

USAID

OFFICE OF INSPECTOR GENERAL

Report on African Development Foundation's Financial Statements, Internal Controls, and Compliance for Fiscal Year 2000

Audit Report No. 0-ADF-01-008-F

March 21, 2001



Washington, DC

U.S. Agency for International Development

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 21, 2001

MEMORANDUM

TO: The Board of Directors and the President,
African Development Foundation

FROM: AIG/A, Toby L. Jarman

SUBJECT: Independent Auditor's Report on the African Development Foundation's
Financial Statements, Internal Controls, and Compliance for Fiscal
Year 2000, Audit Report No. 0-ADF-01-008-F

This report presents the results of the financial statement audit of the African Development Foundation (ADF) for the fiscal year ended September 30, 2000. The audit was contracted for by the USAID Office of Inspector General and was conducted by Leonard G. Birnbaum and Company, LLP (the audit firm).

The purpose of the audit was to determine whether ADF's financial statements present fairly, in all material respects, the net position and results of operations for the fiscal year ended September 30, 2000. The objectives of the audit were to:

- Determine whether the principal financial statements present fairly in all material respects, in conformity with generally accepted accounting principles, the (1) assets; (2) liabilities and net position; (3) net costs; (4) change in net position; (5) budgetary resources; and (6) reconciliation of net costs and budgetary obligations of ADF.
- Report on ADF's internal controls related to these financial statements and the internal controls related to the performance measures contained in the "ADF's Management Discussions and Analysis" section.
- Report on ADF's compliance with laws and regulations that could have a direct and material effect on the principal statements, and any other applicable laws and regulations.

The audit firm reported that ADF's Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position were presented fairly in all material respects. The audit firm also found that ADF had not posted all budgetary transactions into the general ledger for its fiscal year ended September 30, 2000. The auditors were unable to verify various amounts on ADF's Statement of Budgetary Resources and Statement of Financing. Therefore, the scope of the audit firm's work was not sufficient to enable it to express an opinion on ADF's Statement of Budgetary Resources and Statement of Financing for the fiscal year ended September 30, 2000. The audit firm also reported that ADF had a material internal control weakness related to its financial reporting and three instances of non-compliance with selected provisions of applicable laws and regulations (*See Appendix III*).

The audit firm reported that ADF's financial and accounting system, as of September 30, 2000, was inadequate. The principal areas of inadequacy reported were:

- All elements of the financial statements were developed from sources other than the general ledger.
- All budgetary transactions were not posted in the general ledger.
- The United States General Ledger was not implemented at the transaction level.

The audit firm also identified and made recommendations to ADF, in a management letter, to correct the material internal control weaknesses listed above, as well as the following deficiencies: (*See Attachment I to Appendix III*):

- ADF did not comply with all the requirements of OMB Circular A-123.
- There was no single database for all ADF grant transactions, and foreign exchange rate fluctuation adjustments were only done at fiscal year year-end.
- All fiscal year 2000 obligation transactions were not sent to the General Services Administration to be posted to the general ledger.

Based on our review of the Leonard G. Birnbaum and Company report and management letter, we are making the following recommendations for inclusion in USAID's Consolidated Audit Tracking System:

Recommendation No. 1: We recommend that the African Development Foundation: (1) develop all elements of the financial statements from the general ledger, (2) post all budgetary transactions in the general ledger, and (3) use the United States Standard General Ledger or a crosswalk to the standard general ledger (*Refer to Attachment I, page 1 of 2, of the Leonard G. Birnbaum and Company letter dated December 8, 2000*).

Recommendation No. 2: We recommend that the African Development Foundation:

- 2.1. Develop and maintain a single complete grant database.**
- 2.2. Conduct the foreign exchange conversion at least quarterly so that any funds becoming available could be used for program activities.**

(Refer to Attachment I, page 1 of 2, of the Leonard G. Birnbaum and Company letter dated December 8, 2000).

Recommendation No. 3: We recommend that the African Development Foundation post all obligation transactions in the general ledger when they occur *(Refer to Attachment I, page 2 of 2, of the Leonard G. Birnbaum and Company letter dated December 8, 2000).*

Based on the information contained in your response to the report, management decisions have been reached on all recommendations. A determination of final action will be made when you provide documentation evidencing completion of all planned corrective actions. *(See Appendix II for ADF's Management Comments).*

I would like to express my sincerest appreciation for the courtesies extended by your staff to the auditors.

OIG EVALUATION OF ADF'S MANAGEMENT COMMENTS

In commenting on the audit report submitted by Leonard G. Birnbaum and Company, the President of the African Development Foundation agreed with the audit findings and recommendations to improve the African Development Foundation's financial and accounting system, strengthen internal controls, and to comply with applicable laws and regulations.

With regard to recommendation Nos. 1, 2, and 3 (*Refer to page 2 of this report*), management concurred with the audit findings and recommendations and stated that they would develop and implement an action plan designed to correct all internal control findings and eliminate instances of noncompliance with applicable laws and regulations. ADF expects to fully implement the audit recommendations by the end of FY 2001.

Based on Management's acceptance of the audit recommendations and action taken or planned, we accept Management's decision for the audit recommendations. We will perform a follow-up review in the FY 2001 audit to ensure ADF's full compliance and implementation of its action plan.

ADF'S MANAGEMENT COMMENTS

Alvin A. Brown
Director of Financial Audits
Office of Inspector General, US A.I.D.
Room No. 8.10 RRB
1300 Pennsylvania Ave., NW
Washington, D.C. 20523

Re: Audit Report of the 2000 Financial Statements

Dear Mr. Brown:

We have reviewed the audit report supplied by Leonard G. Birnbaum and Company including the opinion of ADF's fiscal year 2000 financial statements, internal control status, and compliance with applicable laws and regulations. We are pleased to note that the financial statements were completed on time and the Balance Sheet, Statement of Net Cost and Statement of Net Position all received unqualified opinions. Thank you and your team as well as Birnbaum and Company for working closely with us during the audit process.

During the course of your audit, you identified and reported an instance of internal weakness in the internal controls over financial reporting and instances of noncompliance with selected provisions of applicable laws and regulations. Although we generally concur with your findings and recommendations, we would respectfully suggest an addition to your report that recognizes the significant progress made at ADF. We are referring to the progress that has been recognized by your office and by Birnbaum and Company in our meetings. Last year, ADF developed and implemented an action plan designed to correct all internal control findings and eliminate instances of noncompliance identified in the FY 1999 audit report. By the end of FY 2000, ADF had already made substantial progress in reducing the number of internal controls findings and instances of noncompliance. In the current fiscal year, given our efforts with the action plan, ADF expects to be in full compliance with the audit of the FY 2001 financial statements.

The African Development Foundation recognizes the importance of accountability and public disclosure. We are committed to correcting the issues in your report and have dedicated the staff and resources to ensure that our systems are in full compliance. We look forward to working with you and your staff on the 2001 audit. Any questions may be addressed to Tom Coogan or Vicki Gentry at ADF.

Sincerely,

Nathaniel Fields
President
African Development Foundation

**INDEPENDENT AUDITOR'S REPORT
ON ADF'S FISCAL YEAR 2000
FINANCIAL STATEMENTS**

AFRICAN DEVELOPMENT FOUNDATION
INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2000

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