

USAID

OFFICE OF INSPECTOR GENERAL

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

Audit Report No. 0-ADF-02-003-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: Management Report Prepared in Connection with the Audit of the African Development Foundation's Financial Statements for the Fiscal Year Ended September 30, 2001 (Report No. 0-ADF-02-003-F)

The enclosed management report prepared by Leonard G. Birnbaum and Company, LLP (LGB) in connection with the Audit of the African Development Foundation's Financial Statements for the Fiscal Year Ended September 30, 2001, is provided for your information. The auditors made four separate observations with four corresponding recommendations in the enclosed report.

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

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)

December 14, 2001

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

Under generally accepted auditing standards, auditors are encouraged to report on “significant deficiencies in the design or the operation of the internal control structure that, in the auditor’s judgment, could adversely affect the organization’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.” In addition, auditors are encouraged to report, in a separate management letter, less material issues.

In performing an audit of the African Development Foundation’s (ADF) Principal Financial Statements, as of and for the year ended September 30, 2001, we considered ADF’s internal controls, in determining the nature, timing, and extent of the audit tests applied in connection with our audit. Additionally, in accordance with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, for those significant internal control policies and procedures that were properly designed and placed in operation, we performed sufficient tests to justify a low assessed level of control risk consistent with Statement on Auditing Standards No. 55, promulgated by the American Institute of Certified Public Accountants. Our consideration of the internal controls did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the internal controls to prevent or detect all errors and irregularities.

ADF’s management is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures.

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation of financial statements in accordance with the comprehensive basis of accounting described in OMB Bulletin No. 01-09 and 97-01, as amended, *Form and Content of Agency Financial Statements*.

Because of inherent limitations in any internal controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that it may become inadequate because of changes in conditions or deterioration in its operating effectiveness.

Although the purpose of our consideration of the internal controls was not to provide assurances thereon, matters came to our attention that we want to report to you. These matters are discussed in the attachment. These matters do not affect our report dated December 14, 2001, on the ADF’s Principal Financial Statements referred to above.

This report is intended solely for the use of the ADF’s management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Very truly yours,

/s/

Leonard G. Birnbaum and Company

Attachment: As Stated

AFRICAN DEVELOPMENT FOUNDATION
Audit of Principal Financial Statements
September 30, 2001

Observations and Conclusions

1. Management Accountability and Control:

OMB Circular A-127, Financial Management Systems, requires agencies 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. ADF's internal accounting and administrative controls in place during the year ended September 30, 2001 were not capable of providing adequate, timely, and accurate information to assist ADF management in discharging fiscal responsibilities. As a result, ADF had failed to comply with OMB Circular A-127.

We recommend that ADF institute such controls as are necessary to comply with these provisions of the OMB Circular A-127.

2. Grant Accounting:

ADF disburses funds in advance to grantees to cover their projected expenses over a three-month period. Grantees report to ADF periodically on the actual utilization of these funds. In the general ledger these grant disbursements are expensed when disbursed. At the end of the fiscal year, based on the grantees actual utilization report, off line adjustments to the general ledger balances were made to record grant advances, grants receivable and/or grants payable, as needed, before preparing financial statements. Most of these funds are maintained by the grantees in local currencies. Foreign exchange rate fluctuation adjustments were also made off line to general ledger balances, before preparing the financial statements. These adjustments have significantly changed the general ledger balances at the end of the fiscal year. Consequently, any financial statements prepared during the normal course of business directly from the accounting system (general ledger) could be materially incorrect.

Currently information on all grants, both active and expired, is maintained on an off-line database that is not integrated with the general ledger. At the end of the fiscal year, the grants information from this database was dumped into a spreadsheet to calculate year end adjusting journal entries for grant advances, receivable, payable and/or foreign exchange fluctuations, requiring considerable effort and time. In current the situation, this database is ineffective for grant accounting purposes.

We recommend that ADF effectively utilize and/or modify this grant database, so that adjustments to grant expenses booked in the general ledger can be calculated directly from the database at any time. The adjustment to the grant expenses should be booked monthly. In order to reduce the number of transactions, one suspense account of each type (i.e. for grant advances, receivable, payable and foreign exchange fluctuations) can be set up in the accounting records and adjustments for all the grants can be booked to these accounts. These suspense accounts then can be easily updated each month.

3. Obligation Transactions:

All obligation transactions were not sent to General Service Administration (GSA), to be posted in the general ledger, in the normal course of operation during the FY01. Corrections for various new obligations, upward and downward adjustments to obligations were made off-line at the end to the fiscal year to compile financial statements. Unless a complete history of an obligation is posted in the general ledger accounting record, in the normal course of business, it remains vulnerable to manipulation.

We recommend that ADF change its operating procedures to ensure that all obligation transactions are posted in the general ledger accounting system in the normal course of business on a timely basis.

4. Budgetary Transactions :

ADF made numerous off-line adjustments to both proprietary and budgetary accounts, before preparing the financial statements. These adjustments were not posted in to the general ledger following the standard general ledger transaction codes. Some of these adjustments were to correct the opening balances due to the impact of prior year off-line adjustments. Other adjustments were to book or correct current year transactions. Due to the number of these off-line adjustments, some budgetary accounts were not corrected properly. This resulted in an unreconciled difference of \$158,187 between the statement of financing and the statement of net cost.

We recommend that all adjustments be posted in the general ledger, following the standard general ledger transactions code, on a timely basis. All financial statements should then be prepared directly from the general ledger.

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