

# **USAID**

## **OFFICE OF INSPECTOR GENERAL**

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### **Report on Audit of the African Development Foundation's Financial Statements for the Fiscal Year Ended September 30, 2001**

**Audit Report No. 0-ADF-02-002-F**

**March 20, 2002**



**Washington, D.C.**

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

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U.S. Agency for  
International  
Development

*Office of Inspector General  
Financial Audits Division*

## **MEMORANDUM**

**FOR:** Mr. Nathaniel Fields

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

**SUBJECT:** Report on Audit of the African Development Foundation's Financial Statements for the Fiscal Year Ended September 30, 2001  
(Report No. 0-ADF-02-002-F)

The enclosed Report on the Audit of the African Development Foundation's Financial Statements for the Fiscal Year Ended September 30, 2001, prepared by the firm of Leonard G. Birnbaum and Company, LLP (LGB), is provided for your information. The auditors issued an unqualified opinion on the financial statements.

The purpose of the audit was to determine whether ADF's financial statements present fairly, all material respects, its net position and results of operations for the fiscal year ended September 30, 2001. 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 assets, liabilities, net position, net costs, and budgetary resources of ADF.
- Report on ADF's internal controls related to the financial and to the performance measures contained in the Management Discussion 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 auditors identified two material weaknesses in their report. Significant elements of the financial statements including, but not limited to, grant advances, prepayments franchise fund, accounts payable, undelivered orders, unexpended appropriations, and expenses;

were developed from sources other than the general ledger. Also, the U.S. General Ledger has not been implemented at the transaction level. We are therefore making the following recommendations to ADF management:

**Recommendation No. 1: We recommend that the African Development Foundation establish and implement the U.S. General Ledger at the transaction level.**

**Recommendation No. 2: We recommend that the African Development Foundation establish and implement policies and procedures to ensure that the financial statements are developed from its general ledger.**

The auditors also identified three compliance findings in the report. In the first instance identified, the auditors noted that ADF failed to comply with the Budget and Accounting Procedures Act of 1950 (Sec. 113). This Act requires that Federal agencies maintain an accounting system that provides full disclosure of the results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the budget, and effective control over income, expenditures, funds, property, and other assets.

The auditors also noted noncompliance with OMB Circular A-127 (Financial Management Systems), which requires ADF to establish and maintain an accounting system that provides for (1) complete disclosure of the financial results of the activities of the agency, (2) adequate financial information for agency management and for formulation and execution of the budget, and (3) effective control over revenue, expenditures, funds, property, and other assets.

In the final instance noted, the auditors identified noncompliance with JFMIP's *Federal Financial Management System Requirements*. These requirements state that the core financial management systems must support the partnership between program and financial managers, and assure the integrity of decision-making information including the ability to collect accurate, timely, complete, reliable, and consistent information. JFMIP also requires that the core financial system be able to provide financial information to support internal and external reporting requirements, including as necessary the requirements for financial statements. OMB guidance states that one indicator of compliance with this standard is that the ADF's core financial system, supported by other systems containing the detailed data summarized in the core financial system, be the source of information for the preparation of the annual financial statements. However, the ADF's core financial system is not the sole source of information used in the preparation of the annual financial statements.

After reviewing the compliance findings identified in the audit report, we are making the following additional recommendation to ADF management:

**Recommendation No. 3: We recommend that the African Development Foundation establish and implement policies and procedures to ensure that its accounting system is capable of providing full disclosure of its results of financial operations and adequate financial information needed in the management of its budget and operations, and of providing effective control over its revenues, expenditures, funds, property, and other assets in accordance with the Budget and Accounting Procedures Act of 1950, OMB Circular A-127, and the Joint Financial Management Improvement Program's *Federal Financial Management System Requirements*.**

The report prepared by LGB is included in its entirety, along with the Management Discussion & Analysis prepared by ADF and the ADF financial statements, in Appendix I. Your comments from the draft report are included in Appendix II.

Although ADF management did not separately address the material weaknesses or instances of noncompliance in their response to the audit report, they generally concurred with the conclusions expressed in the report and are confident that all material weaknesses identified will be resolved by March 31, 2002. Based on the ADF response, we accept the comments as management decisions.

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

Enclosure (as stated)

AFRICAN DEVELOPMENT FOUNDATION  
INDEPENDENT AUDITOR'S REPORT  
SEPTEMBER 30, 2001 and 2000

Leonard G. Birnbaum and Company  
Certified Public Accountants  
6285 Franconia Road  
Alexandria, Virginia 22310  
(703) 922-7622

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the President,  
African Development Foundation:

We have audited the African Development Foundation's (ADF) Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and Statement of Financing (Principal Financial Statements) as of and for the year ended September 30, 2001; and the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position as of and for the year ended September 30, 2000; and have examined internal control over financial reporting in place as of September 30, 2001.

In our opinion, ADF's Principal Financial Statements referred to in the first paragraph, are presented fairly in all material respects as of and for the fiscal year ended September 30, 2001. In addition, ADF's Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position as of and for the fiscal year ended September 30, 2000, are presented fairly in all material respects.

We found:

- an instance, as noted below, of material weakness in the internal controls over financial reporting, and
- instances, as noted below, of noncompliance with selected provisions of applicable laws and regulations.

Each of these conclusions is discussed in more detailed below. This report also discusses the scope of our work.

## PRINCIPAL FINANCIAL STATEMENTS

In our opinion, the accompanying balance sheets of ADF as of September 30, 2001 and 2000, and the related ADF's statements of net cost and changes in net position for the fiscal years then ended, and ADF's statement of budgetary resources and financing for the fiscal year ended September 30, 2001, present fairly, in all material respects, the

- financial position of the ADF as of September 30, 2001 and 2000;
- net cost and changes in net position of the ADF for the fiscal year ended September 30, 2001 and 2000, and;
- budgetary resources and financing of the ADF for the fiscal year ended September 30, 2001;

in conformity with accounting principles generally accepted in the United States of America.

## INTERNAL CONTROL

We considered ADF's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the Principal Financial Statements and not to provide assurance on internal control. Consequently, we do not provide an opinion on internal controls.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that the Office of Management and Budget (OMB), or ADF management have identified as being significant for which compliance can be objectively measured and evaluated.

Our consideration of internal control would not necessarily disclose all matters of 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 internal control that, in our judgment, could adversely affect ADF's ability to record, process, summarize, and report financial data consistent with the assertions of 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 errors or irregularities in amounts, which 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.

We noted the following matter that we considered to be a material weakness as defined above. ADF's financial and accounting system, as of September 30, 2001, was inadequate. The principal areas of inadequacy were:

- Significant elements of the financial statements including, but not limited to, grant advances, prepayments franchise fund, accounts payable, undelivered orders, unexpended appropriations, and expenses; were developed from sources other than the general ledger.
- United States General Ledger has not been implemented at the transaction level.

We noticed certain other matters involving the internal control structure and its operation that we have reported to the ADF's management in a separate letter dated December 14, 2001.

## COMPLIANCE WITH LAWS AND REGULATIONS

ADF's management is responsible for complying with laws and regulations applicable to ADF. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ADF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts, and certain other laws and regulations specified in Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. However, the objective of our audit of the Principal Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.



Material instances of noncompliance are failures to follow requirements or violations of prohibitions in statutes and regulations, which cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB-Bulletin 01-02.

The inadequacy of the financial and accounting system articulated above are a failure to comply with:

- The Budget and Accounting Procedures Act of 1950 (Sec. 113), which requires an accounting system that provides full disclosure of the results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the budget, and effective control over income, expenditures, funds, property, and other assets.
- OMB Circular A-127 (Financial Management Systems), which requires ADF to establish and maintain an accounting system that provides for (1) complete disclosure of the financial results of the activities of the agency, (2) adequate financial information for agency management and for formulation and execution of the budget, and (3) effective control over revenue, expenditures, funds, property, and other assets.
- JFMIP's *Federal Financial Management System Requirements* state that the core financial management systems must support the partnership between program and financial managers, and assure the integrity of decision-making information including the ability to collect accurate, timely, complete, reliable, and consistent information. JFMIP also requires that the core financial system be able to provide financial information to support internal and external reporting requirements, including as necessary the requirements for financial statements. OMB guidance states that one indicator of compliance with this standard is that the ADF's core financial system, supported by other systems containing the detailed data summarized in the core financial system, be the source of information for the preparation of the annual financial statements. However, the ADF's core financial system is not the sole source of information used in the preparation of the annual financial statements.

We noted certain other instances of noncompliance that we have reported to the ADF's management in a separate letter dated December 14, 2001.

## REQUIRED SUPPLEMENTARY INFORMATION

The Management's Discussion and Analysis is not required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 97-01, as amended. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express an opinion on it.

## RESPONSIBILITIES AND METHODOLOGY

ADF management is responsible for:

- preparing the Principal Financial Statements in conformity with generally accepted accounting principles;
- establishing and maintaining effective internal control; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on these Principal Financial Statements based on our audit. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Financial Statements are free of material misrepresentation and presented fairly in accordance with generally accepted accounting principles. We considered ADF's internal control for the purpose of expressing our opinion on the Principal Financial Statements and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Principal Financial Statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Financial Statements;
- obtained an understanding of the internal controls over financial reporting;
- obtained an understanding of the design and operation of internal controls over the reliability of data supporting the performance measures reported in the Management Discussion and Analysis section of ADF's fiscal year 2001 Annual Report;
- tested compliance with selected provisions of laws and regulations that may materially affect the financial statements; and
- performed other procedures, as we considered necessary in the circumstances.

Our audit was conducted in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin 01-02. We believe that our audit provides a reasonable basis for our opinion.

This report is intended for the information of the Inspector General of ADF and management of the African Development Foundation. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by ADF's management on this report are presented in management's discussion and analysis.

/s/

Leonard G. Birnbaum and Company

Alexandria, Virginia  
December 14, 2001

## MANAGEMENT DISCUSSION AND ANALYSIS

### About ADF

The African Development Foundation (ADF) is a U. S. Government corporation that supports community-based, self-help initiatives that alleviate poverty and promote broad-based, sustainable development in Africa. ADF was established by the African Development Foundation Act of 1980 and began operations in 1984. ADF supports small and micro-enterprise development, new export trade and investment activities, improved natural resource management, and AIDS prevention and mitigation. ADF also works to build the capacity of its independent partner organizations in Africa. Table 1 summarizes the Foundation's strategic goals and objectives.

Most of ADF's assistance is directed towards groups communities in rural and peri-urban areas, although some projects are in high density urban neighborhoods. In these areas, ADF places a high priority on reaching underserved populations particularly women and youth, people supporting orphaned children, ethnic and cultural minorities, the disabled, and recent school leavers.

ADF provides grants directly to community-based organizations (CBOs) and small- and micro-enterprises that generate income and employment for low-income people. These CBOs include agricultural producer associations, cooperatives, economic interest groups, and community development organizations. ADF can also awards grants to African non-governmental organizations (NGO) that provide credit or business development services to small- or micro-enterprises, assist farmers, and promote environmental quality and public health.

ADF plays a unique role within the U.S. Government's foreign assistance programs. ADF is the only agency that works at the grassroots level, providing Africans with the resources necessary to identify and solve their own problems. The projects that ADF supports are African-driven and African-owned. Africans conceive, design, implement, monitor, and evaluate the projects.

ADF has a thorough, three-stage grant review process that includes intense scrutiny of: 1) initial applications and applicant project sites, 2) project concept papers, and 3) final project papers contain detailed implementation plans, full budgetary and financial analyses.

Most of ADF's grants are greater than \$50,000 and the maximum grant size is \$250,000. To complement this funding, ADF often helps its beneficiaries leverage grants, loans, and loan guarantees from other sources through strategic partnerships with national and state governments in Africa, national and regional development banks, other international development assistance agencies, and the private sector.

**TABLE 1. ADF’S Strategic Goals and Objectives**

<b>Goal I: Advance broad-based, sustainable development and empowerment of the poor in Africa</b>	
Objective 1:	Promote micro and small enterprise development that will generate income and employment
Objective 2:	Improve community-based natural resource management for sustainable rural development
Objective 3:	Increase participation of African grassroots enterprises and producer groups in trade and investment relationships with the U.S. and within Africa
Objective 4:	Promote community-based HIV/AIDS interventions
<b>Goal II: Expand local capacity to promote and support grassroots, participatory development</b>	
Objective 1:	Build self-supporting, sustainable, local community development agencies that provide technical assistance and support to grassroots groups
Objective 2:	Develop and replicate new models for community reinvestment
Objective 3:	Establish strategic partnerships, with national and local governments, other donor agencies, and the local private sector, to support sustainable, grassroots development
Objective 4:	Encourage African governments and other donors to increase utilization of participatory development “best practices”
<b>Goal III: Enhance American assistance and strengthen U.S. relations with Africa</b>	
Objective 1:	Leverage resources for grassroots development through strategic partnerships with U.S. private sector, American philanthropic organizations and other U.S. Government agencies
Objective 2:	Expand U.S. funding for participatory grassroots development
Objective 3:	Improve program and policy coordination with U.S. foreign assistance and foreign policy agencies

In FY 2001, ADF worked in 14 African countries (Benin, Botswana, Cape Verde, Ghana, Guinea, Lesotho, Mali, Namibia, Niger, Nigeria, Senegal, Tanzania, Uganda, and Zimbabwe). In FY 2002, ADF will begin a pilot-scale program in one new country (Eritrea). In each country where ADF works, the Foundation maintains a partnership relationship with a local NGO through a cooperative agreement. ADF is committed to helping its partner organizations increase their capacity and achieve financial sustainability with a diversified funding base over the long term.

**Selected Performance Indicators**

In accordance with the Government Performance and Results Act, ADF prepares an Annual Performance Report. Table 2 summarizes the Foundation’s results on key performance indicators for FY 2000 and presents preliminary data on performance in FY 2001. In each case, the results only pertain to projects that were active during the year. No data are collected on closed projects. ADF modified its list of performance indicators in FY2001, dropping those that corresponded to a program strategic objective that was eliminated and some that were less useful as a management tool while adding others that are more valid measures of the impact of current programs.

**TABLE 2. ADF's Performance Results for FY2000 and FY2001**

<b>Performance Indicator</b>	<b>FY2000 Results</b>	<b>FY2001 Results (preliminary estimates)</b>
<i><b>Micro- and small enterprise development</b></i>		
<b>MSEs assisted</b>	13,772	20,900
<i>New microcredit facilities established</i>	68	Indicator dropped
<i>Loans disbursed to MSEs</i>	18,862	26,800
<i>New intermediary organizations providing business services and training</i>	20	Indicator dropped
<i>Entrepreneurs and workers trained</i>	23,636	37,000
<i>Gross revenues of assisted enterprises</i>	Indicator not in use	\$9,266,100
<i>Income distributed by assisted MSEs or organizations as salaries, dividends, or profits</i>	Indicator not in use	\$7,348,700
<i>Number of workers in MSEs receiving loans (job creation)</i>	26,097	23,700
<i><b>Natural resource management</b></i>		
<i>Community NRM plans formulated</i>	103	59
<i>New NRM technologies promoted</i>	60	Indicator dropped
<i>Areas adopting at least one improved NRM practice</i>	51	Indicator dropped
<i>People trained in improved NRM practices</i>	5,870	3,600
<i><b>Trade and Investment</b></i>		
<i>Non-traditional products promoted</i>	2	4
<i>New production and export trade arrangements established</i>	0	18
<i><b>AIDS prevention and mitigation</b></i>		
<i>People trained in AIDS prevention</i>	1,000 (approximately)	34,100
<i><b>Civil society and local governance</b></i>		
<i>Civil society organizations strengthened</i>	38	Indicator (and strategic objective) dropped
<i>Civic education programs undertaken</i>	7	Indicator (and strategic objective) dropped
<i>People trained in self governance</i>	619	Indicator (and strategic objective) dropped
<i>NGOs involved in advocacy strengthened</i>	14	Indicator (and strategic objective) dropped

## Future Activities

USG appropriations for ADF for FY 2002 have been approved at the \$16.542 million level. ADF plans to allocate 55% of this funding for micro- and small-enterprise development, 25% for trade and investment projects, 10% for natural resources management projects, and 10% for AIDS projects. The actual allocation of funding by strategic objective and country will vary depending on the number and quality of grant applications received.

In FY 2002, ADF plans to expand its new program in Nigeria, which began in FY 2001. With its extensive rural outreach, ADF also expects to broaden and scale up its AIDS program to assist a larger number of people who have not been reached by current programs of other organizations. ADF will support the involvement of grassroots enterprises and producer groups in international trade and investment to advance its special role under the African Growth and Opportunity Act.

## Systems and Controls

ADF's audit program operates at two levels. ADF has a full-time internal Financial and Field Auditor (FFA) who reports directly to the President. The FFA is primarily responsible for financial oversight of all partner organizations that have cooperative agreements with the Foundation. ADF conducts an internal audit of each partner organization at least once every two years.

ADF also has a full-time Financial Control Officer (FCO) whose primary responsibility is oversight of the Foundation's grantees. ADF contracts for the services of independent audit firms in each country where it operates. Every year, twenty five percent of all outstanding grants are audited. Each grantee is audited at least once during its life. The FCO and senior management follow up on all audit findings to assure they are resolved satisfactorily.

All ADF grantees are required to submit trimester financial reports. ADF's partner NGOs in each country have a Financial Officer who assists the grantees in complying with the Foundation's financial reporting requirements. ADF carefully reviews each of the trimester financial reports and addresses any discrepancies or other financial issues. In FY 2001, ADF developed and validated a grants database to improve management oversight and internal controls related to grantee project implementation and financial performance.

ADF undergoes annual independent audits that address its financial statements, internal controls, and compliance with laws and regulations. ADF promptly addresses any issues raised by the independent auditors.

## Comments on Financial Statements

ADF received an unqualified opinion on its Balance Sheet, Statement of Net Costs, and Statement of Changes in Net Position for FY 2000 from its independent audit firm. The audit firm noted one instance of material weakness in internal controls over financial reporting and some instances of noncompliance with selected provisions of applicable laws and regulations. ADF addressed the issues raised in this audit and believes that it has corrected all material weaknesses and fully complied with all applicable laws and regulations.

ADF's financial statements report on the financial position and results of the Foundation's operations, pursuant to applicable law. While the statements have been prepared from books and records in accordance with formats prescribed by OMB, the statements are different from the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for an entity of the U.S. Government.

**AFRICAN DEVELOPMENT FOUNDATION  
BALANCE SHEET**

As of September 30, 2001

	Notes	FY 2000	FY 2001
<b>ASSETS</b>			
Entity:			
Intragovernmental			
Fund Balance with Treasury	2	\$ 13,629,450	\$ 15,274,934
Accounts Receivable	5	82,467	82,467
Total Intragovernmental		<u>13,711,917</u>	<u>15,357,401</u>
Cash and other monetary assets	3	204,389	138,436
Accounts receivable - Net	5	170,167	150,705
General property, plant and equipment - Net	6	377,266	273,890
Other:			
Advances: Travel	4	17,446	41,750
Grants	4	1,571,251	1,991,832
Prepayment - Franchise Fund			562,170
<b>TOTAL ASSETS</b>		<u>\$ 16,052,436</u>	<u>\$ 18,516,184</u>
<b>LIABILITIES</b>			
Accounts Payable	9	\$ 270,483	\$ 642,743
Accrued Payroll		130,409	136,102
Accrued Leave		<u>155,195</u>	<u>151,667</u>
<b>Total Liabilities</b>		556,087	930,512
<b>NET POSITION</b>			
Unexpended Appropriations		13,808,795	15,822,252
Cumulative Results of Operations		<u>1,687,554</u>	<u>1,763,420</u>
<b>Total Net Position</b>		<u>15,496,349</u>	<u>17,585,672</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>		<u>\$ 16,052,436</u>	<u>\$ 18,516,184</u>

The accompanying notes are an integral part of these statements.

**AFRICAN DEVELOPMENT FOUNDATION  
STATEMENT OF NET COST**

For year ended September 30, 2001

	Notes	FY 2000 Grant Program	FY 2001 Grant Program
<b>Program Costs</b>			
Program Funding		\$ 7,441,626	\$ 9,166,418
Operating Expenses - Public		3,872,479	4,696,977
Operating Expenses - Intragovernmental		132,549	124,644
<b>Total Program Costs</b>		11,446,654	13,988,039
Less Earned Revenue		(500,000)	
<b>Net Program Costs</b>		10,946,654	13,988,039
 <b>Net Cost of Operations</b>		 \$ 10,946,664	 \$ 13,988,039

The accompanying notes are an integral part of these statements.



**AFRICAN DEVELOPMENT FOUNDATION  
STATEMENT OF CHANGES IN NET POSITION**

For year ended September 30, 2001

	Notes	FY 2000	FY 2001
<b>Net Cost of Operations</b>		(\$10,946,654)	(\$13,988,039)
Financing Sources			
Appropriations Used		11,849,994	13,951,345
Donated Resources	8		1,310
Imputed Financing		132,549	124,644
Other - Net Losses on Equipment			(13,394)
Net Results of Operations		<u>1,035,889</u>	<u>75,866</u>
Net Change in Cumulative Results of Operations		<u>\$1,035,889</u>	<u>\$75,866</u>
Increase (Decrease) in Unexpended Appropriations		<u>(3,541,176)</u>	<u>2,013,457</u>
Change in Net Position		(2,505,287)	2,089,323
Net Position-Beginning of Period		<u>18,001,636</u>	<u>15,496,349</u>
Net Position - End of Period		<u>\$15,496,349</u>	<u>\$17,585,672</u>

The accompanying notes are an integral part of these statements.

**AFRICAN DEVELOPMENT FOUNDATION  
STATEMENT OF BUDGETARY RESOURCES**

For the year ended September 30, 2001

	Notes	FY 2001
<b>Budgetary Resources</b>		
Budget Authority		\$15,964,800
Unobligated Balance Brought Forward, October 1, 2000		740,017
Spending Authority from Offsetting Collections		1,310
Adjustments:		
Recoveries of Prior-Year Obligations - Net	1	<u>1,749,981</u>
<b>Total Budgetary Resources</b>		<u><u>\$18,456,108</u></u>
Obligations Incurred - Current Period		\$13,658,164
Unobligated balances - available	7	4,049,481
Unobligated balances - unavailable	7	152,886
Unobligated balances - not subject to apportionment	7	595,577
<b>Total, Status of Budgetary Resources</b>		<u><u>\$18,456,108</u></u>
<b>Outlays:</b>		
Obligations Incurred		\$13,658,164
Less Authority from offsetting Collections & Adjustments		
Other Actual Collections	8	1,310
		13,656,854
Obligated balance, net - beginning of period		13,309,319
Less: Obligated balance - end of period		<u>11,024,308</u>
<b>Total outlays</b>		<u><u>\$15,941,865</u></u>

The accompanying notes are an integral part of these statements

**AFRICAN DEVELOPMENT FOUNDATION**  
**STATEMENT OF FINANCING**  
For the year ended September 30, 2001

**Obligations and Nonbudgetary Resources**

Obligations Incurred		\$ 13,658,164
Less: Spending Authority from Offsetting Collections & Adjustments		
Recoveries of Prior-Year Obligations		(1,749,981)
Donated Revenue	1,310	
Financing Imputed for Cost Subsidies	124,644	
Exchange Revenue (Increases)	19,462	
		145,416
 Total Obligation as Adjusted and Nonbudgetary Resources		 \$ 12,053,599

**Resources That Do Not Fund Net Cost of Operations**

Change in amount of goods, services, and benefits (Increases)		1,644,665
Costs capitalized on the Balance Sheet (Increases)		
General Property, Plant & Equipment	103,376	
Unfunded Annual Leave	3,025	
		106,401
 Total resources that do not fund net costs		 106,401

**Costs That Do Not Require Resources**

Bad Debt Related to Uncollectible Receivable	54,559	
Loss/Gains on the Disposal of Assets	13,394	
Depreciation	115,421	
		183,374
 Total costs that do not require resources		 183,374

<b>Net Cost of Operations</b>		<b>\$ 13,988,039</b>
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The accompanying notes are an integral part of these statements.

## African Development Foundation Notes to the Financial Statements

As of September 30, 2001

### Note 1. Significant Accounting Policies

#### A. Organization

The African Development Foundation (ADF) is a government-owned corporation established by Congress under the African Development Foundation Act in 1980 and began operations in 1984. The Foundation is the principal agency of the U.S. Government that supports community-based, self-help initiatives that alleviate poverty and promote sustainable economic and social development in Africa at the grassroots level. The Foundation's headquarters are in Washington, D.C. ADF maintains partnerships with local organizations, staffed with African professionals, in each of the countries in which it operates. Over the last seventeen years, the Foundation has funded over 1400 activities in 34 African countries.

#### B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis to report the financial position and results of operation in accordance with the concepts and standards contained in the Statements of Federal Financial Accounting Standards, as required by the Chief Financial Officers Act of 1990. These statements have been prepared from the books and records of the Foundation in accordance with the form and content for federal financial statements specified in the Office of Management and Budget (OMB) in OMB Bulletin No. 01-09 and *OMB Bulletin 97-01* as amended and the Foundation's accounting policies which are summarized in this note.

#### C. Basis of Accounting

Transactions are recorded on an accrual basis. Grants are recorded when obligated and expenses are recognized when the funds are expended, without regard to receipt or payment of cash. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of grants and expenses during the reporting period. Actual results will invariably differ from those estimates.

#### D. Fund Balances with Treasury and Cash

The Foundation maintains the majority of its funds in the U.S. Treasury. These are amounts for which the Foundation is authorized to make expenditures and pay liabilities. The Foundation does maintain cash in a commercial account at Bankers Trust Company of New York to process the award of grant funds to recipients in U.S. currency. In addition, a commercial account is maintained with Barclays Bank of Botswana to process grant funds for that country. The government of Botswana co-funds grants with matching grant funds deposited to the Barclays' account, however, the Foundation controls all grant disbursement activities.

#### E. Foreign Currencies

The Foundation awards grants to private organizations in Africa. Most of the grants are denominated in local currencies to facilitate accounting by the recipient organizations. Depending on the nature of the transaction, foreign currencies are translated into dollars at the actual exchange rate received by the Foundation when the transaction is made or at the prevailing exchange rate at the beginning of the month in which the transaction occurred. The value of obligations incurred by the foundation in foreign currencies varies from time to time depending on the current exchange rate. The Foundation adjusts the value of its obligations at the end of each year to reflect the prevailing exchange rates. Downward adjustments to prior year obligations based on foreign currency exchange rates will be made available for obligation if the adjustment occurs within the Foundation's authorized two year funding period.

**F. Grant Accounting**

The Foundation disburses funds in advance to grantees to cover their projected expenses over a three-month period. Grantees report to the Foundation periodically on the actual utilization of these funds. For purposes of these financial statements, the Foundation treats disbursements to grantees as advances. The advance is reduced when the grantee reports expenditures. The total grant advance is the total amount disbursed to the grantee less the total expended for open (non-expired) grants as of the reporting date. Once a grant has closed (expired or cancelled) any excess disbursement is reclassified as an Accounts Receivable.

**G. Travel Advances**

Advances are given to ADF employees for official travel. Travel advances are recorded as expenses upon receipt of employee travel vouchers.

**H. Property, Plant and Equipment, Net**

The space in which the Foundation operates is leased by the Foundation through a multi-year lease. Equipment is depreciated using the straight-line method over useful lives which is estimated at five years.

**I. Accounts Payable**

Accounts payable represent amounts owed to non-federal entities, primarily commercial vendors, for goods and services received by ADF and grantees whose allowable expenditures exceed the amount disbursed.

**J. Contingencies**

The Foundation is a party in various administrative, legal actions and claims brought by or against it. In the opinion of the Foundation's management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operations of the Foundation.

**K. Annual, Sick, and Other Leave**

Annual, sick and other leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the Foundation calculates the value of the accrued annual leave at the end of the year based on current pay rates. Funding for payment of accrued annual leave at the end of the year will be taken from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

**L. Retirement Plan**

The majority of the Foundation's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Foundation makes statutory contributions to the Office of Personnel Management for employees enrolled in each plan. The foundation does not report accumulated assets, plan benefits or unfunded liabilities, if any, attributable to its employees. The Office of Personnel Management reports such amounts.

**Note 2. Fund Balance with Treasury**

ADF's Fund Balance with Treasury as of September 30, 2001 is summarized below:

	<u>FY 2001</u>
Appropriated Funds	\$15,257,834
Trust Fund	15,790
<u>Gift Fund</u>	<u>1,310</u>
Total	\$15,274,934

**Note 3. Cash, Foreign Currency and Other Monetary Assets**

ADF's cash held as of September 30, 2001 is summarized below:

		<u>FY 2001</u>
Bankers Trust	\$ 47,139	
<u>Barclays Bank of Botswana</u>	<u>91,297</u>	
Total		\$138,436

**Note 4. Advances**

ADF's advances as of September 30, 2001 is summarized below:

		<u>FY 2001</u>
Grants	\$1,991,832	
<u>Travel</u>	<u>41,750</u>	
Total		\$2,033,582

**Note 5. Accounts Receivable**

The Intragovernmental Accounts Receivable represents balance due from reimbursable income from services provided by ADF to AID.

	<u>FY 2001</u>
Total Intragovernmental Receivable	\$82,467

The Accounts Receivable represents the excess of receipts over expenditures by Country Liaison Offices and Development and Technical Assistance Grantees for FY 2001.

	<u>FY 2001</u>
Accounts Receivable	\$252,307
Less Allowance for Uncollectable	<u>101,602</u>
Net Accounts Receivable	\$150,705

**Note 6. Property, Plant and Equipment, Net**

Equipment is capitalized at cost if the initial unit acquisition cost is \$5,000 or more and service life is two years or more. Equipment with an acquisition cost of less than \$5,000 or less than two years of life is expensed when purchased.

ADF's property, plant and equipment as of September 30, 2001 is summarized below:

	<u>FY 2001</u>
Equipment, at cost	\$ 873,612
Accumulated Depreciation	<u>(599,722)</u>
Equipment, net	\$ 273,890

**Note 7. Unexpended Appropriations**

	<u>FY 2001</u>
<b>Unexpended Appropriations</b>	<b>\$15,822,252</b>
Unobligated	
Available	4,049,482
Unavailable	152,886
Not Subject to Apportionment	<u>595,576</u>
Total Unobligated	4,797,944
Undelivered Orders	<u>11,024,308</u>
Total	\$15,822,252

**Note 8. Donations & Honorariums**

This represents an honorarium for a speech presented to Claremont College by the President of the Foundation in December 2000.

	<u>FY 2001</u>
Honorarium	\$1,310

**Note 9. Accounts Payable**

Accounts payable represent amounts owed to non-federal entities, primarily commercial vendors for goods and services received by ADF, grantees whose allowable expenditures exceed the amount disbursed, and costs associated with the transition to new In-Country Partnerships effective September 30, 2001.

	<u>FY 2001</u>
Commercial vendors	\$164,564
Payments In Transit	23,213
Grantees	164,499
New Partnership transition	<u>290,467</u>
Total	\$642,743

**AFICAN DEVELOPMENT FOUNDATION**

Alvin A Brown  
Director of Financial Audits  
Office of the Inspector General, U.S.A.I.D.  
Room No: 8.10 RRB  
1300 Pennsylvania Avenue  
Washington, D.C. 20523-8100

February 21, 2002

Re: Audit Report of the 2001 Financial Statement

Dear Mr. Brown:

We have received the audit report supplied by Leonard G. Birnbaum and Company, including the opinion on the African Development Foundation's (ADF) fiscal year 2001 financial statements, internal controls status, and compliance with applicable laws and regulations. We are pleased to note that all the financial statements: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing have 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 the audit, you identified and reported an instance of weakness in the internal controls over financial reporting and instances of non-compliance with selected provisions of applicable laws and regulations. In general, we concur with your findings and recommendations. However, we are confident that all reported weaknesses will be resolved prior to the audit of the fiscal year 2002 financial statements. ADF continues to aggressively implement its action plan designed to correct all reported findings. By March 31, 2002, all weaknesses identified in the FY 2001 audit report will be corrected before ADF's submission of its mid-year financial statements to Congress. The effectiveness and success of this action plan is evidenced by the unqualified opinions received on all of ADF's FY 2001 financial statements.

We at the African Development Foundation recognize the importance of accountability and public disclosure and our goal is to achieve excellence in our financial management systems. Although the frequency of financial statement reporting by government corporations such as ADF remains annual, we have already voluntarily complied with quarterly reporting soon to be required by the larger federal agencies. We are committed to correcting the issues in your report and have dedicated the staff and resources to ensure our systems are in full compliance. We look forward to working with you and your staff on the 2002 audit. Any questions may be addressed to Tom Coogan or Vicki Gentry at ADF.

Sincerely,

/s/

Ernest G. Green  
Chairman