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## OFFICE OF INSPECTOR GENERAL

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# AUDIT OF THE INTER-AMERICAN FOUNDATION'S IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT

AUDIT REPORT NO. 9-000-08-003-P  
December 31, 2007

WASHINGTON, DC



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*Office of Inspector General*

December 31, 2007

Larry Palmer  
President  
Inter-American Foundation  
901 N. Stuart Street  
10th Floor  
Arlington, VA 22203

Dear Mr. Palmer:

This letter transmits our final report on the subject audit. The report includes two recommendations: one to strengthen the Inter-American Foundation's monitoring of grant-funded assets and one to reduce grantee's risk of abuse and conflict of interest. Based on your comments to our draft report, we consider that management decisions have been reached on both recommendations and that final action is pending. The Foundation's audit committee must determine when final action has been achieved on these recommendations, and we ask to be notified of the committee's actions.

Your management comments are included in their entirety as Appendix II to this report.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Sincerely,

Steven H. Bernstein  
Director, Performance Audits Division

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# SUMMARY OF RESULTS

The Inter-American Foundation (the Foundation) is an independent agency of the United States Government that provides grants to nongovernmental and community-based organizations in Latin America and the Caribbean for innovative, sustainable, and participatory self-help programs. The Foundation primarily funds partnerships among grassroots and nonprofit organizations, businesses, and local governments, directed at improving the quality of life of poor people and strengthening participation and democratic practices. For the fiscal year ending September 30, 2006, the Foundation received an appropriation of \$19.3 million for program and program support activities, and awarded \$14.2 million in grants (see pages 3 and 4).

The Office of Inspector General conducted this audit to determine whether the Foundation implemented the requirements of the Government Performance and Results Act (the Act). Congress enacted this legislation to improve the confidence of the American people in the capability of the Federal Government by systematically holding Federal agencies accountable for achieving program results. The Act provides specific criteria for the information required in the strategic plan and related reports. The strategic plan should include a comprehensive mission statement covering the major functions and operations of the agency. Additionally, the strategic plan is required to contain a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives. The annual program performance report should provide information on actual performance and progress in achieving the goals in the strategic plan and performance budget (see page 3 and 4).

We concluded that the Inter-American Foundation implemented the requirements of the Government Performance and Results Act by developing and submitting, as required, the requisite reports specified in the Act (see page 5). However, the Foundation could improve its monitoring of grant-funded assets. In addition, the Foundation could take steps to reduce its risk of being involved in activities that appear to be abusive or have an appearance of a conflict of interest (see pages 6 through 9).

Accordingly, this report recommends that the Foundation develop a policy that requires grantees and Foundation field representatives to address and report on the status of grant-funded assets (see page 8); develop a procedure for preparing grant agreements that requires the terms waste, fraud, and abuse to be defined; and instructs grantees to avoid abuse and conflict-of-interest situations or situations that give the appearance of abuse or conflict of interest (see page 9).

In comments to our draft report, the Foundation agreed to take appropriate steps in response to the report's recommendations. Specifically:

- The Foundation will develop a policy that requires grantees to advise Foundation staff immediately if a significant expenditure or asset of a minimum value of \$1,000 is missing. Additionally, Foundation representatives will be asked to report on the status of grant-funded assets in their field trip reports.

- The Foundation will incorporate into its representative manual definitions and guidance on how to instruct grantees on abuse and conflict-of-interest concerns appropriate to the grassroots development context and the level of sophistication of the grantee organization.

As result, we conclude that a management decision has been reached on each recommendation (see page 10).

# BACKGROUND

In 1993, Congress enacted the Government Performance and Results Act to improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results. Requirements of the Act are promulgated through the Office of Management and Budget Circular A-11 Part 6 "Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports." Strategic plans, annual performance plans, and annual program performance reports (performance and accountability reports) comprise the main elements of the Act. Together, these elements create a recurring cycle of planning, program execution, and reporting.

The Act provides criteria for the information required in the strategic plan and related reports. The strategic plan should include a comprehensive mission statement covering the major functions and operations of the agency. Additionally, the strategic plan is required to contain a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives. The annual program performance report should provide information on actual performance and progress in achieving the goals in the strategic plan and performance budget.

In November 1999, the President signed Public Law 106-113, which amended the Inspector General Act of 1978 by assigning audit and investigative responsibilities for the Inter-American Foundation to the Office of Inspector General at the U.S. Agency for International Development. The Foundation is an independent foreign assistance foundation of the United States Government that provides grants to grassroots organizations in Latin America and the Caribbean. The guiding principles of the Inter-American Foundation are to support people, organizations, and processes; channel funds directly to the nongovernmental sector; promote entrepreneurship, innovation, and self-reliance; strengthen democratic principles; empower poor people to solve their own problems; and treat partners with respect and dignity.

For fiscal year (FY) 2006, the Foundation received an appropriation of \$19.3 million for program and program support activities, which was supplemented by \$5.6 million from the Social Progress Trust Fund<sup>1</sup> for grants and approximately \$0.4 million in carryover funds for a total budget of approximately \$25.3 million.

In FY 2006, the Foundation provided funds for 54 new grants in the amount of \$10.4 million and amended 54 ongoing projects in the amount of \$3.8 million, resulting in total grant funding of \$14.2 million. These funding actions are divided among primary program areas as follows:

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<sup>1</sup> The Social Progress Trust Fund, administered by the Inter-American Development Bank, is one of the primary funding sources. The Fund consists of repayments of loans originally made by the U.S. Government under the Alliance for Progress to various Latin American and Caribbean governments.

Primary Program Areas	Funding Actions	Amount
Food Production/Agriculture	26	\$ 3,346,951
Business Development/ Management	30	3,893,394
Education/Training	29	3,211,790
Research/Dissemination	2	79,000
Community Services	4	767,533
Legal Assistance	2	316,300
Cultural Expression	5	727,946
Ecodevelopment	6	1,194,989
Corporate Social Investment	4	615,000
Fiscal Year 2006 Grant Funding	108	\$14,152,903

The \$11.1 million difference between the \$25.3 million total funding and the \$14.2 million for program funding consisted of approximately \$3.4 million for program evaluations and \$7.6 million for managerial and program support operations, with a residual of approximately \$100,000.

The Foundation's strategic plan for 2002–2007 and its FY 2006 budget justification were based on four institutional goals:

- Support the most promising and innovative means to foster sustainable grassroots and local development and economic independence.
- Foster communication, learning, and reflective practice.
- Make the most of available resources (efficiency, counterpart).
- Be the preeminent organization in the areas of grassroots development and participatory democracy in Latin America and the Caribbean.

## **AUDIT OBJECTIVE**

The Office of Inspector General's Performance Audits Division conducted this audit as part of its annual audit plan. The audit was conducted to answer the following question:

- Did the Inter-American Foundation implement the requirements of the Government Performance and Results Act?

See Appendix I for details of the audit's scope and methodology.

# AUDIT FINDINGS

The Inter-American Foundation implemented the requirements of the Government Performance and Results Act for the fiscal year ending September 30, 2006. In accordance with the requirements of the Act, the Foundation:

- Developed a strategic plan which covered a period of at least 5 years forward from the year of submission and included a comprehensive mission statement covering its major functions and operations.
- Prepared an annual performance plan, which included performance indicators that measured relevant outputs and provided a basis for comparison to actual program results.
- Prepared the annual performance budget that included performance goals validated for programs assessed by the program assessment rating tool.
- Prepared its annual performance report, which provided information on actual performance and progress in achieving the goals specified in the strategic plan and performance budget.<sup>2</sup>

As part of our effort in reviewing the Foundation's implementation of the Act, we reviewed the activities of four of its grants, two in Panama and two in Ecuador. We noted that three of these four grants achieved their planned outputs and that their activities were fairly reflected in the Foundation's 2006 performance report.<sup>3</sup> However, one of the grantees was not achieving all of its planned activities, and the status of one of these activities was not fairly reflected in the 2006 Annual Performance Report. Additionally, under this grant, which was a joint effort of the Foundation and several other donor organizations, a new house was constructed for the president of the grantee—giving the appearance of abuse and a conflict of interest with grantee officials. These issues are discussed in detail below.

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<sup>2</sup> The Foundation requested permission from the Office of Management and Budget to change the period covered in its results report from the Federal Government's fiscal year covering the period beginning October 1 and ending September 30, to the period from March 1 to February 28. This permission was granted, and the reporting period covered in the 2006 grants results report runs from March 2005 to February 2006, straddling the second half of Federal fiscal year 2005 and the first half of Federal fiscal year 2006.

<sup>3</sup> Our term "fairly reflected" in this report means that the activities and results reported in the 2006 performance report correspond with the activities we observed, information we noted, and documentation we reviewed in our work with the four grantees.



## **Country Reports Need to Include the Status of Grant-funded Assets**

Foundation grantees did not report on the status of grant-funded assets, as required by internal control standards applicable throughout the Federal Government. Grantees did not report on the status of grant-funded assets because the Foundation's reporting standards only required grantees to report on activities during reporting periods. As a result, Foundation officials did not receive complete and timely reporting that radio station equipment purchased by a grantee had been seized by local authorities, and that microfinance loans were not being repaid. Consequently, the Foundation's 2006 reports detailing results of the grant operations were inaccurate.

To enable local residents of a neighborhood in Guayaquil, Ecuador, to voice their opinions and discuss community-related issues, Foundation funds were used to acquire radio broadcast equipment, produce radio programs, and broadcast these programs throughout the neighborhood. Although the grant to this neighborhood did not specify the dollar amount funded for this radio effort, the grant initially totaled \$284,000 and specified that \$8,000 would be used for equipment to edit and duplicate material for radio programs and \$98,000 would be used for microfinance activities.

The Foundation did not receive complete and timely information from its grantee on the status of the grant-funded assets—in this case, grant-funded radio equipment. Although the grantee reported on activities related to the radio station, including the local government's seizure of the radio equipment and subsequent "broadcasting" activities by the grantee, the reports did not comment on the operational status of the radio equipment. The Foundation assumed that the grantee had recovered the seized radio equipment and the station was once again operating. However, the report, in actuality, referred to a public address system that had been implemented in place of the radio station. In actuality, the radio station equipment had not been recovered, and the radio station had only operated for 2 months before being closed.

According to the Government Accountability Office's Standards for Internal Control in the Federal Government, Federal agencies should establish controls over vulnerable physical assets, such as equipment, to prevent loss, theft, or unauthorized use. Such assets should be periodically counted and compared to control records to help reduce the risk of errors. Additionally, these standards say that management should ensure there are adequate means of obtaining information from external stakeholders that may have a significant impact on the agency achieving its goals.

The Foundation was not immediately informed of the operational status of the radio station equipment because the periodic reports from the country reporting sources focused on, in accordance with Foundation reporting guidance and forms, activities and progress, but did not mention or report on the status of grant assets.

As a result of not mentioning the status of grant-funded assets in the grantee reports, the Foundation did not receive complete and timely information about the actual operational status of the grant-funded assets. Additionally, the Foundation's 2006 grants results report did not fairly reflect the incapacitated status of the radio station. Instead, the report implied that the radio station had been returned to the community for broadcasting in the grantee's listening area.

If the Foundation had required the grantee and field representative site visit reports to comment on the operational status of grant assets—in this case, the radio station equipment—the Foundation would have received better information about the status of the grant activities. Additionally, there would have been increased assurance that the actual condition of the radio station was reflected in the Foundation's performance report.

In addition to the radio station, this grant contained a microfinance component, budgeted at \$98,000, to benefit the local community. Under this component, a savings and loan cooperative was organized to provide financial services, including loans, to cooperative members.

Regarding this microfinance component, the Foundation did not receive information from the grantee or Foundation representatives on the status of grant-funded assets, in this case grant-funded loans and cash. In 2004, the Foundation received grantee and site visit reports from staff that reflected positive progress in the microfinance portion of the grant. For example, the reports stated that the program had 118 functioning projects. Additionally, reports stated that 21 jobs had been created as a result of the loans, and an August 2004 site visit report stated that 95 percent of all loan recipients were paying back their loans on time. However, these reports did not include the status of the grant assets—the dollar amount of loans outstanding and the dollar amount of cash on hand from the repaid loans.

According to the Government Accountability Office's Standards for Internal Control in the Federal Government, the issuance and repayment of loans are examples of transactions which should be promptly recorded in order to maintain their relevance and value for managerial decisionmaking. Additionally, program managers need financial data to determine whether they are meeting their agency's strategic and annual performance plans. Furthermore, financial information is needed to make operating decisions and monitor performance.

In this microfinance effort, the periodic reports to the Foundation from the country reporting sources focused on, in accordance with Foundation reporting guidance and forms, activities and progress. The reports did not mention or report on the status of grant assets—cash available and loans outstanding.

The Foundation provided, in September 2004, an additional \$10,000 for microfinance activities. Subsequently, a staff report dated October 2005 stated that in 2005 the grantee made little effort to recover the loans and many borrowers had perceived them to be grants. The audit identified that no new loans were being made, no attempts were being made to collect outstanding loans, and outstanding loans were not being repaid. Consequently, we concluded that the microfinance program was not achieving its goal. However, if, during the course of the grant, the Foundation had required country reports

to comment on the status of grant assets, in this case loan balances and cash on hand, the Foundation would have known earlier that borrowers were not repaying their loans. The Foundation could have then taken more timely action to dispel the borrowers' impressions that the funds provided were grants and may not have allotted an additional \$10,000 to this component.

Nevertheless, our report does not include a recommendation to require additional reports on the status of microfinance loans and cash because, at the end of the grant, the Foundation obtained information on the status of its microfinance assets. In August 2005, it implemented a more rigorous microfinance reporting system. The new microfinance reporting system will require reports to contain more details about the loan activities, such as delinquencies, aged receivable balances, nonrecoverable loans, and amounts of cash available for lending.

This new loan reporting system strengthened the Foundation's monitoring of its microfinance activities. Nonetheless, including the status of other types of grant assets in grantee and foundation staff site visit reports would further improve monitoring of grants that involve and depend on grant-funded assets for their success. Thus, we are making the following recommendation:

*Recommendation No. 1: We recommend that the Inter-American Foundation develop a policy that requires grantees and field representatives to periodically report on the status of grant-funded assets.*

## **A Grantee Official May Have Benefited Personally from a Foundation Grant**

Under an agreement between the Foundation, a grantee, and other organizations in Ecuador, a program was established to provide assistance for residential construction and home renovation. Total construction funds originally budgeted for this component of the grant included:

- \$27,000 to be provided by the Foundation would be used to purchase construction material and resources.
- \$15,000 to be provided by the grantee.
- \$33,000 to be provided by other organizations.

As part of the efforts of this grant, a new house costing \$6,000 was constructed for the president (a citizen of Ecuador) of the grantee. The Foundation contends that one of the partnering donor organizations provided all of the funds and resources for this construction and that members of the community agreed that grant funds could be allocated to construct a house for the grantee's president. However, a recent financial audit of this grant, conducted by a local accounting firm, did not disclose whether Foundation or only partnering donor organization funds and resources were used for this house. Furthermore, the Foundation could not provide clear or conclusive evidence to us that the house was funded and constructed exclusively with other donor organization funds, nor could it provide proof that members of the local community agreed with this construction.<sup>4</sup>

The Government Accountability Office's Government Auditing Standards defines "abuse" as actions which may be legal, but that are deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances of the situation. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Additionally, Federal procurement regulations state that Government business shall be conducted in a manner above reproach with complete impartiality and with preferential treatment for none. These criteria add that the general rule is to avoid strictly any conflict of interest or even the appearance of a conflict of interest. Furthermore, and in our opinion, the risk of failure to achieve program goals is enhanced when resources are channeled for personal gain.

Unreasonable personal benefits to high-ranking grantee officials may occur because the Foundation agreement does not define terms such as abuse and conflict of interest in its grant documents. Additionally, this agreement and other agreements we reviewed did not instruct grantees to avoid abuse and conflict-of-interest situations or situations that would give the appearance of abuse or conflict of interest. Finally, the Foundation did not have an established procedure to obtain and maintain clear and convincing proof that, when working with donor partners, only partner resources, and not Foundation resources, were used in activities that may appear to be abusive or a conflict of interest.

As a result, other grantees, intended beneficiaries of the Foundation's development efforts, and the public may incorrectly conclude that high-ranking officials of grantees can receive unreasonable personal benefits from Foundation resources. To reduce the risk and the appearance that grant funds are personally benefiting grantee officials, we are making the following recommendation:

*Recommendation No. 2: The Inter-American Foundation should develop a procedure for preparing grant agreements that (a) requires the terms abuse and conflict of interest to be defined and (b) instructs grantees to avoid abuse and conflict-of-interest situations or situations that give the appearance of abuse or conflict of interest.*

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<sup>4</sup> Owing to the objective and scope of this audit, we did not conduct a financial audit to determine if Foundation funds were or were not used to construct or assist in the construction of the grantee president's house.

# EVALUATION OF MANAGEMENT COMMENTS

In comments to our draft report, the Inter-American Foundation agreed to take appropriate steps in response to the report's recommendations. Specifically:

- In response to Recommendation No. 1, the Foundation will develop a policy that requires grantees to advise staff immediately if a significant expenditure or asset of a minimum value of \$1,000 is missing. Additionally, Foundation representatives will be asked to report on the status of grant-funded assets in their field trip reports.
- In response to Recommendation No. 2, the Foundation will incorporate into the representative manual definitions and guidance on how to instruct grantees on abuse and conflict of interest concerns appropriate to the grassroots development context and the level of sophistication of the grantee organization.

As result, we conclude that a management decision has been reached on each recommendation.

The Foundation's comments are included in their entirety as Appendix II.

# SCOPE AND METHODOLOGY

## Scope

The Office of Inspector General's Performance Audits Division conducted this audit of the Inter-American Foundation in accordance with generally accepted government auditing standards. The audit was designed to answer the following question:

- Did the Inter-American Foundation implement the requirements of the Government Performance and Results Act?

This report summarizes the results of audit work conducted at Foundation offices in Virginia and grantee locations in Ecuador and Panama. Audit fieldwork was conducted from November 13, 2006, through July 24, 2007. The audit tested compliance with and implementation of the Government Performance and Results Act for the fiscal year ending September 30, 2006. This testing also included a review of the 5-year strategic plans for the periods 2002–2007 and 2008–2013. The team examined documentation from the grantees, data verifiers, and independent auditors, including data verifier field visit reports and independent auditor work papers from the local accounting firms. In addition, the audit team conducted site visits to grantee offices and activity sites

In planning and performing the audit, the audit team assessed the effectiveness of internal controls related to complying with and implementing the Government Performance and Results Act, monitoring grantee activities, and determining grantee progress in achieving grant goals. Of the 108 grants and grant amendments totaling \$14.2 million that were funded in fiscal year 2006, the audit judgmentally selected and tested 4 grants totaling more than \$900,000.

## Methodology

To answer the audit objective, the audit team examined documents required to be filed under the provisions of the Government Performance and Results Act, such as strategic plans, annual performance plans, and annual performance reports. The team also interviewed officials from the Foundation and examined relevant laws and regulations relating to the Foundation's activities. These laws and regulations included the Government Performance and Results Act of 1993, the Office of Management and Budget's Circular A-11 Part 6 "Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports," and the Government Accountability Office's Standards for Internal Control in the Federal Government. The audit team interviewed officials from grantees in Ecuador and Panama, their independent auditors, and their local data verifiers.

We did not determine or use materiality thresholds for the audit, as they were not appropriate for the audit's objective.



# MANAGEMENT COMMENTS

## Inter-American Foundation

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*An Independent Agency of the U.S. Government*

December 12, 2007

Mr. Steven H. Bernstein  
 Director Performance Audits Division  
 Office of the Inspector General  
 U.S. Agency for International Development  
 1300 Pennsylvania Avenue, N.W.  
 Washington, D.C. 20523-8900

Dear Mr. Bernstein:

Thank you for submitting the Office of the Inspector General's (OIG) draft report titled: *Audit of the Inter-American Foundation's Implementation of the Government Performance and Results Act* on November 20, 2007. I was pleased to see that your office was favorably impressed by the Inter-American Foundation's (IAF) implementation of the requirements of the Government Performance and Results Act (GPRA), including the development of a strategic plan, annual performance plans and budgets. You also acknowledged that our annual performance report contained all required components: information on actual performance and our progress in achieving the goals specified in our strategic plan and performance budget.

**With respect to the recommendations:**

*Recommendation No. 1: We recommend that the Inter-American Foundation develop a policy that requires grantees and IAF field representatives to periodically report on the status of grant-funded assets.*

Even though the IAF already meets GAO Standards for Internal Control in the Federal Government through our financial auditors verifying project assets as required in the IAF audit manual, we will develop a policy that requires grantees to advise IAF staff immediately if a significant expenditure/asset of a minimum value of \$1,000 is missing. Additionally, IAF Foundation Representatives will be asked to report on the status of grant-funded assets in their field trip reports. We note that in the audited case, the status of grant-funded assets was known to the

IAF Foundation Representative, who was in contact with the grantee as they were in the process of developing a resolution to the situation.

*Recommendation No. 2: The Inter-American Foundation should develop a procedure for preparing grant agreements that (a) requires the terms abuse and conflict of interest to be defined and (b) instructs grantees to avoid abuse and conflict of interest situations or situations that give the appearance of abuse or conflict of interest.*

The IAF is very aware of and takes seriously the importance of avoiding abuse and/or conflict of interest situations, including situations in which the appearance of abuse or a conflict of interest is created. In light of this awareness, the IAF takes measures appropriate to the grassroots development context to encourage its grantees to avoid such situations.

It is important to recognize, however, that working in the grassroots development context presents some unique challenges and the customary standards of ethical conduct that apply in the traditional business or professional sphere require contextual consideration in the grassroots environment in order to ensure that the original purpose of the development work itself is not undermined. Often, community and/or IAF grantee leadership is composed of one or more members of the very beneficiary population that the IAF grant is intended to benefit. In such situations, it is not necessarily appropriate to apply the standard prohibition on immediate family members of an officer of a grantee organization from participating in a program that the officer oversees since the IAF funds projects in some of the poorest communities in the hemisphere and prohibiting an entire family from being eligible to participate in a project would put them at an economic disadvantage. Moreover, this approach would likely discourage people in such communities from taking exactly the type of community leadership role that the IAF aims to promote with its projects and initiatives. IAF projects require broad community participation, and empower grantees and beneficiaries to set standards and resolve conflicts that emerge throughout the project.

The IAF is not in agreement that the situation involving the construction of a \$6,000 home for the president of the grantee organization should be categorized as “abusive or a conflict of interest.” According to definitions cited in the OIG’s report, it is not a logical conclusion that the individual benefited inappropriately or channeled resources for personal gain considering “reasonable and necessary business practice given the facts and circumstances of the situation.” The reasonable and necessary business practice under these facts must be derived from the grassroots development context. Community or grantee leaders are often members of the very beneficiary population the project is designed to assist and by whom it is implemented. In such cases, it is very reasonable that leaders of the grantee organization, or their family members, might benefit from project activities. This reality does not necessarily imply that any abuse or conflict of interest has occurred. In the situation described in the OIG’s report, the benefit derived by the grantee leader was consistent with goals of the project activities,



the monetary value was consistent with others who received similar benefits, there was transparency in the selection of those who received benefits, and no allegations of wrongdoing were ever made against the grantee leader even after the IG raised the issue and further inquiries were made to the community.

The IAF routinely vets the proposals it receives for potential abuse or conflicts of interest and monitors projects throughout the grant period based on the information we receive about project progress and developments. We continue to be mindful of abuse and conflict of interest issues with respect to the grantee and, to the extent that we have information about them, third party donor organizations throughout the vetting and monitoring process.

As a matter of practice, IAF contractors are also directed to be alert to situations that could potentially involve abuse or conflicts of interest. IAF field auditors are required to develop audit steps in order to obtain reasonable assurance of grantee compliance with laws and regulations. The IAF held its annual regional auditors' conference the last week of November 2007, and representatives of all the IAF field audit firms attended. During the auditors' conference, the IAF legal office provided training sessions on ethics, identifying fraud, abuse and conflicts of interest as issues that warrant special attention. Field auditors advise the IAF in audit reports whenever they identify potential conflicts of interest. The IAF will incorporate into its Audit Manual more detailed guidance on the definition of abuse and conflict of interest, and how to better identify and report on such information. Additionally, the IAF will incorporate into the IAF Foundation Representative Manual that is currently being revised and updated, definitions and guidance on how to instruct grantees on abuse and conflict of interest concerns appropriate to the grassroots development context and the level of sophistication of the grantee organization.

The IAF will implement the new policies agreed to above within the next grant cycle. Thanks for your cooperation and concern.

Sincerely,

Amb. Larry L. Palmer /s/  
President

**U.S. Agency for International Development**  
**Office of Inspector General**  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
Tel: (202) 712-1150  
Fax: (202) 216-3047  
**[www.usaid.gov/oig](http://www.usaid.gov/oig)**