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BY THE COMPTROLLER GENERAL

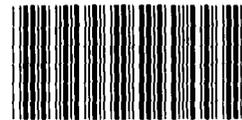
Report To The Congress

OF THE UNITED STATES

Examination Of The Inter-American Foundation's Financial Statements For The Year Ended September 30, 1984

GAO examined the financial statements of the Inter-American Foundation for the year ended September 30, 1984. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Foundation as of September 30, 1984, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.



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GAO/AFMD-85-43
MAY 29, 1985

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202917

To the President of the Senate and the
Speaker of the House of Representatives

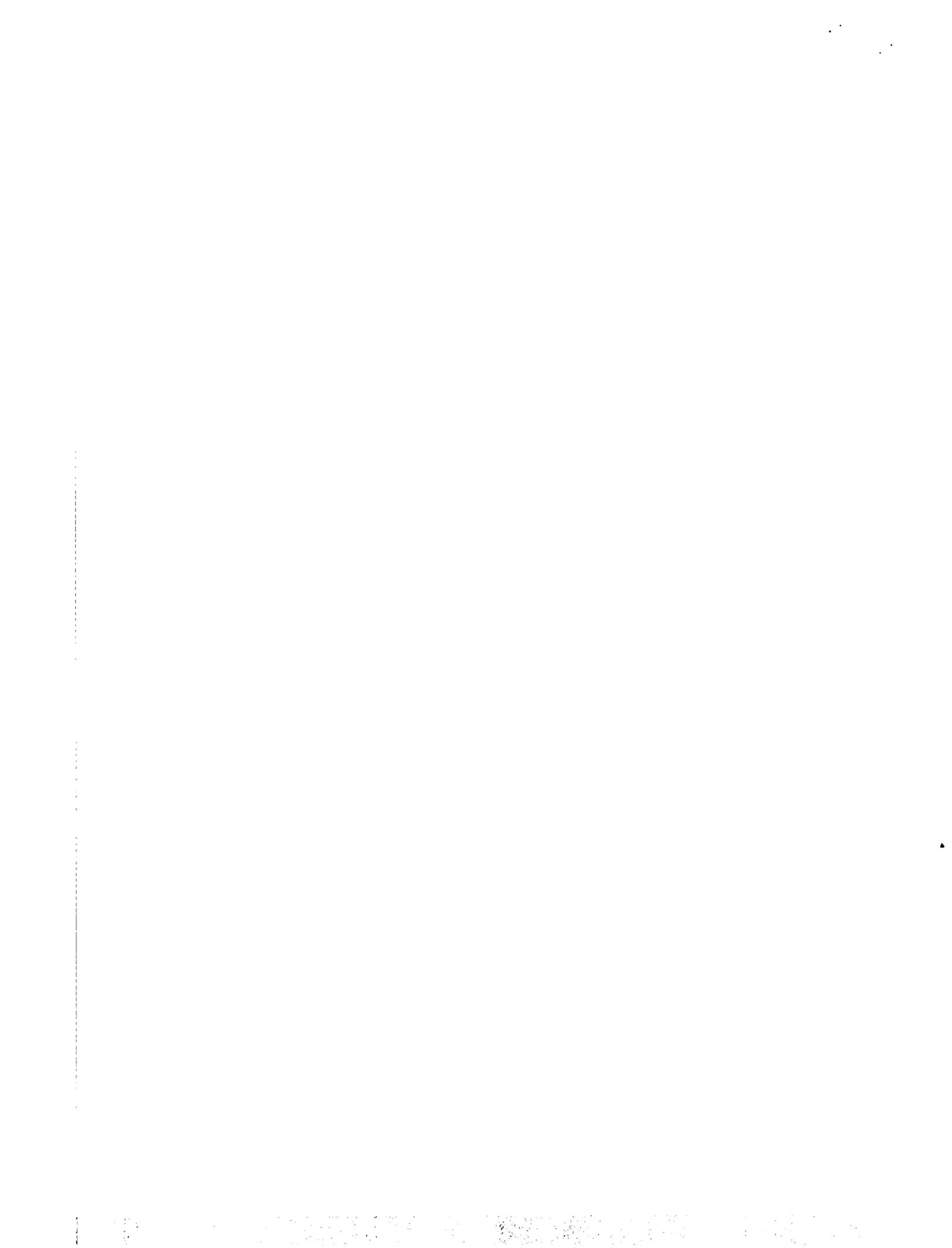
This report presents our opinion on the Inter-American Foundation's financial statements for the year ended September 30, 1984. Appendix I is our report on the Foundation's internal accounting controls, and Appendix II is our report on the Foundation's compliance with laws and regulations. We made our examination pursuant to the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards. Our last audit of the Foundation covered fiscal year 1980.

The Inter-American Foundation was created as a corporation and agency of the United States by section 401(a) of the Foreign Assistance Act of 1969, as amended (22 U.S.C. 290f(a)). Section 401(t) of the Act (22 U.S.C. 290f(t)) provides that the Foundation shall be subject to the provisions of the Government Corporation Control Act (31 U.S.C. 9101-9109). The Foundation provides financial support through grant or loan programs for individual self-help developmental projects designed to improve the social and economic condition of people in Latin America and the Caribbean.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Administrator of the Agency for International Development, and the Board of Directors of the Inter-American Foundation.

A handwritten signature in cursive script, reading "Charles A. Bowles".

Comptroller General
of the United States





COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202917

To the Board of Directors
Inter-American Foundation

We have examined the statement of financial condition of the Inter-American Foundation as of September 30, 1984, and the related statements of operations and changes in fund balances, invested capital, and cumulative results of operations and changes in financial position for the year then ended. The Foundation's enabling legislation (22 U.S.C. 290f(t)) provides that the Foundation shall be subject to the provisions of the Government Corporation Control Act (31 U.S.C. 9101-9109). Our examination was made pursuant to the audit authority contained in 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Inter-American Foundation as of September 30, 1984, and the results of its operations and changes in fund balances, invested capital, and cumulative results of operations, and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the year ended September 30, 1980, were examined by us, and we expressed an unqualified opinion on them in our report dated May 4, 1981, but we have not audited the fiscal year 1981, 1982, and 1983 statements.

A handwritten signature in black ink that reads "Charles A. Bowler".

Comptroller General
of the United States



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REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the financial statements of the Inter-American Foundation for the year ended September 30, 1984, and have issued our report thereon. As part of our examination, we made a study and evaluation of the Foundation's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- expenditure,
- financial reporting,
- grants,
- payroll, and
- treasury.

Our study included the grant control category listed above, but we did not evaluate the accounting controls over the expenditure, financial reporting, payroll, and treasury cycles because it was more efficient to expand substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Foundation's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the Inter-American Foundation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system 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 generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express

an opinion on the system of internal accounting control of the Inter-American Foundation taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Inter-American Foundation for the year ended September 30, 1984. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the Inter-American Foundation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the Foundation's financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Foundation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

INTER-AMERICAN FOUNDATION
STATEMENT OF FINANCIAL CONDITION
AS OF SEPTEMBER 30, 1984 AND 1983

ASSETS	1984	1983	LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT	1984	1983
	<u> </u>	<u>(Unaudited)</u>		<u> </u>	<u>(Unaudited)</u>
CURRENT ASSETS:			CURRENT LIABILITIES:		
Funds with the U.S. Treasury:			Accounts payable:		
Appropriated Fund (note 3)	\$12,897,117	\$13,461,689	Trade accounts payable	\$ 169,120	\$ 193,949
Social Progress Trust Fund (note 3)	19,957,096	19,729,088	Approved grant disbursement requests:		
Cashier imprest fund	<u>2,007</u>	<u>1,477</u>	Appropriated Fund	15,207	-
Total cash	<u>32,856,220</u>	<u>33,192,254</u>	Social Progress Trust Fund	74,473	-
			Other U.S. Government agencies	64,239	35,481
Receivables:			Accrued liabilities:		
Accounts receivable	105,177	7,841	Salaries and benefits	105,524	97,910
Employee travel advances	37,397	18,641	Annual leave	123,814	144,669
Due from funding contract with Social Progress Trust Fund (note 2)	<u>3,084,800</u>	<u>2,261,295</u>	Consultants fees	10,233	27,895
			Advance by U.S. Treasury for cash imprest fund	3,000	3,000
Total current assets	<u>36,083,594</u>	<u>35,480,031</u>	Current portion of funding contract with Social Progress Trust Fund (note 2)	<u>3,084,800</u>	<u>2,261,295</u>
			Total current liabilities	<u>3,650,410</u>	<u>2,764,199</u>
FIXED ASSETS:			INVESTMENT OF THE U.S. GOVERNMENT:		
Office furniture and equipment	361,704	245,511	Appropriated Fund:		
Less allowance for depreciation	<u>176,870</u>	<u>160,644</u>	Invested capital	184,834	84,867
Total fixed assets	<u>184,834</u>	<u>84,867</u>	Cumulative results of operations (deficit)	<131,762>	<150,285>
			Unexpended appropriations:		
Total assets	<u>\$36,268,428</u>	<u>\$35,564,898</u>	Unobligated	1,618,919	1,243,367
			Obligated	<u>11,063,404</u>	<u>11,893,662</u>
			Total Appropriated Fund	<u>12,735,395</u>	<u>13,071,611</u>
			Social Progress Trust Fund:		
			Unobligated	6,874,693	8,745,980
			Obligated	<u>13,007,930</u>	<u>10,983,108</u>
			Total trust fund	<u>19,882,623</u>	<u>19,729,088</u>
			Total investment of the U.S. government	<u>32,618,018</u>	<u>32,800,699</u>
			Total liabilities and equity	<u>\$36,268,428</u>	<u>\$35,564,898</u>

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
STATEMENTS OF OPERATIONS AND CHANGES IN FUND BALANCES, INVESTED CAPITAL, AND
CUMULATIVE RESULTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1984 AND 1983

	1984	1983 (Unaudited)
	<u> </u>	<u> </u>
FINANCING SOURCES:		
Appropriation funds	\$13,000,000	\$14,000,000
Funds received from SPTF contract		
(Less: Loss on foreign currency exchange rates of \$510,473 in 1984 and \$2,065,928 (unaudited) in 1983 (note 2))	7,952,597	12,130,552
Donations	<u>5,000</u>	<u>42</u>
Total financing sources	<u>20,957,597</u>	<u>26,130,694</u>
OPERATING COSTS:		
Grant disbursements	16,447,706	19,607,031
Administrative expenses:		
Employee salaries and benefits	2,486,912	2,363,342
Travel and transportation	388,168	394,900
Office and equipment rentals (note 4)	508,027	470,201
Telephone postage and supplies	254,039	231,506
Depreciation	24,391	21,894
Contracted services and other expenses	<u>1,031,034</u>	<u>840,659</u>
Total administrative expenses	<u>4,692,571</u>	<u>4,322,502</u>
Total grant disbursements and administrative expenses	<u>21,140,277</u>	<u>23,929,533</u>
EXCESS OF FINANCING SOURCES OVER <UNDER> OPERATING COSTS	<182,680>	2,201,161
Fund balance at beginning of year	<u>32,800,699</u>	<u>30,599,538</u>
Fund balance at end of year	<u>\$32,618,019</u>	<u>\$32,800,699</u>
Invested capital balance		
at beginning of year	\$ 84,867	\$ 50,097
Purchase of equipment	124,358	56,664
Depreciation	<u><24,391></u>	<u><21,894></u>
Invested capital balance at end of year	<u>\$ 184,834</u>	<u>\$ 84,867</u>
Cumulative results of operations		
at beginning of year	\$ <150,285>	\$ <136,293>
Prior period adjustments (note 2)	< 2,332>	
Adjustment for accrued annual leave	<u>20,855</u>	<u><13,992></u>
Cumulative results of operations at end of year	<u>\$ <131,762></u>	<u>\$ <150,285></u>

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 1984 AND 1983

	<u>1984</u>	<u>1983</u> (Unaudited)
SOURCE OF FUNDS:		
Operations:		
Excess of financing sources over <under> operating costs	\$ <182,680>	\$ 2,201,161
Items not affecting cash:		
Depreciation	24,391	21,894
Sources affecting cash:		
Decrease in travel advances	-	20,913
Increase in accounts payable	-	28,079
Increase in approved grant disbursement requests	89,680	-
Increase in amounts owed to U.S. Government agencies	28,757	-
Increase in accrued annual leave	-	13,992
Increase in accrued salaries and benefits	7,614	22,754
Increase in current receivable due from SPTF	<u>2,081,000</u>	<u>3,852,000</u>
Total source of funds	<u>2,048,762</u>	<u>6,160,793</u>
APPLICATION OF FUNDS:		
Applications affecting cash:		
Increase in accounts receivable	97,336	812
Increase in travel advances	18,756	-
Decrease in accounts payable	24,829	-
Decrease in approved grant disburse- ment requests	-	28,163
Decrease in amounts owed to U.S. Government agencies	-	9,939
Decrease in accrued consultant fees	17,662	41,024
Decrease in accrued annual leave	20,855	-
Increase in current liability under SPTF contract	2,081,000	3,852,000
Purchase of equipment	<u>124,358</u>	<u>56,664</u>
Total application of funds	<u><2,384,796></u>	<u><3,988,602></u>
INCREASE <DECREASE> IN CASH	\$ <336,034> -----	\$ 2,172,191 -----

The accompanying notes are an integral part of these financial statements.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 1984 AND 1983

Note 1. DESCRIPTION OF ENTITY

The Inter-American Foundation was created as a corporation and agency of the United States by section 401(a) of the Foreign Assistance Act of 1969, as amended (22 U.S.C. 290f(a)). The Foundation provides financial support through grant or loan programs for individual self-help developmental projects designed to improve the social and economic condition of people in Latin America and the Caribbean. Prior to February 1972, the Foundation operated under the name of the Inter-American Social Development Institute.

The Foundation is governed by a seven-member Board of Directors, which is appointed by the President for 6-year terms and confirmed by the Senate. Under the Foreign Assistance Act, four Board members are from the private sector, and three are officials or employees of U.S. agencies concerned with Inter-American affairs. Currently, the three U.S. government appointees are the Assistant Secretary of State for Inter-American Affairs, the Administrator of the Agency for International Development, and the U.S. Permanent Representative to the Organization of American States.

Related Party

The Foundation's payroll processing, payment, and reporting to employees and third parties, such as governmental agencies for taxes, is conducted under a service contract with the General Services Administration.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting records are maintained on the accrual basis of accounting.

Funding Sources

The Foundation's grant program is funded by 1) congressional appropriation, 2) contractual agreement with the Social Progress Trust Fund (SPTF), and 3) donations from the private sector. Congressional appropriations remain available until expended. The Foundation contracts

with the Inter-American Development Bank¹ to receive funds from SPTF to finance part of the Foundation's grant program. Section 36 of the Foreign Assistance Act of 1973 (Public Law 93-189) required the United States and the Bank to revise the SPTF agreement to provide, among other things, SPTF funds to the Foundation. Currently, the Foundation has a contract with the Bank to make \$48 million available in equal amounts over 3 years ending in 1985.

The funds are made available in foreign currencies upon request by the Foundation subject to denomination availability, exchange controls, and other restrictions of individual countries. Unrequested funds of any year are available during the remaining period of the contract and all unrequested funds revert to the Trust Fund at the end of the contract. The balance available for Foundation request under the 3-year SPTF contract was \$27,260,000 as of September 30, 1984, and \$38,782,000 as of September 30, 1983.

Depreciation

Depreciation is computed on the straight-line method based on the estimated useful life of the assets. Equipment and leasehold improvements have a 5-year life and furniture has a 12-1/2 year life. Depreciation is not charged in the year of acquisition, and a full year's depreciation is charged in the year of disposal. Furniture and equipment, acquired at a unit cost of less than \$300, are charged to operating expense.

Grant Disbursements and Administrative Expenses

Grant disbursements include prepayment in advance of performance under a contractual obligation. Evidence of performance is determined by review of required periodic expenditure reports. All grants over \$35,000 are independently verified, using Foundation audit guidelines.

¹The Bank is an international financial organization, established to promote the economic and social development of member countries. U.S. participation in the Bank is authorized and governed by the Inter-American Development Bank Act (22 U.S.C. 283). The United States and the Bank executed an SPTF agreement in 1961, and the United States provided appropriations to the SPTF through 1964. The Bank was designated as administrator for SPTF and committed the original SPTF appropriations to loans. Repayments of these Trust Fund loans are recycled by the Bank in accordance with the original agreement and subsequent provisions for additional loans, technical cooperation programs, and financing of the Inter-American Foundation grants.

The Foundation's administrative expenses are funded solely by appropriated funds.

Foreign Currency Gains and Losses

The Foundation requests projected grant disbursements financed by SPTF for 6-month periods. To fulfill these requests, the SPTF administrator transfers foreign currencies to U.S. Treasury accounts in the specified foreign countries. The Foundation incurs foreign currency gains and losses because the Treasury requires the Foundation to convert the foreign currency transfers to U.S. dollars at the exchange rate available to the U.S. Treasury, which is not equal to the rate obtained by the Inter-American Development Bank. The Bank receives its own rates with the foreign countries. The difference between the two exchange rates is a foreign currency gain or loss to the Foundation.

The aggregate effects of the gains and losses from foreign currency transactions reduced SPTF financing sources as follows:

	1984	1983 (Unaudited)
Gains	\$ 12,524	\$ 41,900
Losses	<u>(522,997)</u>	<u>(2,107,828)</u>
Net Gain (Loss)	<u>\$ (510,473)</u>	<u>\$(2,065,928)</u>

Restatement of 1983 Amounts

Financial statements for fiscal year 1983 have been reformatted to conform with presentation of the fiscal year 1984 statements.

Prior Period Adjustments

Adjustments of \$2,332 were made to correct an understatement of prior year's administrative expenses.

Note 3. FUNDS WITH THE U.S. TREASURY

The Appropriated Fund and SPTF cash balances consist of the following items:

	<u>1984</u>	<u>1983</u> <u>(unaudited)</u>
Appropriated Fund:		
Account balance per Treasury	\$12,873,717	\$13,458,903
Deposits-in-transit	16,429	-
Undeposited collections	-	65
Separate account for donations	<u>6,971</u>	<u>2,721</u>
Balance per Inter-American Foundation	<u>\$12,897,117</u>	<u>\$13,461,689</u>
Social Progress Trust Fund:		
Account balance per Treasury	\$19,318,095	\$19,729,088
Deposits-in-transit	99,676	-
Reconciling items for errors on Treasury's records	<u>539,325</u>	<u>-</u>
Balance per Inter-American Foundation	<u>\$19,957,096</u>	<u>\$19,729,088</u>

The reconciling items for errors on Treasury's records consist of 1) an overcharge of \$4,325 in its calculation of a foreign currency exchange rate loss, and 2) a collection of \$535,000 for the Foundation which Treasury had not reflected in the Foundation's account balance with the Treasury.

Note 4. OPERATING LEASES

Office Space

The Foundation occupies office space under a lease agreement, accounted for as an operating lease, that expires on April 30, 1986. Lease payments are increased annually based on the Foundation's proportionate share of the building's operating expenses and real estate taxes. Minimum future lease payments are as follows:

1985	\$304,226
1986	<u>177,465</u>
Total	<u>\$481,691</u>

Computer Equipment Rental

The Foundation rents its computer equipment under several operating lease agreements with different expiration dates. The standard period covered by the lease agreements is 48 months, but the individual agreements must be renewed for each fiscal year. The Foundation is bound by the agreement to exercise the renewal option annually unless the Foundation is not granted additional funding for a new fiscal year. Minimum future lease payments are estimated as follows:

1985	\$ 186,613
1986	255,204
1987	255,204
1988	255,204
1989	<u>255,204</u>
Total	<u>\$1,207,429</u>

Note 5. Pension Plans

All permanent Foundation employees who were hired before January 1, 1984, or those who were reemployed under a covered position after January 1, 1984, with less than 1-year break in service, are covered by the Civil Service Retirement and Disability Fund. As required by law, employees contribute 7 percent of their salaries to the plan with an equal amount contributed by the Foundation. Permanent employees not previously employed by the government under the previous mentioned condition, who were employed after January 1, 1984, are covered under the social security and the contributory retirement programs. Temporary employees are not eligible for the contributory retirement program; however, they are covered under social security. The total pension expense for fiscal years 1984 and (un-audited) 1983 was \$161,821 and \$143,377, respectively.

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