



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

B-135075

AUGUST 21, 1979

Mr. William M. Dyal, Jr.
President
Inter-American Foundation



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Dear Mr. Dyal:

During our recently completed audit of the Inter-American Foundation's fiscal year 1978 and 1977 financial statements, we found several ways the Foundation could improve its internal controls. Although these matters do not affect our opinion on the financial statements and were not included in our letter to the Board of Directors, they are important and we believe the Foundation should

Recommendation

- expand the internal audit function,
- provide for review of individual payroll transactions in the comprehensive payroll register,
- require that the subsidiary ledgers and detail schedules be reconciled monthly to the general ledger, and
- require adequate support for all adjusting entries for the general ledger accounts.

We discussed these matters with Foundation officials, who generally concurred and indicated that corrective action was being taken or considered.

INTERNAL AUDIT FUNCTION

To be of maximum usefulness, the internal auditor's scope should not be restricted but should extend to all activities and relate to management controls. This means it should encompass:

- An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.

Reconciliation process
Internal audits
Accounting errors
Accounting systems
Payroll systems
Financial management

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Improvement of Internal Controls 7/15

--A review of whether resources are used efficiently and economically.

--A review to determine whether desired results are effectively achieved.

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The scope of the internal audit work at the Foundation falls far short of these objectives. In fact, during fiscal years 1978 and 1977, the internal audit work was primarily limited to desk reviews of public accountants' audit reports on grantee operations. The internal auditor did not make on-site examinations of the grantees' records. The grantees are visited by the Foundation representatives and by the accountant who certifies the grant disbursements. However, on-site examinations by the internal auditor would provide the desired independence and objectivity for program reviews, because he has the advantages of a greater degree of independence from the official directly responsible for the operation's review, a broader viewpoint of the interrelationship of the organizations and functions within an agency, and a better position for making systematic and independent evaluations of all agency programs.

In our opinion, the internal auditor's role at the Foundation has evolved to that of a compliance officer rather than that of an auditor. We believe that the internal audit activity needs to be expanded.

The Foundation's executive officer agreed in principle with our views but pointed out that the lack of resources made it difficult to expand the audit function. He said that the internal auditor recently visited two Latin American countries to investigate irregularities in use of grant funds and that the addition of another staff member to assist the internal auditor is under consideration.

We recommend that you expand the scope of the internal audit activity and proceed with the plan to employ an additional auditor in order for management to realize the benefits of internal auditing.

INTERNAL ACCOUNTING CONTROLS

We observed the following problems in the Foundation's internal accounting controls which, if left uncorrected, could, in time, impair the reliability of the financial information contained in the accounting records.

Payroll

Proper financial internal control includes the review and verification of transactions and records. The Foundation's procedures do not provide for periodic review of the comprehensive payroll listing to

determine whether individual transactions are correct. As a result, at least one overpayment was made.

An employee was paid for 80 hours instead of the 40 hours he had worked and his gross pay was overstated by \$421. Also, during our fiscal year 1977 audit, we noted that an employee had been overpaid by \$355 after he had terminated employment with the Foundation.

We recommend that accounting procedures be revised to provide for internal review of each payroll, with particular attention to personnel actions, change in employee status, and changes in employee authorized payroll deductions.

Reconciliations

During our audit, we noted that the general ledger control account balances did not agree with the subsidiary ledger, detail schedules, or other supporting records for undisbursed grant obligations, office furniture and fixtures, accounts receivable, and accounts payable. Also, no reconciliations or records have been prepared to explain the difference.

To assure effective controls and accuracy in the accounting records, the totals of the subsidiary records should be checked periodically to the balances in the general ledger control accounts and any differences should be explained and reconciled.

In trying to reconcile the control accounts with supporting records, we found the following differences.

Office furniture and fixtures	\$7,468
Accounts receivable	\$ 351
Accounts payable	\$ 410
Undisbursed obligations--	
program funds:	
Current year	\$ 286
Prior year	\$1,457

Most of the difference in the office furniture and fixtures account was due to inaccuracies in the supporting schedules. However, differences in the other accounts could not be explained and for the accounts receivable there was no detailed listing.

We recommend that the general ledger control accounts be reconciled with the supporting detail records every month and the reconciling items be investigated and explained.

Support for adjusting journal entries

Journal entries adjusting the balances in the general ledger accounts should include adequate supporting information so that the reviewer can readily ascertain the reasons for the entries and their accuracy. Also, without such information, the author of the entries may have difficulty recalling the reasons for and the details of the entries.

At the close of fiscal year 1978, an entry was made to bring the Foundation's cash account into agreement with the amounts reported by the Treasury. However, instead of bringing the account into agreement, the entry increased the difference by \$6,478. Another entry in September 1978, intended to record certain disbursements of \$1,568, was recorded in the wrong ledger account.

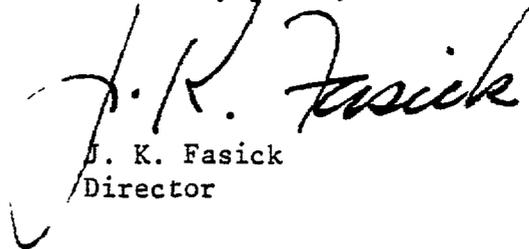
We recommend that the accounting procedures be revised to provide for adequate support and explanation for all adjusting journal entries to the general ledger accounts.

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We will be happy to discuss any of these matters with you and to provide additional information to assist you.

Thank you for the cooperation and courtesy extended to us during our annual audit. As in prior years, we received outstanding cooperation and assistance from everyone at the Foundation.

Sincerely yours,


J. K. Fasick
Director