

September 1988

FINANCIAL AUDIT

Inter-American Foundation's Financial Statements for Fiscal Year 1987





United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-202917

September 8, 1988

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, 1987. Reports on the Foundation's internal accounting controls and on its compliance with laws and regulations are also provided.

The Inter-American Foundation was established by section 401(a) of the Foreign Assistance Act of 1969 (22 U.S.C. 290f(a)) and provides financial support through grant or loan programs for individual self-help developmental projects designed to improve the social and economic conditions of people in Latin America and the Caribbean. 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).

We are required to conduct an audit of the Foundation at least once every 3 years under the provisions of 31 U.S.C. 9105. To fulfill our responsibility, we contracted with an independent certified public accounting firm to conduct a financial and compliance audit of the Foundation for the year ended September 30, 1987. We determined the scope of the audit work, monitored its progress at all key points, reviewed the working papers of the certified public accountants, Touche Ross & Co., and performed other procedures as we deemed necessary. Our examination was conducted in accordance with generally accepted government auditing standards.

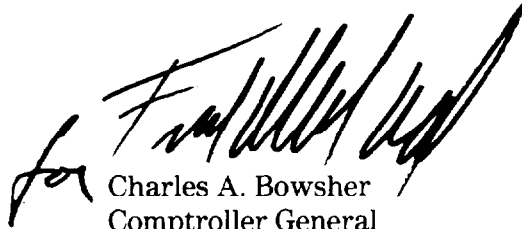
In our opinion, and consistent with the opinion of Touche Ross & Co., the Inter-American Foundation's financial statements present fairly its financial position as of September 30, 1987, and the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis. The 1986 financial statements, which are presented for comparative purposes, have not been audited and thus an opinion was not expressed on them.

The report by Touche Ross & Co. on internal accounting controls disclosed no condition believed to be a material weakness. The auditors' report on compliance with laws and regulations disclosed nothing to indicate that the Foundation had not complied with such applicable laws

and regulations which could have a material effect on the financial statements. We concur with these reports.

During the course of the examination, Touche Ross & Co. also identified several matters which, although not material to the financial statements, were communicated for the Foundation's consideration in a separate management letter.

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 black ink, appearing to read "for Charles A. Bowsher". The signature is stylized and cursive.

Charles A. Bowsher
Comptroller General
of the United States

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Auditors' Opinion

Touche Ross & Co.
1900 M Street N.W.
Washington, DC 20036-3564
Telephone: 202 955-4000



May 16, 1988

Board of Directors
Inter-American Foundation
Rosslyn, Virginia

We have examined the balance sheet of the Inter-American Foundation as of September 30, 1987 and the related statements of operations and changes in fund balance, invested capital, and cumulative results of operations, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the Inter-American Foundation for the year ended September 30, 1986 were not audited by us and, accordingly, we do not express an opinion on them.

In our opinion, the 1987 financial statements referred to above present fairly the financial position of the Inter-American Foundation at September 30, 1987, 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 applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Certified Public Accountants

Touche Ross International

Auditors' Report on Internal Accounting Control

Touche Ross & Co.
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Washington, DC 20036-3564
Telephone: 202 955-4000



May 16, 1988

Board of Directors
Inter-American Foundation
Rosslyn, Virginia

We have examined the financial statements of the Inter-American Foundation for the year ended September 30, 1987, and have issued our report thereon dated May 16, 1988. 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 governmental auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- o Expenditures.
- o Financial reporting,
- o Grant accounting,
- o Payroll, and
- o Treasury

Our study included all of the control categories listed above. 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 substantially 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 control identified above.

The management of the 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

Touche Ross International

**Auditors' Report on Internal
Accounting Control**

 **Touche Ross**

Board of Directors
May 16, 1988
Page Two

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 Inter-American Foundation taken as a whole or on any of the categories of control identified in the first paragraph. Our study and evaluation disclosed no condition that we believe to be a material weakness. However, such study and evaluation did disclose certain areas in which revisions of existing procedures might result in more effective control or increased efficiency in operations. These areas have been discussed with appropriate personnel within the Foundation and are being reported separately.

Touche Ross & Co.

Certified Public Accountants

Auditors' Report on Compliance With Laws and Regulations

Touche Ross & Co.
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Telephone: 202 955-4000



May 16, 1988

Board of Directors
Inter-American Foundation
Rosslyn, Virginia

We have examined the financial statements of the Inter-American Foundation for the year ended September 30, 1987, and have issued our report thereon dated May 16, 1988. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of Inter-American Foundation is responsible for the Foundation's compliance with laws and regulations. In connection with our examination referred to above, we selected and tested transactions and records to determine the Foundation's compliance with laws and regulations, non-compliance with which could have a material effect on the financial statements of the Foundation.

The results of our tests indicate that for the items tested, Inter-American Foundation complied with those provisions of laws and regulations, non-compliance with which could have a material effect on the Foundation's financial statements. Nothing came to our attention that caused us to believe that, for the items not tested, Inter-American Foundation was not in compliance with laws or regulations, non-compliance with which could have material effect on the Foundation's financial statements.

Touche Ross & Co.
Certified Public Accountants

Touche Ross International

Financial Statements

Balance Sheets

Touche Ross

INTER-AMERICAN FOUNDATION

BALANCE SHEETS

	<u>September 30,</u>	
	<u>1987</u>	<u>1986</u>
		(unaudited)
<u>ASSETS</u>		
CURRENT ASSETS:		
Funds with the U.S. Treasury (Note D):		
Appropriated Fund	\$11,106,670	\$11,019,392
Social Progress Trust Fund	27,014,113	25,375,008
Cashier Imprest Fund	3,000	3,000
Total Funds with the U.S. Treasury	<u>38,123,783</u>	<u>36,397,400</u>
Receivables:		
Accounts receivable	69,729	401,029
Employee travel advances	27,150	40,086
Due from funding contract with Social Progress Trust Fund	<u>513,867</u>	<u>208,000</u>
Total Receivables	<u>610,746</u>	<u>649,115</u>
TOTAL CURRENT ASSETS	<u>38,734,529</u>	<u>37,046,515</u>
FIXED ASSETS:		
Office furniture and equipment	535,361	501,583
Accumulated depreciation	<u>(262,896)</u>	<u>(190,130)</u>
TOTAL FIXED ASSETS	272,465	311,453
TOTAL ASSETS	<u>\$39,006,994</u>	<u>\$37,357,968</u>

See notes to financial statements.

Financial Statements

	<u>September 30,</u>	
	<u>1987</u>	<u>1986</u>
		(unaudited)
<u>LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT</u>		
LIABILITIES:		
Accounts payable:		
Trade accounts payable	\$ 117,720	\$ 99,485
Approved grant disbursement requests:		
Appropriated Fund	9,083	(53,188)
Social Progress Trust Fund	49,952	9,750
Other U.S. Government agencies	5,950	1,150
Accrued liabilities:		
Salaries and benefits	157,173	182,910
Annual leave	176,347	177,939
Consultant fees	65,056	49,272
Imprest Fund	1,013	1,743
Current portion of funding contract with Social Progress Trust Fund	<u>513,867</u>	<u>208,000</u>
TOTAL LIABILITIES	<u>1,096,161</u>	<u>677,061</u>
INVESTMENT OF THE U.S. GOVERNMENT:		
Appropriated Fund:		
Invested capital	272,465	311,453
Cumulative results of operations (deficit)	(176,347)	(177,939)
Unexpended appropriations:		
Unobligated	2,171,382	1,027,542
Obligated	<u>8,679,173</u>	<u>9,851,229</u>
Total Appropriated Fund	<u>10,946,673</u>	<u>11,012,285</u>
Social Progress Trust Fund:		
Unobligated	9,114,010	7,126,868
Obligated	<u>17,850,150</u>	<u>18,541,754</u>
Total Social Progress Trust Fund	<u>26,964,160</u>	<u>25,668,622</u>
TOTAL INVESTMENT OF THE U.S. GOVERNMENT	<u>37,910,833</u>	<u>36,680,907</u>
TOTAL LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT	<u>\$39,006,994</u>	<u>\$37,357,968</u>

Financial Statements

 Touche Ross

Statements of Operations and Changes in Fund Balance, Invested Capital, and Cumulative Results of Operations


INTER-AMERICAN FOUNDATION

	Year ended September 30,	
	1987	1986 (unaudited)
FINANCING SOURCES:		
Appropriated funds	\$11,800,000	\$11,454,000
Funds received under Social Progress Trust Fund contract - net of loss on foreign exchange of \$2,873,892 and \$2,197,477 (unaudited) (Note C)	17,395,240	12,998,523
Donations	1,306	5,275
TOTAL FINANCING SOURCES	29,196,546	24,457,798
OPERATING COSTS:		
Programmatic expenses:		
Grant disbursements	21,152,876	18,845,272
Contracted services and other expenses	2,374,531	1,602,316
Total Programmatic Expenses	23,527,407	20,447,588
Administrative expenses:		
Employee salaries and benefits	3,019,801	2,909,674
Travel and transportation	375,973	410,123
Office equipment rentals	401,291	514,293
Telephone, postage, and supplies	229,535	200,483
Depreciation	80,912	56,587
Contracted services and other expenses	331,701	385,727
Total Administrative Expenses	4,439,213	4,476,887
TOTAL OPERATING COSTS	27,966,620	24,924,475
EXCESS OF FINANCING SOURCES OVER (UNDER) OPERATING COSTS	1,229,926	(466,677)
FUND BALANCES, Beginning of year	36,680,907	37,147,584
FUND BALANCES, End of year	\$37,910,833	\$36,680,907
INVESTED CAPITAL BALANCE, Beginning of year	\$ 311,453	\$ 215,076
Purchase of equipment	41,924	152,964
Depreciation	(80,912)	(56,587)
INVESTED CAPITAL BALANCE, End of year	\$ 272,465	\$ 311,453
CUMULATIVE RESULTS OF OPERATIONS,		
Beginning of year	\$ (177,939)	\$ (155,298)
Adjustments for accrued annual leave	1,592	(22,641)
CUMULATIVE RESULTS OF OPERATIONS, End of year	\$ (176,347)	\$ (177,939)

See notes to financial statements.

Financial Statements

Statements of Changes in Financial Position

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INTER-AMERICAN FOUNDATION

	<u>Year ended September 30,</u>	
	<u>1987</u>	<u>1986</u>
		(unaudited)
SOURCES OF FUNDS:		
Operations:		
Excess of financing sources over (under) operating costs	\$1,229,926	\$ (466,678)
Items not affecting cash - depreciation	<u>80,912</u>	<u>56,587</u>
Funds provided by (used in) operations	1,310,838	(410,091)
Decrease in accounts receivable	331,300	-
Increase (decrease) in current liability due from SPTF	305,867	(5,749,000)
Increase in approved grant disbursement requests	102,473	-
Increase in accounts payable	18,235	-
Increase in accrued consultant fees	15,784	31,833
Decrease in travel advances	12,936	24,785
Increase in amounts owed to other U.S. Government agencies	4,800	-
Increase in accrued salaries and benefits	-	68,429
Increase in accrued annual leave	<u>-</u>	<u>30,587</u>
TOTAL SOURCES OF FUNDS	<u>2,102,233</u>	<u>(6,003,457)</u>
APPLICATIONS OF FUNDS:		
Increase (decrease) in current receivable under SPTF contract	305,867	(5,749,000)
Purchase of fixed assets	41,924	152,964
Decrease in accrued salaries and benefits	25,737	-
Decrease in accrued annual leave	1,592	-
Decrease in accrued liability to Imprest Fund	730	-
Decrease in approved grant disbursement requests	-	529,672
Increase in accounts receivable	-	375,176
Decrease in accounts payable	-	290,927
Decrease in amounts owed to U.S. Government agencies	<u>-</u>	<u>8,550</u>
TOTAL APPLICATIONS OF FUNDS	<u>375,850</u>	<u>(4,391,711)</u>
INCREASE (DECREASE) IN FUNDS WITH THE U.S. TREASURY	<u>\$1,726,383</u>	<u>\$(1,611,746)</u>

See notes to the financial statements.

Notes to Financial Statements



INTER-AMERICAN FOUNDATION

YEARS ENDED SEPTEMBER 30, 1987 AND 1986

A. DESCRIPTION OF ENTITY

The Inter-American Foundation (the Foundation), a U.S. Government corporation, was established pursuant to part IV of the Foreign Assistance Act of 1969 (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 conditions of people in Latin America and the Caribbean.

The Foundation is governed by a nine-member Board of Directors, which are appointed by the President for 6-year terms and confirmed by the Senate. Under the Foreign Assistance Act, six Board members are from the private sector, and three are officials or employees of U.S. government agencies concerned with Inter-American affairs. Currently, the three U.S. Government appointees are the Assistant Secretary of the State Department for Inter-American Affairs, the Deputy Secretary of the U.S. Treasury Department, 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 Department of Energy.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Financing 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.

INTER-AMERICAN FOUNDATION

YEARS ENDED SEPTEMBER 30, 1987 AND 1986
(continued)

The Foundation contracts with the Inter-American Development Bank to receive funds from the SPTF to finance part of the Foundation's grant program. The Bank is an international financial organization, established to promote the economic and social development of member countries. The United States participation in the Bank is authorized and governed by the Inter-American Development Bank Act (22 U.S.C. 283). Within the Bank, the United States established the SPTF in 1961 and provided appropriations to the SPTF through 1964. The Bank was designated as administrator for the 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 provision for additional loans, technical cooperation programs, and financing of the Inter-American Foundation.

A 1973 amendment to the Foreign Assistance Act of 1961 requires the Inter-American Development Bank to provide funds to U.S. organizations, including the Foundation, to finance social development projects. Currently, the Foundation has a contract with the Bank to make \$48,663,000 available to the Foundation in equal amounts over 3 years, ending on December 31, 1988. 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 3-year contract.

Depreciation

Depreciation is computed using the straight-line method based on the estimated useful lives of the related 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 expenses.

Grant Disbursements and Administrative Expenses

Grant disbursements represent a prepayment in advance of performance under a contractual obligation. Evidence of performance is determined by review of required periodic

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INTER-AMERICAN FOUNDATION

YEARS ENDED SEPTEMBER 30, 1987 AND 1986
(continued)

expenditure reports. Prior to June 1987, all grants over \$35,000 were independently verified, using Foundation audit guidelines. In June 1987, the audit policy was changed to require audits of all grants over \$25,000.

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

C. FOREIGN CURRENCY GAINS AND LOSSES

The Foundation requests projected grant disbursements financed by the SPTF for 6-month periods. To fulfill these requests, the SPTF administrator transfers foreign currencies to the 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 into 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. Differences between the two exchange rates result in a foreign currency gain or loss to the Foundation.

The aggregate effects of the foreign currency translation gains and losses, are as follows:

	<u>Year ended September 30,</u>	
	<u>1987</u>	<u>1986</u>
		(unaudited)
Gains	\$ 54	\$ 83,820
Losses	(2,873,946)	(2,281,297)
Net loss	<u>\$(2,873,892)</u>	<u>\$(2,197,477)</u>



INTER-AMERICAN FOUNDATION

YEARS ENDED SEPTEMBER 30, 1987 AND 1986
(continued)

D. FUNDS WITH THE U.S. TREASURY

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

	<u>September 30,</u>	
	<u>1987</u>	<u>1986</u>
		(unaudited)
Appropriated Fund:		
Account balance per Treasury	\$11,100,200	\$11,014,105
Deposits in transit	309	-
Separate account for donations	<u>6,161</u>	<u>5,287</u>
Balance per Inter-American Foundation	<u>\$11,106,670</u>	<u>\$11,019,392</u>
Social Progress Trust Fund:		
Account balance per Treasury	<u>\$27,014,113</u>	<u>\$25,375,008</u>
Balance per Inter-American Foundation	<u>\$27,014,113</u>	<u>\$25,375,008</u>

E. OPERATING LEASES

Office Space

The Foundation occupies office space under a lease agreement that expires on April 30, 1991. 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:

<u>Year ending September 30,</u>	
1988	\$ 379,478
1989	401,159
1990	401,159
1991	<u>234,009</u>
Total	<u>\$1,415,805</u>

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INTER-AMERICAN FOUNDATION

YEAR ENDED SEPTEMBER 30, 1987
(continued)

F. PENSION PLAN

The Foundation employees are covered by the Civil Service Retirement and Disability Fund (CSRS) or the Federal Employees Retirement System (FERS). As required by law, employees contribute 7 percent of their salaries to a plan with an equal amount contributed by the Foundation. The total pension expense for fiscal 1987 and 1986 was \$200,348 and \$175,802 (unaudited), respectively.

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