary, the grant results data presented by the grantee in its final grant results report.

The evaluation specialist explained that he (1) received reports from data verifiers via e-mail, (2) reviewed the reports, (3) assessed the quality of the data verifiers' work, and (4) made the programmatic data available to Foundation representatives as necessary for review and use in their certifications.



Photograph of data verifier based in Mexico explaining her documentation and methodology to OIG auditors.

- The Foundation's internal auditor<sup>4</sup> and a recently hired assistant were responsible for managing the Foundation's external audit program, which consisted of audits of Foundation grants conducted through contracts with independent accounting firms. The firms were required to follow the Foundation's *Audit Guidelines for Use by Independent Auditors in the Examination of Foundation Grants* (Audit Guidelines). In addition, the contracts with accounting firms required that each

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<sup>4</sup> Reorganization changed title to Director of Audit, Budget & Finance in August 2002.

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grant be audited 6 months after the first disbursement of funds to the grantee, every 18 months thereafter, and at the completion of the grant. The Foundation's audit program is discussed in the next section of this report.

In conclusion, based on 14 grants we sampled in four countries, the Foundation implemented a system to monitor grantee projects and project results.

### **Did the Inter-American Foundation implement a system to audit funds provided to grantees?**

The Inter-American Foundation implemented a system to audit funds provided to grantees. However, the Foundation needed to further strengthen its audit management program. Specifically, the Foundation needed to (1) develop an audit universe and an annual audit schedule, (2) formalize procedures for audit recommendation follow-up, and (3) establish procedures for its quality control program.

The Foundation used audits as a management tool to improve the financial accountability of its program. For example, the Foundation contracted with independent accounting firms to schedule and conduct audits of its grants in countries where it has activities. It also established a practice of contracting for audits of all grants above \$35,000. As discussed in further detail below, the Foundation's internal auditor also reviewed audit reports prepared by accounting firms and summarized audit findings for Foundation representatives' information and action as necessary.

In 1999, the Foundation's internal auditor revised the Foundation's Audit Guidelines, which the Foundation designed to guide the audit firms it contracted to audit grantee funds. One of the provisions the internal auditor added to the Guidelines was a requirement that audits be conducted in accordance with generally accepted government auditing standards established by the Comptroller General of the United States (Yellow Book). In the year 2000, the Foundation's contracting office at the U.S. Bureau of the Public Debt negotiated new contracts with all independent audit firms, requiring that audit work be done in accordance with these auditing standards. Accordingly, each of the four contracts selected for review during this audit contained a provision requiring that audits be conducted in accordance with the Yellow Book. In addition, as part of the Foundation's update of its audit management program, the internal auditor also provided training on the Yellow Book to the Foundation's non-federal auditors.



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Although the Foundation had adopted appropriate audit standards, several improvements are needed to ensure that:

- All grants are audited at the times specified in grant agreements and contracts with independent accounting firms.
- Audit recommendations and responding corrective actions are tracked.
- All audits performed by independent accounting firms comply with generally accepted government auditing standards, the Foundation's Audit Guidelines, and contract terms and conditions.

Specifically, the Foundation needs to develop procedures for an audit management program that includes:

- A complete and accurate audit universe.
- Procedures to ensure that all audits are performed on schedule.
- Annual audit schedules to be provided to the Inspector General and the Foundation Audit Committee.
- A system for tracking all audit recommendations.
- Delegations of responsibility for acting upon audit recommendations.
- Semi-annual audit reports to be provided to the Inspector General and the Foundation Audit Committee.
- A quality control process for all audits conducted by independent accounting firms under contract to the Foundation.

### **The Foundation Needs an Audit Universe Database and an Annual Audit Schedule**

Although the Foundation had a policy governing the frequency of audits by independent auditors, the Foundation did not have a complete audit universe or the capability to produce a centralized annual audit schedule to make sure audits were conducted in a timely manner. The primary reason was the Foundation relied on audit firms to develop audit-tracking systems and schedules—a decentralized system that made it administratively difficult for the Foundation to determine whether audits were conducted. As a result, the

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Foundation did not have adequate assurance that its audits were being performed at specific intervals called for in its contracts with audit firms.

As discussed above, the Foundation had taken an active role in using financial audits of its grants as a management tool to improve financial accountability of its program. Although the Foundation had a policy governing the frequency at which financial audits of its grantees would be done, it had not implemented a database (see details on page 20) that could be used to (1) identify all grants that must be audited, (2) track completed audits and identify any that were not done on time, and (3) track the status of any recommendations made by the auditors.

An effective audit management system not only requires a policy that lays out the frequency at which financial audits of grantees will be performed, but it also requires a system for ensuring that required audits are conducted on time. The Foundation's Audit Guidelines require grants to be audited by independent auditors in accordance with a standard provision contained in all of its grant agreements. The Foundation's statement of work in its contracts with the independent accounting firms includes an audit schedule based on the following intervals: 6 months after the first disbursement of funds to the grantee, every 18 months thereafter, and at the completion of the grant.

However, the Foundation's audit program did not include a complete audit universe or the capability to produce a comprehensive annual audit schedule. Instead, the Foundation relied on audit firms to independently develop audit-tracking systems and schedules—a decentralized system that made it administratively difficult for the Foundation to determine whether audits were conducted.

As a result, the Foundation did not have adequate assurance that its audits were being performed at specific intervals called for in its contracts with audit firms as discussed above. For example, the audit periods covered by the audits for four grantees (selected for review during this audit on a judgmental rather than random basis) in El Salvador ended from 7 to 17 months after the date of the Foundation's first disbursements to the grantees (see table at top of page 18). According to a recent General Accounting Office report<sup>5</sup> the Foundation's internal auditor stated that 9 months from the first disbursement is a reasonable time to receive the first audit report. Therefore, the audits should have been performed soon after the 6-month interval following the first disbursement.

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<sup>5</sup> GAO/NSIAD-00-235 report on the Inter-American Foundation titled "Better Compliance With Some Key Procedures Needed" issued on September 28, 2000.

| Grant Number | First Disbursement | Audit Period      | Date of Audit Report | Months After First Disbursement |
|--------------|--------------------|-------------------|----------------------|---------------------------------|
| ES-185       | 07/26/99           | 06/29/99-12/31/00 | 04/04/01             | 17                              |
| ES-189       | 12/09/99           | 11/12/99-12/31/00 | 04/19/01             | 12                              |
| ES-192       | 12/17/99           | 11/12/99-12/31/00 | 05/08/01             | 12                              |
| ES-194       | 09/21/00           | 09/08/00-04/30/01 | 07/18/01             | 7                               |

An effective audit universe database should contain such elements as the following:

- Grantee name.
- Country where the grant is being implemented.
- Grant/award number.
- Grant amount in U.S. dollars.
- Grant start/completion dates.
- Estimated date of the first disbursement.
- Grant expenditures to date.
- Prior audits and period covered.
- Estimated date when the required audit report should be submitted by the independent accounting firm.
- Actual audit completion date.
- Date audit report received and reviewed.
- Any reason(s) why the expected audit was not conducted as planned.

From the automated database, the Foundation should be able to prepare its annual audit schedule and determine if audits are completed when required.

**Recommendation No. 1: We recommend that the Inter-American Foundation establish a complete audit universe database and use the database to develop a centralized annual audit schedule to make sure that audits are conducted in a timely manner.**

### **The Foundation Needs to Formalize Procedures for Audit Recommendation Follow-Up**

Although the Foundation had implemented most requirements outlined in OMB Circular A-50 for audit recommendation follow-up, it had not established written policies and procedures to document its process because

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the internal auditor had not had time to do so before he resigned from the Foundation. As a result, the Foundation has not taken adequate steps to ensure that an audit recommendation follow-up process has been institutionalized and will be continued by the next manager of its external audit program. Also, the Foundation does not have reasonable assurance that the weaknesses identified in audit recommendations were corrected, that unallowable expenditures were recovered, or that remedial action was taken in a timely manner.

Another key element of a quality audit management system is a process for tracking audit recommendations and ensuring that recommended corrective actions or improvements are taken or made and that those actions achieve the desired result. Although the Foundation had developed an audit recommendation follow-up system that complied with most federal requirements, it had not established formalized procedures to ensure that Foundation employees would implement all the requirements.

Office of Management and Budget (OMB) Circular A-50 provides the policies and procedures to be used by executive agencies when audit follow-up is necessary with respect to audit reports issued by the Inspectors General, other executive branch audit organizations, the General Accounting Office, and non-federal auditors. The Circular states that agencies shall assign a high priority to the resolution<sup>6</sup> of audit recommendations and to corrective action. Also, the Circular states that the systems for resolution and corrective action must, among other requirements:

- Provide for the appointment of a top-level audit follow-up official.
- Require prompt resolution and corrective actions on all audit recommendations.
- Maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action, including accounting and collection controls over amounts due the Government.

The Foundation's audit and recommendation follow-up program followed most requirements outlined in OMB Circular A-50. For example, the

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<sup>6</sup> OMB Circular A-50 defines resolution for most audits as the point that an audit organization and an agency's management or contracting officials agree on the action to be taken to address reported findings and recommendations. The Inspector General Act of 1978 uses the term management decision to describe the action of the management of an agency to develop a plan of action to address an audit recommendation of its Inspector General. When the Inspector General concurs with the agency's plan of action, the mutual agreement is equivalent to an OMB Circular A-50 "resolution."

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Foundation appointed its internal auditor as its audit follow-up official. According to the internal auditor, he received, reviewed and summarized audit reports submitted by contracted audit firms and provided the summaries to the appropriate Foundation representative, who was then expected to take appropriate follow-up action such as a telephone call or a letter to the grantee. However, this process was not documented in the form of written procedures.

In addition, the Foundation did not always maintain complete records of the status of audit reports or recommendations through the entire process of resolution and corrective action. It should be noted, however, that during the audit the Foundation was in the process of developing a database system to track audits and audit recommendations. According to Foundation management officials, the basic structure of such a database—the Grants Evaluation and Management System (GEMS)—had been developed and required only data input. When completed, GEMS is expected to allow reports on the status of audits and audit recommendations to be generated on a real time basis.

Because the Foundation did not have written procedures or always maintain complete records on audit recommendation follow-up, it did not have reasonable assurance that the weaknesses identified in audit recommendations were corrected, that unallowable expenditures were recovered, or that remedial action was taken in a timely manner.

Therefore, the Foundation needs to develop policies and procedures to ensure that all requirements of OMB Circular A-50 are fully implemented. In particular, the Foundation should be able to report to Congress, its Board of Directors, and USAID's Inspector General data such as the number of audits conducted in the prior six-month period, the type and number of recommendations made, and any recommendation for which a management decision has not been reached or final action taken.

**Recommendation No. 2: We recommend that the Inter-American Foundation establish written policies and procedures to implement an audit recommendation tracking system for audits performed by accounting firms under contract to the Foundation and to make sure that the system complies with the requirements of Office of Management and Budget Circular A-50.**

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## **The Foundation Needs to Establish Procedures for Its Audit Quality Control Program**

The Foundation had not established written procedures for its quality control program because the internal auditor had not had time to do so before he resigned from the Foundation. As a result, the Foundation has not taken adequate steps to ensure that a quality control program has been institutionalized and will be continued by the next manager of its external audit program. Without such a program, the Foundation does not have reasonable assurance that audits will be conducted in accordance with U.S. government auditing standards.

OMB Circular A-50 requires Inspectors General or other audit officials to oversee the work of non-federal auditors that is performed in connection with federal programs. The General Accounting Office's publication entitled "*An Audit Quality Control System: Essential Elements*" states that government auditing standards require each organization performing audits to have an appropriate quality assurance system in place. The quality assurance system should provide reasonable assurance that the organization is following: (1) applicable government auditing standards, and (2) appropriate policies and procedures. Desk reviews of audit reports and quality control reviews of non-federal work are methods for ensuring the quality of audits.

As noted previously, the Foundation had provided accounting firms written Audit Guidelines, provided training to the auditors of these accounting firms on U.S. generally accepted government auditing standards, and visited the accounting firms in the field. However, we found no documentation—such as a completed checklist, summary working papers, or task reports—as evidence that the internal auditor had conducted quality control reviews of the auditors' working papers. This occurred because the Foundation had not ensured that it had written policies and procedures to address such issues as the roles and responsibilities of those involved in the quality control process, the frequency and timing of such reviews, and any requirements that such reviews be documented.

OIG auditors visited three audit firms under contract to the Foundation and conducted limited quality control reviews of the firms' audit work. Based on these limited reviews, and except for audits not being performed in a timely manner as noted on page 17, the auditors concluded that these firms had followed the Foundation's Audit Guidelines. Although the OIG auditors found no adverse effect from the lack of policies and procedures, because the Foundation does not have a firm policy that audits performed under contract to the Foundation will be subject to periodic quality control reviews, the Foundation does not have reasonable assurance that future audits performed

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by the three audit firms or audits performed by other firms will be conducted in accordance with U.S. government auditing standards.

Therefore, we believe the Foundation needs to formalize its policy and procedures for audit quality control reviews through the issuance of policy, procedures, and checklists.

**Recommendation No. 3: We recommend that the Inter-American Foundation establish written policies and procedures for an audit quality control program that complies with the requirements of Office of Management and Budget Circular A-50 and General Accounting Office guidelines.**

### **Other Matters**

As discussed previously, OMB Circular A-50 provides the policies and procedures to be used by executive agencies when audit follow-up is necessary with respect to audit reports issued by the Inspectors General, other executive branch audit organizations, the General Accounting Office, and non-federal auditors. On pages 18 to 20, this report noted that the Foundation needed written policies and procedures for an audit recommendation tracking system for audits conducted by accounting firms.

During the course of the audit, the OIG also noted that the Foundation did not have written procedures to track and report the status of recommendations conducted by the General Accounting Office or USAID's Office of Inspector General. Although this observation was outside the scope of this audit, we believe that the Foundation should also develop written procedures for tracking these audit recommendations. Therefore, we are making the following recommendation.

**Recommendation No. 4: We recommend that the Inter-American Foundation establish written policies and procedures to implement an audit recommendation follow-up system in accordance with the requirements of Office of Management and Budget Circular A-50 for those audits conducted by the General Accounting Office and Office of Inspector General.**

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**Management  
Comments and  
Our Evaluation**

In its response to our draft report, the Inter-American Foundation concurred with our recommendations and described the actions the Foundation has planned or undertaken to address them. When fully implemented, these actions should significantly improve the Foundation's audit management system.

To address Recommendation No. 1, the Foundation has developed an audit universe database and is actively inputting data into the database. The Foundation expects the database to be operational within one year. Once the database is established, the Foundation will produce a centralized annual audit schedule to ensure that audits are conducted in a timely manner.

To address Recommendation No. 2, the Foundation will formulate written policies and procedures within six months to implement an audit recommendation tracking system for audits performed by accounting firms under contract to the Foundation.

To address Recommendation No. 3, the Foundation will compile a written inventory of the Foundation's quality control policies and procedures within six months and will ensure that these policies and procedures are consistent with the General Accounting Office's Yellow Book auditing standards. The Foundation will develop a checklist to document its ongoing quality control effort.

To address Recommendation No. 4, the Foundation will establish written policies and procedures to document its follow-up efforts on audit recommendations made by the General Accounting Office and Office of Inspector General.

Based on the actions the Foundation has planned or undertaken to address each recommendation, we concluded that management decisions have been reached on all four recommendations. The Foundation's audit committee must determine final action on these recommendations and we request to be notified of the committee's actions.



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**Scope and  
Methodology****Scope**

We audited the Inter-American Foundation's systems for: (1) awarding grants, (2) monitoring projects and project results, and (3) auditing funds provided to grantees. From March to August 2002 we conducted fieldwork at the Foundation headquarters in Arlington, Virginia and in four countries: El Salvador, Mexico, Nicaragua, and Peru. The Performance Audit Division of the Office of Inspector General and the Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards.

The first audit objective was to review the process used by the Foundation to award nine new grants<sup>7</sup> for funding in Mexico and Peru in fiscal year 2001. The second and third audit objectives were to assess the systems the Foundation had in place to monitor grantee projects and project results, and audit funds provided to 14 grantees<sup>8</sup> judgmentally selected in El Salvador, Mexico, Nicaragua, and Peru. These countries were selected because they were among the largest dollar recipients of grants awarded by the Foundation as of March 2002. Grantees were selected based on geographic location, time, and resources needed to visit grantees and beneficiaries in the four countries.

The scope of this audit included an examination of management controls associated with the selection of proposals and of the systems used to monitor and audit grants funded by the Foundation. The Foundation's Office of Programs and Office for Evaluation and Dissemination exercise management controls over the selection of proposals and the system for monitoring grantee projects and results. These controls include a review process for selecting proposals for funding and monitoring actions to track or follow the progress of the grants awarded and the gathering of results and lessons learned. The internal auditor exercises management controls over the system to audit grants. These controls include desk reviews of audit reports and visits to independent audit firms contracted by the Foundation. At the time of our audit, the internal auditor reported to the Foundation President. However, we noted in footnote 4, the reorganization changed the internal auditor's title to Director of Audit, Budget & Finance in August 2002.

Management controls over contractors—the liaisons and data verifiers—were exercised through field visits made by the Foundation's headquarters employees. Our audit scope also considered prior audit findings for the three areas that we reviewed.

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<sup>7</sup> The Foundation awarded a total of 43 new grants in fiscal year 2001.

<sup>8</sup> The Foundation had 232 active grants as of March 5, 2002.

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Field visits in El Salvador, Mexico, Nicaragua, and Peru included meetings to interview U.S. embassy and USAID officials, the Foundation in-country contractors (data verifier and liaison, who monitor grantee results and provide technical assistance, respectively), grantees, beneficiaries, and audit firms.<sup>9</sup>

### **Methodology**

In accomplishing these audit objectives, we held discussions with Foundation officials at headquarters and visited El Salvador, Mexico, Nicaragua, and Peru. To assess management controls related to awarding grants, we:

- Reviewed policies and procedures on the review of proposals received by the Foundation.
- Examined documents prepared for grants awarded to organizations in Mexico and Peru in fiscal year 2001.
- Obtained letters sent to those organizations in Mexico and Peru that was determined not to fit the Foundation's funding criteria.
- Obtained trip reports on site visits by Foundation representatives to potential grantee organizations in Mexico and Peru.
- Obtained documentation sent to the U.S. embassies in Mexico and Peru that provided a detailed description of the proponent organization and the proposed project activities.
- Obtained documentation of team reviews of proposals recommended by Foundation representatives for funding and of internal reviews by Program Directors, the Vice President for Programs, the General Counsel and the President of the Foundation.
- Obtained Board of Directors and Congressional oversight committee notifications and grant award notifications to the U.S. ambassador in the beneficiary country and the beneficiary country's ambassador in the United States.

To assess management controls related to monitoring projects and project results and to auditing funds provided to grantees, we:

- Visited grantees to discuss and observe project activities, to verify monitoring visits by the Foundation representative and contractors (data verifier and liaison), and to meet with some beneficiaries.

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<sup>9</sup> We also visited an audit firm in Costa Rica that audits grantees in Nicaragua.

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- Obtained documentation from data verifiers on project indicators.
  - Obtained “*Audit Guidelines for Use by Independent Auditors in the Examination of Foundation Grants*” which are used by independent audit firms contracted by the Foundation to conduct grant audits.
  - Examined audit clauses in selected grant agreements and contracts with audit firms in the four countries selected for field visits.
  - Visited three audit firms under contract to the Foundation and conducted limited quality control reviews of the firms’ audit work.

The audit results placed some reliance on computer-generated data obtained from the Foundation's automated grants evaluation and management system (GEMS) without specific audit verification of the adequacy of general and application controls for that system.

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**Management  
Comments**

February 25, 2003

Ms. Dianne Rawl  
Director  
Performance Audit Division  
Office of Inspector General  
U.S. Agency for International Development  
1300 Pennsylvania Avenue, N.W.  
Washington, DC 20523-8900

Dear Ms. Rawl:

Thank you for providing the Inter-American Foundation (IAF) with the January 29, 2003 revised draft Agency for International Development Office of Inspector General (OIG) Report, "Audit of Awarding and Monitoring of Grants by the Inter-American Foundation," Report No. 9-IAF-03-00X-P (the Report). I have reviewed the Report, and am pleased to see that your office was favorably impressed by the IAF grant award and monitoring systems.

I note that in this Report, substantially more IAF auditing policies and procedures are recognized and assessed than in the earlier draft report, dated November 7, 2002 (the draft Report). Many of these policies and procedures were highlighted in my November 19, 2002 comments on the draft Report, and I am pleased to see that the OIG has acknowledged these IAF efforts to implement appropriate auditing practices.

With regard to the Report's four Recommendations on the IAF's auditing systems:

Recommendation No. 1: The IAF accepts this recommendation and has established an audit universe data base. We are actively inputting data into the data base, and we expect it to be completely operational within one year. Once the data base is established, we will produce a centralized annual audit schedule to ensure that audits are conducted in a timely manner.

Recommendation No. 2: The IAF accepts this recommendation and will formulate such policies and procedures within six months.

Recommendation No. 3: The IAF accepts this recommendation and will compile a written inventory of the IAF's auditing quality control policies and procedures within six months. The IAF will ensure that these policies and procedures are consistent with Yellow Book auditing standards. The IAF will develop a checklist to document our on-going quality control effort.

In fact, the IAF has taken significant measures to ensure quality in our auditing procedures, some of which I referenced in my November 19<sup>th</sup> comments. These measures include contracting with

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highly reputable auditing firms (field auditors) in countries throughout Latin America and the Caribbean, and distributing to those field auditors the IAF Audit Manual – prepared in three languages – as well as the Yellow Book. Since the IAF received the draft Report, we have significantly enhanced our quality control efforts through visits by the IAF Auditor to the field auditors of Mexico and Brazil -- the two countries with the largest portfolios. Moreover, we have reconstituted the IAF Audit Committee, and it is preparing a training conference for all IAF field auditors, scheduled to take place in Miami on May 28-30, 2003. Finally, I am confident that the IAF’s newly-created audit data base will greatly facilitate quality control.

Recommendation 4: The IAF accepts this recommendation. The IAF has followed up on all recommendations made in previous OIG and GAO audits within established guidelines. Within six months, the IAF will establish written policies and procedures to document our audit follow-up efforts.

Sincerely,

/s/

David Valenzuela  
President