

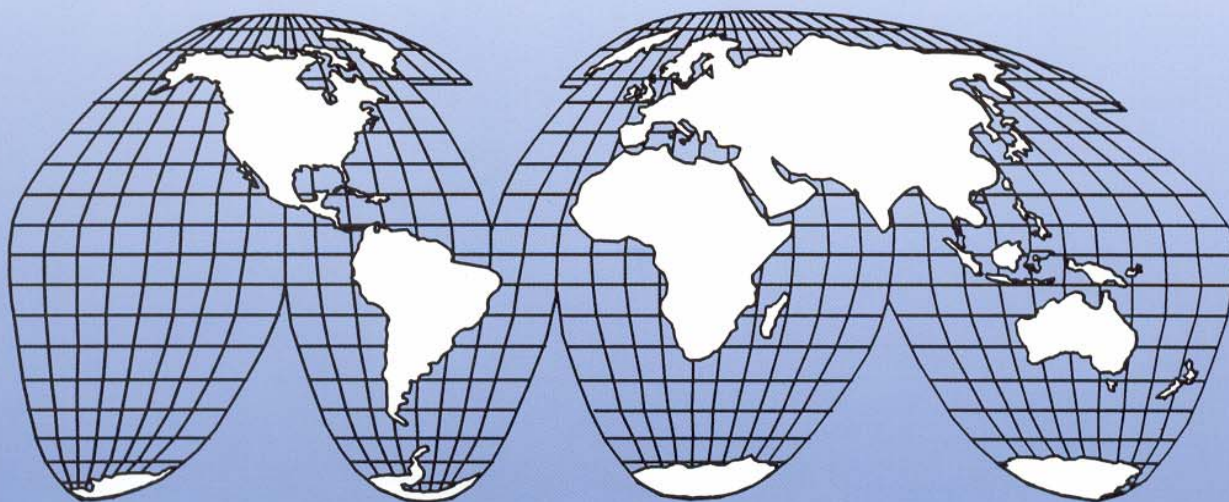
USAID

OFFICE OF INSPECTOR GENERAL

Report on Audit of the African Development Foundation's Consolidated Financial Statements, Internal Control and Compliance for Fiscal Year 2003 and 2002.

Audit Report No. 0-ADF-04-002-C

November 14, 2003



Washington, D.C.

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November 14, 2003

MEMORANDUM

FOR: African Development Foundation President,
Nathaniel Fields

FROM: AIG/A, Bruce N. Crandlemire /s/

SUBJECT: Audit of the African Development Foundation's Financial Statements, Internal Control, and Compliance for the Fiscal Years Ended September 30, 2003 and 2002 (Report No. 0-ADF-04-002-C).

Enclosed is the draft report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Leonard G. Birnbaum and Company, LLP (LGB) to audit the financial statements of the African Development Foundation as of September 30, 2003 and 2002 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted auditing standards; generally accepted government auditing standards; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

In its audit of the African Development Foundation's (ADF) Fiscal Year 2003 Financial Statements, the LGB auditors found;

- that the financial statements were fairly presented in conformity with U.S. generally accepted accounting principles
- a material weakness in ADF's internal controls, and
- three instances of noncompliance related to the inadequacy of its financial and accounting system.

The material weakness in internal controls relates to an inadequacy in the system used by the General Services Administration to process ADF's transactions. Because of this weakness, significant financial statement elements were developed from sources other than the general ledger.

The auditors also noted instances of noncompliance with the Budget and Accounting Procedures Act of 1950; OMB Circular A-127 and; *Federal Financial Management*

System Requirements issued by the Joint Financial Management Improvement Program.

In carrying out its oversight responsibilities, the OIG reviewed LGB's report and related audit documentation. This review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable the OIG to express, and we do not express, opinions on ADF's financial statements or internal control; on whether ADF's financial management systems substantially complied with FFMIA; or on ADF's compliance with laws and regulations. LGB is responsible for the attached auditor's report, dated October 30, 2003, and the conclusions expressed in the report. However, our review disclosed no instances where LGB did not comply, in all material respects, with applicable standards.

Because of the reported material weakness and compliance findings, we are making the following recommendations to ADF management:

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

Recommendation No. 2: We recommend that the African Development Foundation implement an accounting system 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 Improvement Program's *Federal Financial Management System Requirements*.

The report also contains a management letter comment that does not require a formal response. We have incorporated your comments on our draft report in Appendix I of this report.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of LGB during the audit. If you have questions concerning this report, please contact Andrew Katsaros at (202) 712-4902.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The African Development Foundation's (ADF) mission is to make significant, innovative contributions to the development and support of solutions to poverty and community-based development in Africa. ADF accomplishes this by providing funding to empower grassroots groups to become self-reliant and to resolve problems themselves.

ADF is a unique organization that promotes broad-based, sustainable development in sub-Saharan Africa and the expansion of local capacity to promote and support grassroots development. ADF was established as a federal agency and a public corporation by the African Development Foundation Act in 1980 and began operations in 1984. Since that time ADF has awarded more than 1700 grants to promote grassroots development. The Foundation currently provides grants to support:

- Development of micro and small businesses that generate increased incomes and employment;
- Trade and investment linkages for small enterprises and agricultural producer groups;
- Building of self-supporting, sustainable, local community development agencies;
- Promoting community based interventions directed toward AIDS prevention and mitigation; and
- Strengthening democratic values and institutions at the local level.

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 containing detailed implementation plans, and 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. This is accomplished through strategic partnerships with national and regional governments in Africa, national and regional development banks, other international development assistance agencies, and the private sector.

Unlike most other official development agencies, ADF works directly with African producer groups and non-governmental organizations. The Foundation does not channel any resources through governments. All ADF-funded projects are initiated by the enterprise or community group and, rather than designing projects itself, ADF works with the local partner non-government organizations (NGOs) to define and deliver the assistance needed by applicants and grantees. The Foundation's participatory approach assures local ownership and strong participation, and it has been shown to enhance the impact and sustainability of the investments.

The African Development Foundation is currently administering over 240 projects in fifteen countries:

Benin	Namibia	
Botswana	Niger	Uganda
Cape Verde	Nigeria	Zambia
Ghana	Senegal	Zimbabwe
Guinea	Swaziland	
Mali	Tanzania	

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ADF's Strategic Goals and Objectives for FY 2003

During FY's 2002 and 2003, ADF implemented an innovative business model that decentralizes its headquarters and field operations to improve project screening, selection and monitoring, and provides in-country technical resources to support grantees. African professionals now serve as ADF Country Representatives and staff of the local "Partner Organizations." During FY 2003, ADF also established six new strategic program alliances with African Governments, and recognized \$1.3 million in leveraged contributions from existing strategic alliances. The new strategic alliances formed in FY 2003 will result in the Foundation tripling its non-appropriated revenues in FY 2004. In addition, during the last quarter of FY 2003, ADF negotiated an interagency agreement that will provide the Foundation with a federalized Financial Management System to assist the Foundation in making timely financial decisions. Taking into consideration all these challenges, the Foundation has made remarkable accomplishments in achieving its *Management Goals and Objectives for FY 2003* (Table 1).

Establishing Alliances with African Governments, Donors, and the Private Sector to Develop Leveraged Contributions for Grassroots Development.

During FY 2003, ADF established six new strategic alliances in Cape Verde, Ghana, Mali, Senegal, Zambia and Swaziland. In FY 2003, combined with its existing alliances with the Government of Botswana, Government of Namibia, Government of Jigawa State in Nigeria, and the World Bank in Guinea, the Foundation recognized \$1.3 million in leveraged contributions for grassroots development. In FY 2004, ADF will triple its contributed revenues equaling \$4.2 million. In FY 2005, the Foundation expects to add an additional funding partner with a total of 10 countries receiving leveraged contributions projected at \$5.5 million. The partnerships formed through ADF's strategic alliances not only result in additional non-appropriated revenues for grassroots development but also visibly demonstrate that ADF's approach is highly valued and effective.

Management Reforms - Decentralization of ADF Headquarters and Realignment of its Field Structure.

During FY 2003, ADF finalized new partnership agreements with independent, legally registered, non-government organizations through an open, competitive selection process in all countries except Zambia, Cape Verde, and Swaziland. In FY 2003, ADF implemented a new strategic objective of helping develop the capacity of its partner organizations to achieve long-term financial sustainability. Within each country, the new partner organizations will assist applicants in developing, implementing, and monitoring their projects. During the first two years of their cooperative agreement (FY 2002 and 2003), the Foundation asked its new partner organizations to concentrate on ADF work. However, in FY 2004, ADF will encourage the new partner organizations to take on additional work from other funding agencies and clients, thereby reducing their dependency on ADF support.

The next phase of ADF's management restructuring is the decentralization of its field representation to improve compliance with U.S. government regulations, ADF's policies, and project screening and monitoring procedures. In FY 2003, ADF hired resident in-country contractors who serve as ADF's resident representatives. The principal duties of resident representatives include ensuring compliance with U.S. Government regulations and ADF policies, screening of proposals, assessing the financial management capacity of new grantees, reviewing their use of funds throughout the life of the grant, monitoring project implementation and remediation, and assessing project and program impact. ADF's resident representatives are in place in each of its operational countries except Swaziland, Zambia and Zimbabwe. During FY 2003, ADF contracted administrative assistants and drivers to support the resident representatives. Each field representative's office is staffed with African professionals who

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know the country, speak the local language, and understand enterprise development. Each office is also being equipped to support all of ADF's field operations. The selection of all country resident representatives will be completed by December 31, 2003.

At this time ADF is examining options for realigning its headquarters staff to fit the new decentralized field structure. In order to ensure a smooth transition with the field operations and continued screening and monitoring projects, ADF/Washington staff continues to serve as interim country representatives in Swaziland, Zambia and Zimbabwe until all field representatives are in place and trained. The additional costs incurred during the transitional start up phase contributed to the significant increase in ADF non-program costs during FY 2003 and will continue to affect non-program costs in FY 2004. Options for the realignment of headquarters staff will be presented in February 2004, therefore ADF will experience a continuation of higher than normal non-program costs. By the fourth quarter of FY 2004, ADF expects its non-program costs to be 25% or less of total funding.

Improved Accounting and Financial Management Systems

On October 1, 2002, the US General Services Administration (GSA) converted their Financial Management System (FMS). However, significant problems related to GSA's conversion resulted in ADF's continued reliance on its internal accounting records to report on the Foundation's financial activities and perform offline adjusting journal entries to GSA's FMS. In order to correct the resulting FY 2003 audit findings, in the last quarter of this fiscal year, ADF negotiated a new interagency agreement with US Department of Interior's National Business Center (NBC) to supplement ADF's accounting operations and provide full systems support utilizing NBC's federalized Financial Management system. The conversion is scheduled to begin the first quarter of FY 2004 and will be completed by March 31, 2004. The implementation of NBC's Financial Management System will ensure the integrity of ADF's financial data while providing timely reports to assist management in assessing and making key decisions regarding the Foundations' financial operations.

ADF implemented a comprehensive grants database to improve management oversight and internal controls for financial and progress reporting of grantees and partner organizations. During FY 2002, the grants database became fully operational as a tool for financial and administrative management. The advantages of the database are significant given its ability to simultaneously track and report in both local currency and equivalent US dollar values. Currently, ADF's grant and cooperative agreements are tracking thirteen different currencies specific to the countries serviced. Therefore, the timeliness and accuracy of tracking multiple currencies is an essential component in ADF's management of its grant funds. Following the conversion to NBC's Financial Management System (FMS), the financial data from the grant database will be converted to FMS at the transactional level in compliance with the U.S. Standard General Ledger.

Increased Program Funding

In FY 2003 over 96 new or amended grants and cooperative agreements were funded in ADF's fifteen countries. The actual amount of program funding was \$10.1 million, with another \$3.4 million committed to grants that will be finalized the beginning of FY 2004. In addition to ADF appropriations in FY 2003, ADF increased its funding revenue through leveraged contributions of \$1.3 million, with an additional \$9.7 million projected over the next two fiscal years. In FY 2003, ADF also decreased its carryover of available un-obligated funds by \$0.5 million into FY 2004.

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Financial Accountability

ADF undergoes annual, independent audits that address the adequacy of our financial statements, internal controls, and compliance with laws and regulations. In FY 2001, the Foundation received an unqualified opinion on all five financial statements from its independent auditor and the USAID Office of Inspector General. In FY 2002, ADF again received an unqualified opinion on all five 2001 and 2002 comparative statements. In FY 2003, ADF continued to receive an unqualified opinion on all of its five comparative financial statements for FY 2002 and FY 2003.

ADF'S STRATEGIC GOALS AND OBJECTIVES for FY 2002

Table 1

Goal I:	Advance broad-based, sustainable development and empowerment of the poor in Africa
Objective 1:	Promote micro- and small-enterprise development that will generate income and employment
Objective 2:	Increase participation of African grassroots enterprises and producer groups in trade and investment relationships with the U.S. and within Africa
Objective 3:	Promote innovative community-based interventions to remediate the economic and social impact of HIV/AIDS and reduce its spread
Goal II:	Expand local capacity to promote and support grassroots, participatory development
Objective 1:	Build self-supporting, sustainable, local community development agencies that provide technical assistance and support to grassroots groups
Objective 2:	Promote community resource mobilization and 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"

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Selected Performance Indicators

In accordance with the Government Performance and Results Act, ADF prepares an Annual Performance Report. ADF's performance results for FY's 1999, 2000, 2001, and 2002 are presented for comparison purposes and to demonstrate ADF's significant growth prior to FY 2003 activities, Table 2.

ADF's Comparative Performance Results for FY's 1999, 2000, 2001, and 2002
Table 2

Performance Indicator	FY 1999	FY 2000	FY 2001	FY 2002
Micro- and Small Enterprise Development				
Enterprises assisted	5,863	19,635	47,049	86,180
Owners and employees in assisted enterprises	15,655	47,168	36,457	96,854
Women as a percent of employees in assisted enterprises	Indicator not in use	77.0%	56.8%	58.1%
Enterprises receiving loans	18,910	42,518	54,099	65,319
Values of loans disbursed	Indicator not in use	Indicator Not in use	Indicator not in use	\$11,243,310
Percent of total value of loans for women*	Indicator not in use	81.7%	50.8%	60.6%
People receiving business management or technical training	23,636	39,354	66,126	Indicator discontinued
Total gross revenues of assisted enterprises and organizations	Indicator not in use	Indicator Not in use	\$17,456,526	\$53,440,000
Total net income of assisted enterprises and organizations	Indicator not in use	Indicator Not in use	\$10,528,248	\$14,611,000
Trade and Investment				
Number of export products promoted	2	2	4	19
Total gross revenues of assisted enterprises and organizations from export sales	Indicator not in use	Indicator Not in use	Indicator not in use	\$7,594,000
AIDS Prevention & Mitigation				
People receiving training in AIDS prevention	Indicator not in use	962	35,483	274,041
Women as a percent of people receiving AIDS prevention training ¹	Indicator not in use	Indicator Not in use	57.0%	66.8%
Participatory Development Methods				
Partner Organizations assisted	Indicator not in use	13	14	13
Host governments encouraging donors to adopt PDM or allocating more funding to PDM	Indicator not in use	2	2	4

¹ The actual percentages for women are higher than reported since all beneficiaries were assumed to be men if gender-disaggregated data were not available. Thus, the percentage of women beneficiaries is a conservative, lower-bound estimate.

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Future Activities

The U.S. Government appropriations for ADF in FY 2003 were \$18.568 million. Although as of this report the appropriations for FY 2004 have not been set, it is expected to remain at a similar funding level of \$18.689 million. Combined with the ADF's leveraged contributions, receiving the full appropriated funding expected in FY 2004 will enable the Foundation to continue its support for micro and small enterprise (MSE) development, help African producers respond to new trade and investment opportunities, and further assist in the development of 14 Partner Organizations. In addition, ADF will be able to expand in the following areas:

- The Foundation will be able to launch major programs in Zambia and Swaziland. ADF's unique approach would make an important contribution to the countries' national rural development programs and complement other U.S. Government (USG) support in these important countries.
- It will also enable the Foundation to continue incorporating HIV/AIDS prevention strategies in all ADF projects and support other additional community based AIDS programs, which will be a significant grassroots component of the USG efforts to halt the spread of this deadly virus.
- From the Foundation's project management perspective, ADF will expand its grants database to include detail information to analyze project performance and results.
- From the Foundation's financial management perspective, ADF will convert its existing financial management system to a federalized financial management system that will address all the FY 2003 independent audit findings.
- Beyond ADF's own project portfolio, this funding will also enable the Foundation to develop an estimated twelve high-impact, participatory development program models that can be replicated by others. In so doing, ADF will multiply the return on its investments and efforts.

ADF Quality Assurance, Internal Controls and Legal Compliance

In 1994, ADF established an Internal Audit Department (IAD) with a full-time Financial and Field Auditor who reported directly to the President. The Foundation's Board of Directors has a designated audit committee who are responsible for all audit and review functions of the Foundation. ADF's Internal Financial and Field Auditor is primarily responsible for the financial oversight of all partner organizations. The IAD conducts an on site internal audit of each partner organization at least once every two years and reviews the results of the partner's yearly independent audit.

In addition to the Financial and Field Auditor, IAD also has a full-time Financial Control Officer whose primary responsibility is oversight of the Foundation's grantees. The Financial Control Officer also supervises the independent external audit of ADF's grant program.

During FY 2003, ADF Partner Organizations helped grassroots groups develop their project ideas into viable business plans, and provided rigorous financial analysis and support to assure projects were progressing toward established performance goals. Each of ADF's partner NGOs has a Financial Officer who assists the grantees in their compliance with the Foundation's legal and financial reporting requirements.

ADF's Resident Country Representatives assess each grantee's capacity to manage and account for funds

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and certifies its financial management capacity prior to ADF awarding a grant. After project approval, the Partner Organization provides intensive financial management training to the grantee.

All grantees are required to submit quarterly financial reports and activity and performance reports. Business enterprises are also required to submit quarterly financial statements. During the life of the grant, ADF's Country Representatives monitor the financial reporting by grantees and partner organizations, address any discrepancies or other issues, make regular site visits to verify project performance, and report to ADF headquarters' management on compliance and performance issues. The resident Country Representatives carry out administrative functions that support ADF and are thereby classified under the administrative costs category.

In FY 2002 the Foundation initiated its realignment of its Washington headquarters staffing to improve pre-project analysis and financial management. The headquarters' realignment will be completed during FY 2004. While ADF is optimistic that this new structure will improve efficiency and effectiveness over time, ADF incurred significant costs in transitioning to this new structure during FY 2002 and FY 2003.

The grants database has a full time Grants Database and Operations Manager, who is the primary person responsible for the continued integrity and security of all grantee administrative and financial data reported. Following the conversion of the Financial Management System (FMS) in FY 2004, ADF will interface its grant database with its FMS to facilitate timely management analysis of financial data and ensure regulatory compliance.

Comments on Financial Statements

ADF is pleased to report that in FY 2003 the Foundation continues to receive an unqualified opinion on all five financial comparative statements from its independent auditors Leonard G. Birnbaum and Company, and the USAID Office of Inspector General. Since FY 2001, ADF has received an unqualified opinion on the Balance Sheet, the Statement of Net Costs, the Statement of Net Position, the Statement of Budgetary Resources, and the Statement of Finance.

Limitations of the Financial Statements

ADF's principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from books and records in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to 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 a component of the U.S. Government, a sovereign entity.

AFRICAN DEVELOPMENT FOUNDATION

INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2003 and 2002

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 years ended September 30, 2003 and 2002; we have examined internal control over financial reporting in place as of September 30, 2003; and we have examined compliance with laws and regulations.

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 years ended September 30, 2003 and 2002.

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, 2003 and 2002 and the related ADF's statements of net cost, statements of changes in net position, statement of budgetary resources and financing for the fiscal years ended September 30, 2003 and 2002 present fairly, in all material respects, the

- financial position of the ADF as of September 30, 2003 and 2002
- net cost and changes in net position of the ADF for the fiscal years ended September 30, 2003 and 2002 and;

- budgetary resources and financing of the ADF for the fiscal years ended September 30, 2003 and 2002

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 judgement, 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, 2003 was inadequate. The principal areas of inadequacy were:

- Because of inadequacies in the system used by the General Services Administration to process ADF's transactions, 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.

- The United States Standard 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 October 30, 2003.

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 OMB 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 October 30, 2003.

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. 01-09, *Form and Content of Agency Financial Statements*, 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 2003 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
October 30, 2003

African Development Foundation
BALANCE SHEET
As of September 30, 2003 and 2002

	<u>Notes</u>	<u>FY 2003</u>	<u>FY2002</u>
ASSETS			
Intergovernmental:			
Fund Balance with Treasury	2	\$22,627,277	\$17,658,948
Fund Balance held outside Treasury	2	<u>724,296</u>	<u>341,516</u>
Total Intergovernmental		23,351,573	18,000,464
Cash and other monetary assets			
Accounts receivable – Net	5	924,837	1,165,927
Accounts receivable – Other Revenue	5	-	17,092
General property, plant and equipment – Net	6	-	704,223
Other:		370,838	218,434
Advances: Travel	4	59,400	57,150
Grants	4	1,755,283	1,968,857
Prepayment – Franchise Fund	4	<u>274,120</u>	<u>660,687</u>
TOTAL ASSETS		<u>\$26,736,051</u>	<u>\$22,792,834</u>
LIABILITIES			
Intergovernmental:			
Collections from Other Revenues	9	<u>\$ 118,296</u>	<u>\$ 1,103,688</u>
Total Intergovernmental		118,296	1,103,688
Accounts Payable	9	107,147	90,114
Accrued Payroll	9	84,454	181,737
Accrued Leave	9	<u>183,402</u>	<u>189,833</u>
TOTAL LIABILITIES		<u>\$ 493,299</u>	<u>\$ 1,565,372</u>
NET POSITION			
Unexpended Appropriations	7	23,805,948	18,963,953
Cumulative Results of Operations		<u>2,436,804</u>	<u>2,263,509</u>
TOTAL NET POSITION		<u>\$26,242,752</u>	<u>\$21,227,462</u>
TOTAL LIABILITIES AND NET POSITION		<u>\$26,736,051</u>	<u>\$22,792,834</u>

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENT OF NET COST
For the Years Ended September 30, 2003 and 2002

	<u>Notes</u>	FY 2003 Grant <u>Program</u>	FY2002 Grant <u>Program</u>
PROGRAM COSTS			
Program Funding		\$ 8,450,837	\$ 7,413,376
Operating Expenses – Public		6,371,889	5,190,312
Operating Expenses – Intergovernmental		<u>125,000</u>	<u>127,689</u>
TOTAL PROGRAM COSTS		<u>14,947,726</u>	<u>12,731,377</u>
NET PROGRAM COSTS		<u>14,947,726</u>	<u>12,731,377</u>
NET COST OF OPERATIONS		<u>\$14,947,726</u>	<u>\$12,731,377</u>

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2003 and 2002

	Notes	<u>FY 2003</u>		<u>FY 2002</u>	
		<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
Beginning Balances		\$ 2,263,509	\$18,963,953	\$ 1,763,420	\$15,822,252
Budgetary Financing Sources					
Appropriations Received			18,689,000		16,542,000
Recission & Cancelled Resources			(121,479)		(310,529)
Appropriations Used		13,725,526	(13,725,526)	13,089,770	(13,089,770)
Non-Exchange Revenue					
Other Revenues					
(Non Expendable)	8			1,103,688	
Collections – Transferred	8			(1,103,688)	
Donations – Expendable	8	1,276,584		50	
Transfer in w/o Reimbursement				13,957	
Imputed Financing		125,000		127,689	
Other – Net Losses Equipment		(6,089)			
Net Cost of Operations		<u>(14,947,726)</u>	_____	<u>(12,731,377)</u>	_____
Ending Balances		<u>\$ 2,436,804</u>	<u>\$23,805,948</u>	<u>\$ 2,263,509</u>	<u>\$18,963,953</u>

The accompanying notes are an integral part of these statements.

African Development Foundation
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2003 and 2002

	<u>Notes</u>	<u>FY 2003</u>	<u>FY2002</u>
BUDGETARY RESOURCES			
Budget Authority – Appropriation		\$18,689,000	\$16,542,000
Unobligated Balance Brought Forward, October 1		2,336,486	4,715,476
Spending Authority from Offsetting Collections		1,276,584	82,467
Adjustments:			
Net Results of Foreign Currency Adjustment PY Obligations		(2,592,891)	2,869,857
Recission Current Year		(121,479)	(2,000)
Permanently not available		<u>(189,775)</u>	<u>(308,529)</u>
TOTAL BUDGETARY RESOURCES		<u>\$19,397,925</u>	<u>\$23,899,271</u>
Obligations Incurred – Current Period		16,232,064	20,286,201
Unobligated balances – available	7	2,652,031	2,806,885
Unobligated balances – unavailable	7	<u>513,830</u>	<u>806,185</u>
TOTAL STATUS OF BUDGETARY RESOURCES		<u>\$19,397,925</u>	<u>\$23,899,271</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
Obligated balance, Net – Beginning of Period		15,350,883	11,024,308
Reimbursement & Other Income Earned – Receivable		<u>-</u>	<u>82,467</u>
		15,350,883	11,106,775
Obligated balance – Net End of Period			
Advances		2,088,803	2,686,694
Undelivered Orders		<u>18,551,284</u>	<u>12,664,189</u>
		20,640,087	15,350,883
Outlays:			
Disbursements		12,702,987	13,089,770
Collections		<u>-</u>	<u>(82,467)</u>
Subtotal		12,702,987	13,007,303
Less: Offsetting receipts		<u>(1,276,584)</u>	<u>-</u>
Net Outlays		<u>\$11,426,403</u>	<u>\$13,007,303</u>

The accompanying notes are an integral part of these statements.

African Development Foundation
CONSOLIDATED STATEMENT OF FINANCING
For the Years Ended September 30, 2003 and 2002

	<u>FY 2003</u>	<u>FY2002</u>
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred	\$16,232,064	\$20,286,201
Less: Spending Authority from Offsetting Collections & Adjustments	<u>1,316,307</u>	<u>(2,952,325)</u>
Net Obligations	17,548,371	17,333,876
Donated Revenue	-	14,007
Financing Imputed for Cost Subsidies	<u>125,000</u>	<u>127,689</u>
Net Other Resources Used to Finance Activities	<u>125,000</u>	<u>141,696</u>
Total Resources Used to Finance Activities	17,673,371	17,475,572
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in budgetary resources not yet provided (Increase)	(2,011,670)	(4,392,589)
Resources that finance the acquisition of assets	<u>(1,588,524)</u>	<u>(55,456)</u>
Total resources that do not fund net costs	<u>(3,600,194)</u>	<u>(4,448,045)</u>
Total Resources Used to Finance Net Cost of Operations	14,073,177	13,027,527
Costs that will not Require Resources in this Period:		
Increase in Accrued Annual Leave Liability		38,165
Exchange Revenue from the Public (Increase)	721,315	133,613
Resources used to fund Prior Year Expenses (Inc)	<u>-</u>	<u>(714,078)</u>
Total Costs that will Not Require Resources in this Period	721,315	(542,300)
Components not Requiring Resources		
Bad Debt Related to Uncollectible Receivables	17,092	133,613
Loss/Gains on the Disposal of Assets	6,089	-
Depreciation	<u>130,052</u>	<u>112,537</u>
Total costs that do not require resources	153,233	246,150
NET COST OF OPERATIONS	<u>\$14,947,725</u>	<u>\$12,731,377</u>

The accompanying notes are an integral part of these statements.

African Development Foundation
Notes to the Financial Statements
As of September 30, 2003

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 1700 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* 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 Deutsche Bank Trust Company 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, Citibank Nigeria, and Ecobank of Guinea to process grant funds for that country. The government of Botswana and Nigeria co-funds grants with matching grant funds deposited to the Ecobank, Citibank, and 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 quarter during the year to reflect the prevailing exchange rates. Downward adjustments to prior year obligations based on favorable foreign currency exchange rates will be made available for obligation if the adjustment occurs within the Foundation's authorized two year funding period. Upward adjustment to prior year obligations based on unfavorable foreign currency exchange rate with the U.S. dollar will be made from the current year available funds.

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. In order to ensure timeliness in reporting grantee expenditures, the Foundation will use estimates to complete to calculate the last quarter's grantee expenditures based on historical expenditure trends since 1996. The actual expenditures adjustments will be reported in the following quarter's financial statements. 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.

M. Reclassifications

Certain accounts in fiscal year 2002 were reclassified to confirm with the fiscal year 2003 presentation.

Note 2. Fund Balance with Treasury

ADF's Fund Balance with Treasury as of September 30, 2003 and 2002 are summarized below:

	<u>FY 2003</u>	<u>FY 2002</u>
Appropriated Funds	\$ 22,611,487	\$ 17,641,798
Trust Fund	15,790	15,790
Gift Fund	<u>-</u>	<u>1,360</u>
Total Fund Balance with Treasury	\$ 22,627,277	\$ 17,658,948
Deutsche Bank Trust Company	39,232	44,444
Ecobank of Guinea	118,296	-
Barclays Bank of Botswana	515,471	243,521
Citibank Nigeria	<u>51,297</u>	<u>53,551</u>
Total Fund Balance Held Outside Treasury	\$ 724,296	\$ 341,516

Note 3. Cash, Foreign Currency and Other Monetary Assets

ADF's other monetary assets are summarized below:

	<u>FY 2003</u>	<u>FY 2002</u>
Franchise Fund - Contracting	<u>924,837</u>	<u>1,165,927</u>
Total	\$ 924,837	\$ 1,165,927

Note 4. Advances

ADF's advances as of September 30, 2003 and 2002 are summarized below:

	<u>FY 2003</u>	<u>FY 2002</u>
Grants	\$ 1,755,283	\$ 1,968,857
Travel	59,400	57,150
Prepayment – Franchise Fund	<u>274,120</u>	<u>660,687</u>
Total	\$ 2,088,803	\$ 2,686,694

Note 5. Accounts Receivable

The Accounts Receivable represents the excess of receipts over expenditures by In-Country Partnerships and Development and Technical Assistance Grantees for FY 2003 and 2002.

	<u>FY 2003</u>	<u>FY 2002</u>
Accounts Receivable	\$ -	\$ 123,016
Less Allowance for Uncollectable	<u>-</u>	<u>105,924</u>
Net Accounts Receivable	\$ -	\$ 17,092

The Accounts Receivable – Other Revenues from FY 2002 represents the due from ADF's strategic partnerships with African Governments and other donor agencies.

	<u>FY 2002</u>
Government of the Republic of Guinea	\$ 270,247
Government of Jagawa State, Nigeria	414,193
Government of the Republic of Botswana	<u>19,783</u>
	\$ 704,223

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, 2003 and 2002

	<u>FY 2003</u>	<u>FY 2002</u>
Equipment, at cost	\$ 1,050,162	\$ 801,007
Accumulated Depreciation	<u>(679,324)</u>	<u>(582,573)</u>
Equipment, net	\$ 370,838	\$ 218,434

Note 7. Unexpended Appropriations

	<u>FY 2003</u>	<u>FY 2002</u>
Unexpended Appropriations	\$ 23,805,948	\$ 18,963,953
Unobligated Available	2,652,031	2,806,885

Unavailable	<u>513,830</u>	<u>806,185</u>
Total unobligated	3,165,861	3,613,070
Undelivered Orders	<u>20,640,087</u>	<u>15,350,883</u>
Total	\$ 23,805,948	\$ 18,963,953

Note 8. Donations & Other Revenues

Other Revenue recognized in FY 2003 represents expendable donated/gifted funds that are generated by the Foundation through its strategic partnerships with national and local African governments. The funds reported in FY 2003 include \$833,439 of Other Revenues reported as non-expendable in FY 2002 with no budgetary impact to the Foundation. In FY 2003, these funds are now deemed expendable budgetary resources to the Foundation.

	<u>FY 2003</u>	<u>FY 2002</u>
Government of the Republic of Botswana	\$ 804,840	\$ 363,695
Government of the Republic of Guinea	-	270,248
Government of Jigawa State, Nigeria	<u>\$ 471,744</u>	<u>469,745</u>
Total	\$ 1,276,584	\$ 1,103,688

Note 9. Accounts Payable

Accounts payable Intragovernmental represents collections from Other Revenues awaiting disposition by the Foundation.

	<u>FY 2003</u>	<u>FY 2002</u>
Government of the Republic of Botswana	-	\$ 363,695
Government of the Republic of Guinea	118,296	270,247
Government of Jigawa State, Nigeria	<u>-</u>	<u>469,744</u>
Total	\$ 118,296	\$ 1,103,688

Accounts payable represent amounts owed to non-federal entities, primarily commercial vendors for goods and services received by ADF, and accrued employee payroll and annual leave.

	<u>FY 2003</u>	<u>FY 2002</u>
Commercial vendors	\$ 107,147	\$ 90,114
Accrued employee payroll and leave	<u>267,856</u>	<u>371,570</u>
Total	\$ 375,003	\$ 461,684

Note 10. Leases

The space in which the Foundation Headquarters operates is leased by the Foundation through a multi-year lease until April 30, 2008. The total amount of funding commitment is detailed in Table 1.

ADF also enters into space leases in the countries with established Resident Representative offices. Although these leases have three to five year renewal options, the options are exercised at the discretion of ADF and do not represent future funding commitments to the Foundation.

**TABLE 1 – ADF Headquarters’
Space Lease – Total Future Payment Due**

Fiscal Year	Dates	Amount
Year 1	October 1, 2003 – September 30, 2004	\$367,838
Year 2	October 1, 2004 – September 30, 2005	\$376,626
Year 3	October 1, 2005 – September 30, 2006	\$384,159
Year 4	October 1, 2006 – September 30, 2007	\$391,842
Year 5	October 1, 2007 – April 30, 2008	\$232,874
TOTAL		\$1,753,339

October 30, 2003

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, 2003, we considered ADF’s internal controls, in determining the nature, timing, and extent of the audit test 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, 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 October 30, 2003, 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, LLP

Attachment: As Stated

AFRICAN DEVELOPMENT FOUNDATION
Audit of Principal Financial Statements
September 30, 2003

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. Because of the inadequacies of GSA's processing of ADF's accounting transactions, ADF's internal accounting and administrative controls in place during the year ended September 30, 2003 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 take such action as is necessary to comply with these provisions of the OMB Circular A-127.

2. Monthly Reconciliation for Fund Balance held outside Treasury:

During the audit, we noted that ADF was tracking bank account transactions on spreadsheets, but the account balances were not being adjusted in the general ledger monthly. Rather, the balances were adjusted at the end of the year, before preparing financial statements. Consequently, any financial statements generated during the fiscal year directly from the general ledger could be inaccurate.

We recommend that ADF adjust the balance of Fund Balance held outside Treasury in the general ledger on monthly basis.

**Management
Comments and
Our Evaluation**

We consider the management comments to be responsive to the recommendations made in this report. We have included these comments in their entirety in Appendix I.

Based on the comments provided, we consider final management decisions to have been reached on both of the recommendations included in this report. Upon completion of final actions taken to implement the recommendations identified in the report, the African Development Foundation should consult with the Office of Inspector General to request closure.

**Management
Comments**



November 10, 2003
Mr. Bruce N. Crandlemire
Assistant Inspector General for Audit
Office of the Inspector General, U.S.A.I.D.
1300 Pennsylvania Avenue
Washington, D.C. 20523-8100

Re: Audit Report of the 2003 Financial Statement

Dear Mr. Crandlemire:

We have received the audit report supplied by Leonard G. Birnbaum and Company, including the opinion on the African Development Foundation's (ADF) fiscal years 2002 and 2003 comparative financial statements, internal controls status, and compliance with applicable laws and regulations. We are pleased to note that all five comparative financial statements (Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing) have continued to receive 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 three related instances of non-compliance with selected provisions of applicable laws and regulations. In general, we concur with your findings and recommendations. As you have identified, the material weakness in internal controls relates to the inadequacy of the financial management systems used by the General Services Administration (GSA) to process ADF transactions. In the beginning of FY 2003, ADF identified these weaknesses in GSA's newly converted system and immediately began to investigate alternative systems and providers that would address all reported weaknesses. Based on our investigative findings, ADF entered into an interagency agreement with US Department of Interior, National Business Center, to provide full support utilizing their federalized Financial Management System. The implementation of NBC's system during FY 2004 will ensure the integrity of ADF's financial data and provide timely reports to assist management in assessing and making key decisions regarding the its financial operations. By March 31, 2004, all weaknesses identified in the FY 2003 audit report will be corrected. The effectiveness and success of ADF's quality improvement program is evidenced by the continued unqualified opinions received on ADF's financial statements and the timely resolution all reported weaknesses.

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. We are committed to resolving the issues identified 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 2004 audit. Any questions may be addressed to Vicki Gentry, Chief Financial Officer at ADF or to me.

Sincerely,

/s/
Nathaniel Fields
President