



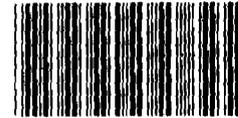
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

MAY 27 1981

Mr. Peter D. Bell, President
Inter-American Foundation
1515 Wilson Boulevard
Arlington, Virginia 22209



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Dear Mr. Bell:

We have recently completed our audit of the Inter-American Foundation's fiscal year 1980 financial statements and would like to thank you for the cooperation, courtesy, and assistance extended to us by your staff.

We thought it would be useful to you to summarize some observations we made during our audit which were not included in our report to the Board of Directors. These matters, presented in detail below, have been discussed with Mr. Leon M. Parker of your staff, who agreed to consider them and take appropriate action.

These issues did not have a material effect on the fairness of your September 30, 1980, financial presentation. We believe they are important, however, because they identify some areas in which better internal controls could improve your operations and the timeliness of our audit work.

NEED FOR COMPLETE, UP-TO-DATE
ACCOUNTING MANUALS

A complete, up-to-date accounting manual is an important part of a good internal control system. It helps to ensure accurate and reliable accounting records, provides a basis for management evaluations of internal accounting controls, and reduces the impact of the absence or loss of key personnel. It should contain the policies and procedures necessary for prompt, accurate, and consistent recording of accounting transactions; periodic reconciliation and review of accounts; and effective control over documents and records.

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Neither of the two accounting manuals used by the Foundation fully meets these criteria. The manual for appropriated funds has not been updated to reflect major changes in the accounting system which occurred in fiscal year 1980. The manual used for Social Progress Trust Fund (SPTF) accounting, while current, is not complete.

Need to update the accounting manual for appropriated funds

The accounting manual for appropriated funds has not been updated to reflect accounting system changes resulting from the fiscal year 1980 conversion from a manual system to a computerized one. The manual provides a comprehensive description of the old system, including manual subsidiary records which are no longer used, and is only partially relevant to the new, automated system. The manual needs to be either extensively revised or rewritten to reflect current accounting policies and procedures.

We recommend that a high priority be given to bringing this manual up to date, using its present pattern of organization as a guide.

Need to complete the SPTF accounting manual

While the SPTF accounting manual is current, it does not include all information needed to explain the SPTF accounting system. It contains a chart of accounts, sample transactions, and computer operating instructions but does not include an overview of the system design or explanations of the functions of individual accounts--information that is essential to a full and clear understanding of the system.

We recommend that narrative descriptions of the system design and the purpose and content of each account be added to the SPTF accounting manual to make it a more useful management tool.

NEED FOR PROPERTY ACCOUNTING AND CONTROL PROCEDURES

As stated in GAO's Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12.5c), each agency should adopt accounting policies appropriate for its property and establish, as an integral part of its accounting system, an adequate and reliable system of records and related procedures to provide a proper accounting for the Government's investment

in the property for which the agency has management responsibility. GAO's Manual (2. GAO 12.5a) points out that accurate and reliable financial and quantitative information on property resources, for use by internal management and for preparing financial reports for the Congress and others, can be obtained only from a properly designed and operated system of accounts and related procedures.

Over the years, we have repeatedly pointed out the need for the Foundation to strengthen its controls over office furniture and equipment and have urged that appropriate property accounting and control procedures be developed and implemented. The Foundation started to do this in 1972, but the draft procedures being considered at that time were never finalized.

In our fiscal year 1980 audit, we again found problems with property control. We noted two instances in which the full acquisition cost of furniture and equipment had not been capitalized; two instances in which equipment had been written off the accounting records although it was still on the premises; three instances in which calculators reported stolen were still carried as assets in the accounting records; and one instance in which two calculators had been capitalized when they should have been charged to operating expense under the Foundation's capitalization policy. We also noted that item quantities recorded in the property control records frequently did not agree with those shown in the accounting records.

We recommend that the Foundation develop and adopt formal property accounting and control procedures to ensure that the Government's investment in office furniture and equipment is accounted for in a reliable and systematic manner. These procedures should include provisions for taking a physical inventory of furniture and equipment at least once during each fiscal year, adjusting the accounting records and property control records to bring them into agreement with the results of the physical inventories, and periodically reconciling the property control records with the accounting records.

NEED TO CONSISTENTLY APPLY
ACCRUAL ACCOUNTING PRINCIPLES

Although the Foundation maintains its accounting records on an accrual basis, accrual accounting principles were not consistently applied to ensure that all necessary accruals were recorded at the end of fiscal year 1980.

Upon making a search for unrecorded liabilities, we found 23 instances in which amounts owed for goods or services purchased from non-Government vendors had not been recorded in account 2002, "Accounts Payable--Non-Government," as of September 30, 1980. These liabilities totaled \$31,629, or about 32 percent of the total accounts payable applicable to this account. The accounting staff recorded the necessary adjustments in accordance with our recommendation.

We recommend that, to improve the accuracy and reliability of the accounting records, accrual accounting principles be consistently applied to all financial transactions.

NEED TO ENSURE THAT FULL BENEFITS
OF INTERNAL AUDITING ARE OBTAINED

The Foundation's audit staff is responsible for reviewing grant audits conducted by public accountants and for performing internal audits of Foundation operations. For several years, we have urged the Foundation to expand its internal audit function to provide improved management control.

GAO's Guidelines on Internal Auditing in Federal Agencies state that, to be of maximum usefulness, the scope of an internal auditor's activity should extend to all agency activities and related management controls, including

- reviewing financial transactions, accounts, and reports for accuracy and compliance with applicable laws and regulations;
- reviewing agency practices for efficient and economical use of resources; and
- reviewing program results to determine whether established objectives are being met.

Internal auditing can be of special benefit to the management of smaller organizations, such as yours, where the customary division of duties among employees is not always economical or practical. The internal auditor can often provide additional internal checks and controls required for effective and efficient management.

During much of fiscal year 1980, the audit staff consisted of only one auditor, who was required to spend most of his time on grant audits with little time left for internal auditing. Internal audit work performed during the year was essentially limited to verifying the imprest fund and observing the taking of a physical inventory of furniture and equipment.

The Foundation, recognizing that the audit workload was far too large for one auditor to handle, hired another auditor in December 1980. As a result, the sizable grant audit backlog that existed before the second auditor was hired has now been substantially eliminated. The increased size of the audit staff should not only permit the auditors to make better and more timely reviews of grant audits but also enable them to make more effective internal audits of Foundation operations.

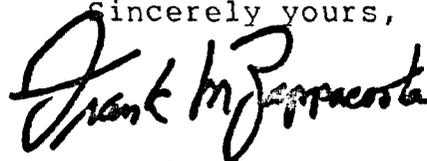
We recommend that these internal audits cover all areas of the Foundation's activities and include examinations of financial transactions and related internal controls, efficiency and economy reviews, and evaluations of program results. A first step in the latter category has been taken by the recent initiation of an internal audit of the survival rate of revolving loan projects funded by Foundation grants, which is now in progress.

LACK OF ADEQUATE AUDIT TRAIL
(CORRECTIVE ACTION TAKEN)

Audit trails, which provide the capability of following transactions from any point in the accounting system, either to their origin or ultimate destination, are essential to the conduct of a financial audit. Early in our audit, we found that it was not possible to trace individual appropriated funds transactions through the computerized accounting system because no detailed general ledger information had been produced since the system was automated. Your accounting staff took corrective action at our request and had the computer service company produce the needed hard-copy records.

Your views concerning these areas will be appreciated. We will be happy to discuss these items with you or to furnish any additional information that may be of assistance to you.

Sincerely yours,



Frank M. Zappacosta
Senior Group Director