

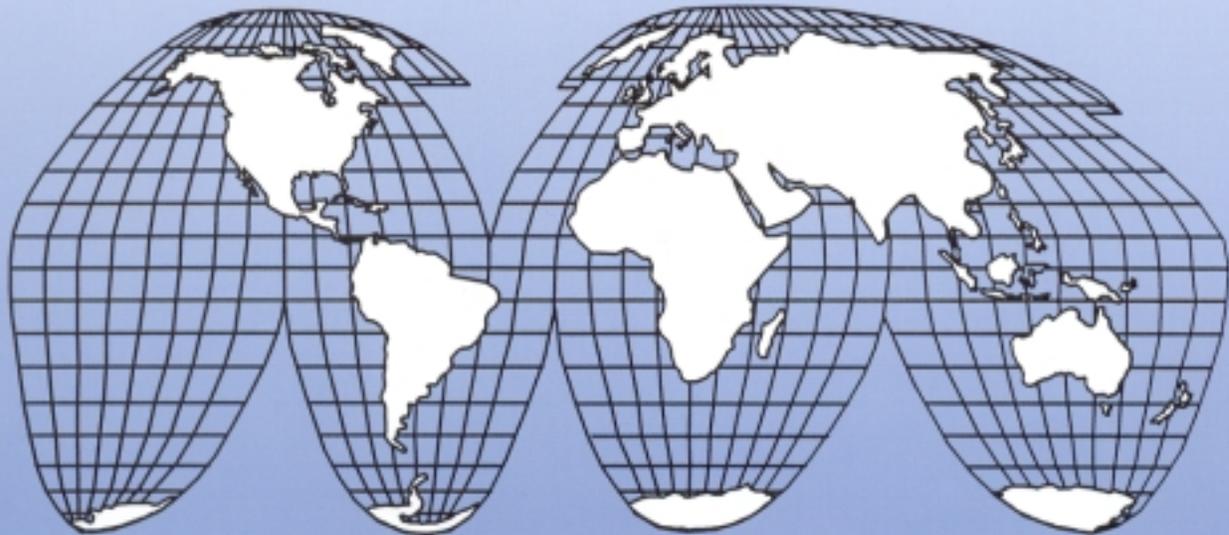
USAID

OFFICE OF INSPECTOR GENERAL

Audit of the African Development Foundation's Financial Statements, Internal Controls, and Compliance for the Fiscal Year Ended September 30, 2002

Audit Report No. 0-ADF-03-003-C

January 29, 2003



Washington, D.C.

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January 29, 2003

MEMORANDUM

FOR: African Development Foundation President,
Mr. Nathaniel Fields

FROM: IG/A/FA, Alvin A. Brown /s/

SUBJECT: Audit of the African Development Foundation's
Financial Statements, Internal Controls, and Compliance for the Fiscal
Year Ended September 30, 2002 (Report No. 0-ADF-03-003-C)

We contracted with the independent certified public accounting firm of Leonard G. Birnbaum and Company, LLP (LGB) to audit the financial statements of the African Development Foundation as of September 30, 2002 and for the year then ended. The contract required that the audit be done in accordance with generally accepted government auditing standards; Office of Management and Budget's (OMB) Bulletin, Audit Requirements for Federal Financial Statements; and the General Accounting Office/President's Council on Integrity and Efficiency Financial Audit Manual.

In its audit of the African Development Foundation (ADF), the LGB auditors found:

- that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- a material weakness in ADF's internal controls, and
- three instances of noncompliance related to the inadequacy of its financial and accounting system.

The material weakness in internal controls relates to an inadequacy in the system used by the General Services Administration to process ADF's transactions (see p. 13). Because of this weakness, the U.S. General Ledger has not been implemented at the transaction level.

The auditors noted instances of noncompliance with the Budget and Accounting Procedures Act of 1950; OMB Circular A-127 and; *Federal Financial Management System Requirements* issued by the Joint Financial Management Improvement Program.

In connection with the contract, we reviewed LGB's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on ADF's financial statements or internal control or on whether ADF's financial management systems substantially complied with the Federal Financial Management Improvement Act; or conclusions on compliance with laws and regulations. LGB is responsible for the attached auditor's report dated November 8, 2002 and the conclusions expressed in the report. However, our review disclosed no instances where LGB did not comply, in all material respects, with generally accepted government auditing standards.

Because of the reported material weakness and compliance findings, we are making the following recommendations to ADF management:

Recommendation No. 1: We recommend that the African Development Foundation develop a plan to implement the U.S. Standard General Ledger at the transaction level.

Recommendation No. 2: We recommend that the African Development Foundation develop a plan to ensure that its accounting system is capable of providing full disclosure of its results of financial operations and adequate financial information needed in the management of its budget and operations, and of providing effective control over its revenues, expenditures, funds, property, and other assets in accordance with the Budget and Accounting Procedures Act of 1950, Office of Management and Budget Circular A-127, and the Joint Financial Management Improvement Program's *Federal Financial Management System Requirements*.

The report also contains a management letter comment that did not require a written response. Your written comments on the draft audit report have been incorporated into this report.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of LGB during the audit. If you have questions concerning this report, please contact Andrew Katsaros at (202) 712-4902.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The African Development Foundation's (ADF) mission is to make significant, innovative contributions to the development and support of solutions to poverty and community-based development in Africa. ADF accomplishes this by providing funding to empower grassroots groups to become self-reliant and to resolve problems themselves.

ADF is a unique organization that promotes broad-based, sustainable development in sub-Saharan Africa and the expansion of local capacity to promote and support grassroots development. ADF was established as a federal agency and a public corporation by the African Development Foundation Act in 1980 and began operations in 1984. Since that time ADF has funded more than 1500 projects. The Foundation supports:

- Development of micro and small businesses that generate increased incomes and employment;
- Trade and investment linkages for small enterprises and agricultural producer groups;
- Building of self-supporting, sustainable, local community development agencies;
- Promoting community based interventions directed toward AIDS prevention and mitigation; and
- Strengthening democratic values and institutions at the local level.

ADF has a thorough, three-stage grant review process that includes intense scrutiny of: (1) initial applications and applicant project sites, (2) project concept papers, and (3) final project papers containing detailed implementation plans, and full budgetary and financial analyses

Most of ADF's grants are greater than \$50,000 and the maximum grant size is \$250,000. To complement this funding, ADF often helps its beneficiaries leverage grants, loans, and loan guarantees from other sources. This is accomplished through strategic partnerships with national and regional governments in Africa, national and regional development banks, other international development assistance agencies, and the private sector.

Unlike other development agencies, ADF works directly with African producer groups and non-governmental organizations. The Foundation does not channel any resources through governments. All ADF-funded projects are initiated by the enterprise or community group and, rather than designing projects itself, ADF works with the local partner non-government organizations (NGOs) to define the assistance it really needs. The Foundation's participatory approach assures local ownership and strong participation, and it has been shown to enhance the impact and sustainability of the investments.

The African Development Foundation is currently administering over 230 projects in thirteen countries:

Benin	Mali	Senegal
Botswana	Namibia	Tanzania
Cape Verde	Niger	Uganda
Ghana	Nigeria	Zimbabwe
Guinea		

ADF's Strategic Goals and Objectives for FY 2002

Beginning in fiscal year (FY) 2001, ADF began to restructure its headquarters and field operations to provide in country representation. ADF also developed and implemented a grant financial management system customized specifically to the Foundation's grant programs. Taking into consideration all these challenges, the Foundation has made remarkable accomplishments in achieving its *Strategic Goals and Objectives for FY 2002* (Table 1).

Establishment of new strategic partnerships.

During FY 2002, ADF established three new strategic partnerships with the Government of Namibia, Government of Jigawa State in Nigeria, and the World Bank in Guinea. Combined with ADF's existing partnership with the Government of Botswana, ADF leveraged over \$1.104 million in FY 2002. By FY 2004, ADF hopes to establish at least 4 new co-funding arrangements with governments, donors, or private sectors.

Management Reforms - Decentralization of ADF Headquarters and Realignment of its Field Structure.

During FY 2002, ADF established new partnership agreements with independent, legally registered, non-government organizations through an open, competitive selection process in all of its thirteen countries. In FY 2002, ADF adopted a new strategic objective of helping develop the capacity of its partner organizations to achieve long-term financial sustainability. Within each country, the new partner organizations will assist applicants in developing, implementing, and monitoring their projects. During the first two years of the new cooperative agreement (FY 2002 and 2003), the Foundation asked its new partner organizations to concentrate on ADF work. However, in FY 2004, ADF will encourage the new partner organizations to take on additional work from other funding agencies and clients, thereby reducing their dependency on ADF support.

The next phase of ADF's management restructuring is the decentralization of its field representation to improve compliance with U.S. government regulations, ADF's policies, and project screening and monitoring. In FY 2002, ADF began hiring resident in-country contractors who will serve as ADF's resident representatives. An administrative assistant and a driver will be contracted by ADF to support the resident representatives. Each field representative's office will be staffed with African professionals who know the country, speak the local language, and understand enterprise development. The selection of all country resident representatives will be completed by December 31, 2002.

At this time ADF is also realigning its headquarters staff to fit the new decentralized field structure. In order to ensure a smooth transition with the field operations and continued screening and monitoring projects, ADF/Washington staff continues to serve as interim country representatives until all field representatives are in place and trained. The additional costs incurred during the transitional start up phase contributed to the significant increase in ADF non-program costs during FY 2002. Although the realignment of headquarters staff will implement by January 31, 2003, continued non-program costs will be incurred to establish field representative's offices. By the fourth quarter of FY 2003, ADF expects to reestablish its rate of non-program costs of 25.2%.

Improved Accounting and Financial Management Systems

ADF implemented a comprehensive grants database to improve management oversight and internal controls for financial and progress reporting of grantees and partner organizations. During the third quarter of FY 2002, the grants database became fully operational as a tool for financial and administrative management. The advantages of the database is significant given its ability to simultaneously track and report in both local currency and equivalent US dollar values. Currently, ADF's grant and cooperative agreements are tracking eleven different currencies specific to the countries serviced. Therefore, the timeliness and accuracy of tracking multiple currencies is an essential component in ADF's management of its grant funds.

In addition to the implementation of a comprehensive grant database, on October 1, 2002, the United States General Ledger was implemented at the transaction level. This corrected the material weakness in the internal controls of ADF's financial and accounting system as of September 30, 2002.

Increased Program Funding

In FY 2002 over 85 new grant and cooperative agreements were funded in ADF's thirteen countries. The actual amount of project agreements funded was \$15 million, almost doubling the amount funded in the prior year. In FY 2002, specific to its development grants, ADF tripled its funding from \$3 million, to \$11 million. Through an aggressive proposal development and streamlined approval process, the Foundation has significantly reduced its carryover of available unobligated funds into FY 2003.

Financial Accountability

ADF undergoes annual, independent audits that address the financial statements, internal controls, and compliance with laws and regulations. ADF received an unqualified opinion on all five financial statements for FY 2001 and FY 2002 from its independent auditors and the USAID Office of the Inspector General. In addition, ADF corrected the material findings cited in the FY 2001 audit report and continues to prioritize its financial and accounting controls over the public funds entrusted to the Foundation.

ADF'S STRATEGIC GOALS AND OBJECTIVES for FY 2002
Table 1

<p>Goal I: Advance broad-based, sustainable development and empowerment of the poor in Africa</p> <p>Objective 1: Promote micro- and small-enterprise development that will generate income and employment.</p> <p>Objective 2: Increase participation of African grassroots enterprises and producer groups in trade and investment relationships with the U.S. and within Africa.</p> <p>Objective 3: Promote innovative community-based interventions to remediate the economic and social impact of HIV/AIDS and reduce its spread.</p> <p>Goal II: Expand local capacity to promote and support grassroots, participatory development.</p> <p>Objective 1: Build self-supporting, sustainable, local community development agencies that provide technical assistance and support to grassroots groups.</p> <p>Objective 2: Promote community resource mobilization and reinvestment.</p> <p>Objective 3: Establish strategic partnerships with national and local governments, other donor agencies, and the local private sector, to support sustainable, grassroots development.</p> <p>Objective 4: Encourage African governments and other donors to increase utilization of participatory development "best practices."</p>
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Selected Performance Indicators

In accordance with the Government Performance and Results Act, ADF prepares an Annual Performance Report. ADF's performance results for FY's 1999, 2000, and 2001 are presented for comparison purposes and to demonstrate ADF's significant growth prior to FY 2002 activities, Table 2.

ADF's Comparative Performance Results for FY's 1999, 2000 and 2001

Table 2

Performance Indicator	FY 1999 Results	FY 2000 Results	FY 2001 Results
Micro- and Small Enterprise Development			
Cumulative number of MSEs assisted	5,863	19,635	47,049
Cumulative number of new micro-credit facilities established	49	136	Indicator discontinued
Cumulative number of loans disbursed to MSEs	18,910	42,518	54,099
Cumulative number of new loan products supported	19	80	Indicator discontinued
Cumulative number of people receiving business management or technical training	23,636	39,354	66,126
Cumulative gross revenues of assisted enterprises and organizations	Indicator not in use	Indicator not in use	\$17,456,526
Cumulative income distributed by assisted enterprises or organizations as salaries, dividends, or profits	Indicator not in use	Indicator not in use	\$10,528,248
Cumulative number of workers in MSEs receiving loans or trade and investment assistance	15,655	47,168	36,457
Natural resource management			
Cumulative number of communities adopting at least one improved NRM practice	51	166	Indicator discontinued
Cumulative number of people trained in improved NRM practices	18	5,888	3,598
Trade and Investment			
Number of export products promoted	2	2	4
Cumulative number of new production and export trade arrangements established	Indicator not in use	3	18
AIDS Prevention & Mitigation			
Cumulative number of people receiving training in AIDS prevention	Indicator not in use	962	35,483
Participatory Development Methods			
Host governments encouraging donors to adopt PDM or allocating more funding to PDM	Indicator not in use	2	2

Future Activities

The U.S. Government appropriations for ADF in FY 2002 were \$16.54 million. Although as of the preparation of this report the appropriations for FY 2003 have not been set, it is expected to be \$18.689 million. Receiving the full funding expected in FY 2003 will enable the Foundation to continue its support for micro and small enterprise (MSE) development, and help African producers respond to new trade and investment opportunities in the United States and around the world. In addition, ADF will be able to expand in the following areas:

- The Foundation will be able to launch major programs in Eritrea and Mozambique where ADF's unique approach would make an important contribution to the countries' national rural development programs and complement other USG support in these important countries.
- It will also enable the Foundation to continue incorporating HIV/AIDS prevention strategies in all ADF projects and support other additional community based AIDS programs, which will be a significant grassroots component of the USG efforts to halt the spread of this deadly virus.
- From the Foundation's project management perspective, ADF will expand its grants database to include detail information to analyze project performance and results.
- Beyond ADF's own project portfolio, this funding will also enable the Foundation to develop an estimated twelve high-impact, participatory development program models that can be replicated by others. In so doing, ADF will multiply the return on its investments and efforts.

ADF Quality Assurance, Internal Controls and Legal Compliance

In 1994, ADF established an Internal Audit Department (IAD) with a full-time Financial and Field Auditor who reported directly to the President. The Foundation's Board of Directors has a designated audit committee who are responsible for all audit and review functions of the Foundation. ADF's Internal Financial and Field Auditor is primarily responsible for the financial oversight of all partner organizations. The IAD conducts an on site internal audit of each partner organization at least once every two years and reviews the results of the partner's yearly independent audit.

In addition to the Financial and Field Auditor, IAD also has a full-time Financial Control Officer whose primary responsibility is oversight of the Foundation's grantees. The Financial Control Officer also supervises the independent external audit of ADF's grant program.

Each of ADF's partner NGOs has a Financial Officer who assists the grantees in their compliance with the Foundation's legal and financial reporting requirements.

ADF's field representatives monitor the financial and progress reporting by grantees and partner organizations, address any discrepancies or other issues, make regular site visits to verify project performance, and report to ADF management.

The grants database has a full time Grants Database and Operations Manager, who is the primary person responsible for the continued integrity and security of all administrative and financial data reported.

Comments on Financial Statements

In FY 2001 ADF received an unqualified opinion on all five financial statements from its independent auditors Leonard G. Birnbaum and Company, and the USAID Office of the Inspector General. ADF is pleased to report the Foundation continued to receive an unqualified opinion of all five comparative statements, the Balance Sheet, the Statement of Net Costs, the Statement of Net Position, the Statement of Budgetary Resources, and the Statement of Finance for FYs 2001 and FY 2002.

Limitations of the Financial Statements

ADF's principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from books and records in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

AFRICAN DEVELOPMENT FOUNDATION
INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2002 and 2001

Leonard G. Birnbaum and Company
Certified Public Accountants
6285 Franconia Road
Alexandria, Virginia 22310
(703) 922-7622

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the President,
African Development Foundation:

We have audited the African Development Foundation's (ADF) Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and Statement of Financing (Principal Financial Statements) as of and for the year ended September 30, 2002; and the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position as of and for the year ended September 30, 2001; and have examined internal control over financial reporting in place as of September 30, 2002.

In our opinion, ADF's Principal Financial Statements referred to in the first paragraph, are presented fairly in all material respects as of and for the fiscal year ended September 30, 2002. In addition, ADF's Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position as of and for the fiscal year ended September 30, 2001, are presented fairly in all material respects.

We found:

an instance, as noted below, of material weakness in the internal controls over financial reporting, and

Instances, as noted below, of noncompliance with selected provisions of applicable laws and regulations.

Each of these conclusions is discussed in more detailed below. This report also discusses the scope of our work.

PRINCIPAL FINANCIAL STATEMENTS

In our opinion, the accompanying balance sheets of ADF as of September 30, 2002 and 2001, and the related ADF's statements of net cost and changes in net position for the fiscal years then ended, and ADF's statement of budgetary resources and financing for the fiscal year ended September 30, 2002, present fairly, in all material respects, the

- financial position of the ADF as of September 30, 2002 and 2001;
- net cost and changes in net position of the ADF for the fiscal year ended September 30, 2002 and 2001, and;
- budgetary resources and financing of the ADF for the fiscal year ended September 30, 2002;

in conformity with accounting principles generally accepted in the United States of America.

INTERNAL CONTROL

We considered ADF's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the Principal Financial Statements and not to provide assurance on internal control. Consequently, we do not provide an opinion on internal controls.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that the Office of Management and Budget (OMB), or ADF management have identified as being significant for which compliance can be objectively measured and evaluated.

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect ADF's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted the following matter that we considered to be a material weakness as defined above. ADF's financial and accounting system, as of September 30, 2002, was inadequate. The principal areas of inadequacy were:

- Because of inadequacies in the system used by the General Services Administration to process ADF's transactions, significant elements of the financial statements including, but not limited to, grant advances, prepayments franchise fund, accounts payable, undelivered orders, unexpended appropriations, and expenses; were developed from sources other than the general ledger.
- United States General Ledger has not been implemented at the transaction level.

We noticed certain other matters involving the internal control structure and its operation that we have reported to the ADF's management in a separate letter dated November 8, 2002.

COMPLIANCE WITH LAWS AND REGULATIONS

ADF's management is responsible for complying with laws and regulations applicable to ADF. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ADF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts, and certain other laws and regulations specified in Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. However, the objective of our audit of the Principal Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions in statutes and regulations, which cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB-Bulletin 01-02.

- The inadequacy of the financial and accounting system articulated above are a failure to comply with:
 - The Budget and Accounting Procedures Act of 1950 (Sec. 113), which requires an accounting system that provides full disclosure of the results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the budget, and effective control over income, expenditures, funds, property, and other assets.
 - OMB Circular A-127 (Financial Management Systems), which requires ADF to establish and maintain an accounting system that provides for (1) complete disclosure of the financial results of the activities of the agency, (2) adequate financial information for agency management and for formulation and execution of the budget, and (3) effective control over revenue, expenditures, funds, property, and other assets.
 - JFMIP's *Federal Financial Management System Requirements* state that the core financial management systems must support the partnership between program and financial managers, and assure the integrity of decision-making information including the ability to collect accurate, timely, complete, reliable, and consistent information. JFMIP also requires that the core financial system be able to provide financial information to support internal and external reporting requirements, including as necessary the requirements for financial statements. OMB guidance states that one indicator of compliance with this standard is that the ADF's core financial system,

supported by other systems containing the detailed data summarized in the core financial system, be the source of information for the preparation of the annual financial statements. However, the ADF's core financial system is not the sole source of information used in the preparation of the annual financial statements.

We noted certain other instances of noncompliance that we have reported to the ADF's management in a separate letter dated November 8, 2002.

REQUIRED SUPPLEMENTARY INFORMATION

The Management's Discussion and Analysis is not required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 97-01, as amended. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express an opinion on it.

RESPONSIBILITIES AND METHODOLOGY

ADF management is responsible for:

- preparing the Principal Financial Statements in conformity with generally accepted accounting principles;
- establishing and maintaining effective internal control; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on these Principal Financial Statements based on our audit. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Financial Statements are free of material misrepresentation and presented fairly in accordance with generally accepted accounting principles. We considered ADF's internal control for the purpose of expressing our opinion on the Principal Financial Statements and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Principal Financial Statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Financial Statements;
- obtained an understanding of the internal controls over financial reporting;
- obtained an understanding of the design and operation of internal controls over the reliability of data supporting the performance measures reported in the Management Discussion and Analysis section of ADF's fiscal year 2002 Annual Report;
- tested compliance with selected provisions of laws and regulations that may materially affect the financial statements; and
- performed other procedures, as we considered necessary in the circumstances.

Our audit was conducted in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin 01-02. We believe that our audit provides a reasonable basis for our opinion.

This report is intended for the information of the Inspector General of ADF and management of the African Development Foundation. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by ADF's management on this report are presented in management's discussion and analysis.

/s/

Leonard G. Birnbaum and Company

Alexandria, Virginia
November 8, 2002

**AFRICAN DEVELOPMENT FOUNDATION
BALANCE SHEET
As of September 30, 2002 and 2001**

	Notes	<u>FY 2002</u>	<u>FY 2001</u>
ASSETS			
Entity:			
Intragovernmental			
Fund Balance with Treasury	2	\$ 17,658,948	\$ 15,274,934
Accounts Receivable	5	<u>0</u>	<u>82,467</u>
Total Intragovernmental		17,658,948	15,357,401
Cash and other monetary assets	3	341,516	138,436
Accounts receivable – Net	5	17,092	150,705
Accounts receivable - Other Revenue	5	704,223	0
General property, plant and equipment - Net	6	218,434	273,890
Other:			
Advances: Travel	4	57,150	41,750
Grants	4	1,968,857	1,991,832
Prepayment - Franchise Fund	4	1,826,614	562,170
TOTAL ASSETS		<u><u>\$ 22,792,834</u></u>	<u><u>\$ 18,516,184</u></u>
LIABILITIES			
Total Intragovernmental:			
Collections from Other Revenues	9	\$ 1,103,688	\$ -
Accounts Payable	9	90,114	642,743
Accrued Payroll	9	181,737	136,102
Accrued Leave	9	<u>189,833</u>	<u>151,667</u>
Total Liabilities		1,565,372	930,512
NET POSITION			
Unexpended Appropriations		18,963,953	15,822,252
Cumulative Results of Operations		<u>2,263,509</u>	<u>1,763,420</u>
Total Net Position		<u><u>\$ 21,227,462</u></u>	<u><u>\$ 17,585,672</u></u>
TOTAL LIABILITIES AND NET POSITION		<u><u>\$ 22,792,834</u></u>	<u><u>\$ 18,516,184</u></u>

The accompanying notes are an integral part of these statements.

**AFRICAN DEVELOPMENT FOUNDATION
STATEMENT OF NET COST
For years ended September 30, 2002 and 2001**

	Notes	<u>FY 2002 Grant Program</u>	<u>FY 2001 Grant Program</u>
Program Costs			
Program Funding		\$ 7,413,376	\$ 9,166,418
Operating Expenses – Public		5,190,312	4,696,977
Operating Expenses - Intragovernmental		127,689	124,644
Total Program Costs		<u>12,731,377</u>	<u>13,988,039</u>
Net Program Costs		<u>12,731,377</u>	<u>13,988,039</u>
 Net Cost of Operations		 <u><u>\$ 12,731,377</u></u>	 <u><u>\$ 13,988,039</u></u>

The accompanying notes are an integral part of these statements.

AFRICAN DEVELOPMENT FOUNDATION
STATEMENT OF CHANGES IN NET POSITION
For years ended September 30, 2002 and 2001

	Notes	FY 2002		FY 2001	
		<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
Beginning Balances		\$ 1,763,420	\$15,822,252	\$1,687,554	\$13,808,797
Budgetary Financing Sources					
Appropriations Received			16,542,000		16,000,000
Rescission & Cancelled Resources			(310,529)		(35,200)
Appropriations Used		13,089,770	(13,089,770)	13,951,345	(13,951,345)
Non Exchange Revenue					
Donations	8	50		1,310	
Other Revenues	8	1,103,688			
Collections - Transferred Out	8	(1,103,688)			
Transfer in w/o Reimbursement		13,957			
Imputed Financing		127,689		124,644	
Losses Incurred				(13,394)	
Net Cost of Operations		(12,731,377)		(13,988,039)	
Ending Balances		<u>\$2,263,509</u>	<u>\$18,963,953</u>	<u>\$1,763,420</u>	<u>\$15,822,252</u>

The accompanying notes are an integral part of these statements.

AFRICAN DEVELOPMENT FOUNDATION
STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2002 and 2001

	Notes	<u>FY 2002</u>	<u>FY 2001</u>
Budgetary Resources			
Budget Authority		\$ 16,542,000	\$ 15,964,800
Unobligated Balance Brought Forward, October 1		4,715,476	740,017
Spending Authority from Offsetting Collections		82,467	1,310
Adjustments:			
Recoveries of Prior-Year Obligations - Net		2,869,857	1,749,981
Rescission Current Year		(2,000)	
Permanently not available		<u>(308,529)</u>	<u>0</u>
Total Budgetary Resources		<u><u>\$ 23,899,271</u></u>	<u><u>\$ 18,456,108</u></u>
Obligations Incurred - Current Period		\$ 20,286,201	\$ 13,658,164
Unobligated balances – available	7	2,806,885	4,049,481
Unobligated balances – unavailable	7	806,185	748,463
Total Status of Budgetary Resources		<u><u>\$ 23,899,271</u></u>	<u><u>\$ 18,456,108</u></u>
Relationship of Obligations to Outlays:			
Obligated balance, Net - Beginning of Period		11,024,308	13,309,319
Reimbursement & Other Income Earned - Receivable		<u>82,467</u>	<u>0</u>
		11,106,775	13,309,319
Obligated balance, Net - End of Period			
Accounts Receivable – Advances		1,968,857	1,991,832
Undelivered Orders		<u>13,382,026</u>	<u>9,032,476</u>
		15,350,883	11,024,308
Outlays:			
Disbursements		13,089,770	15,943,175
Collections		<u>(82,467)</u>	<u>(1,310)</u>
Subtotal		13,007,303	15,941,865
Less: Offsetting receipts		<u> </u>	<u> </u>
Net Outlays		<u><u>\$ 13,007,303</u></u>	<u><u>\$ 15,941,865</u></u>

The accompanying notes are an integral part of these statements.

AFRICAN DEVELOPMENT FOUNDATION
STATEMENT OF FINANCING
For the years ended September 30, 2002 and 2001

	FY 2002	FY 2001
<i>Obligations and Nonbudgetary Resources</i>		
Obligations Incurred	\$ 20,286,201	\$ 13,658,164
Less: Spending Authority from Offsetting Collections & Adjustments		
Recoveries of Prior-Year Obligations	(2,952,325)	(1,749,981)
Net Obligations	17,333,876	11,908,183
Other Resource		
Donated Revenue	14,007	1,310
Financing Imputed for Cost Subsidies	127,689	124,644
Exchange Revenue (Increases)	19,462	19,462
Net Other Resources Used to Finance Activities	141,696	145,416
<i>Total Resources Used to Finance</i>	17,475,572	12,053,599
<i>Resources Used to Finance Items no Part of the Net Cost of Operations</i>		
Change in budgetary resources not yet provided	(4,392,589)	1,650,715
Resources that finance the acquisition of assets	(55,456)	103,376
<i>Total resources that do not fund net costs</i>	(4,448,045)	1,754,091
<i>Costs That will not Require Resources in this Period</i>		
Increase/(Decrease) in Annual Leave Liability	38,165	(3,025)
(Increase)/Decrease Exchange Revenue from the Public	133,613	
Decrease in expenses accrued from prior year	(714,078)	
<i>Total Costs That will not Require Resources in this Period</i>	(542,300)	(3,025)
<i>Components not requiring Resources</i>		
Bad Debt Related to Uncollectible Receivable	133,613	54,559
Loss/Gains on the Disposal of Assets		13,394
Depreciation	112,537	115,421
<i>Total costs that do not require resources</i>	246,150	183,374
Net Cost of Operations	\$ 12,731,377	\$ 13,988,039

The accompanying notes are an integral part of these statements.

African Development Foundation
Notes to the Financial Statements
As of September 30, 2002

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The African Development Foundation (ADF) is a government-owned corporation established by Congress under the African Development Foundation Act in 1980 and began operations in 1984. The Foundation is the principal agency of the U.S. Government that supports community-based, self-help initiatives that alleviate poverty and promote sustainable economic and social development in Africa at the grassroots level. The Foundation's headquarters are in Washington, D.C. ADF maintains partnerships with local organizations, staffed with African professionals, in each of the countries in which it operates. Over the last eighteen years, the Foundation has funded over 1500 activities in 34 African countries.

B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis to report the financial position and results of operation in accordance with the concepts and standards contained in the Statements of Federal Financial Accounting Standards, as required by the Chief Financial Officers Act of 1990. These statements have been prepared from the books and records of the Foundation in accordance with the form and content for federal financial statements specified in the Office of Management and Budget (OMB) in *OMB Bulletin No. 01-09* as amended and the Foundation's accounting policies which are summarized in this note.

C. Basis of Accounting

Transactions are recorded on an accrual basis. Grants are recorded when obligated and expenses are recognized when the funds are expended, without regard to receipt or payment of cash. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of grants and expenses during the reporting period. Actual results will invariably differ from those estimates.

D. Fund Balances with Treasury and Cash

The Foundation maintains the majority of its funds in the U.S. Treasury. These are amounts for which the Foundation is authorized to make expenditures and pay liabilities. The Foundation does maintain cash in a commercial account at Bankers Trust Company of New York to process the award of grant funds to recipients in U.S. currency. In addition, a commercial account is maintained with Barclays Bank of Botswana and Citibank Nigeria to process grant funds for that country. The government of Botswana co-funds grants with matching grant funds deposited to the Barclays' account, however, the Foundation controls all grant disbursement activities.

E. Foreign Currencies

The Foundation awards grants to private organizations in Africa. Most of the grants are denominated in local currencies to facilitate accounting by the recipient organizations. Depending on the nature of the transaction, foreign currencies are translated into dollars at the actual exchange rate received by the Foundation when the transaction is made or at the prevailing exchange rate at the beginning of the month in which the transaction occurred. The value of obligations incurred by the Foundation in foreign currencies varies from time to time depending on the current exchange rate. The Foundation adjusts the

value of its obligations at the end of each year to reflect the prevailing exchange rates. Downward adjustments to prior year obligations based on foreign currency exchange rates will be made available for obligation if the adjustment occurs within the Foundation's authorized two year funding period.

F. Grant Accounting

The Foundation disburses funds in advance to grantees to cover their projected expenses over a three-month period. Grantees report to the Foundation periodically on the actual utilization of these funds. For purposes of these financial statements, the Foundation treats disbursements to grantees as advances. The advance is reduced when the grantee reports expenditures. The total grant advance is the total amount disbursed to the grantee less the total expended for open (non-expired) grants as of the reporting date. Once a grant has closed (expired or cancelled) any excess disbursement is reclassified as an Accounts Receivable.

G. Travel Advances

Advances are given to ADF employees for official travel. Travel advances are recorded as expenses upon receipt of employee travel vouchers.

H. Property, Plant and Equipment, Net

The space in which the Foundation operates is leased by the Foundation through a multi-year lease. Equipment is depreciated using the straight-line method over useful lives which is estimated at five years.

I. Accounts Payable

Accounts payable represent amounts owed to non-federal entities, primarily commercial vendors, for goods and services received by ADF and grantees whose allowable expenditures exceed the amount disbursed.

J. Contingencies

The Foundation is a party in various administrative, legal actions and claims brought by or against it. In the opinion of the Foundation's management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operations of the Foundation.

K. Annual, Sick, and Other Leave

Annual, sick and other leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the Foundation calculates the value of the accrued annual leave at the end of the year based on current pay rates. Funding for payment of accrued annual leave at the end of the year will be taken from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

L. Retirement Plan

The majority of the Foundation's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Foundation makes statutory contributions to the Office of Personnel Management for employees enrolled in each plan. The Foundation does not report accumulated assets, plan benefits or unfunded liabilities, if any, attributable to its employees. The Office of Personnel Management reports such amounts.

Note 2. Fund Balance with Treasury

ADF's Fund Balance with Treasury as of September 30, 2002 and 2001 are summarized below:

	<u>FY 2002</u>	<u>FY 2001</u>
Appropriated Funds	\$ 17,641,798	\$ 15,257,834
Trust Fund	15,790	15,790
Gift Fund	<u>1,360</u>	<u>1,310</u>
Total	\$ 17,658,948	\$ 15,274,934

Note 3. Cash, Foreign Currency and Other Monetary Assets

ADF's cash held as of September 30, 2002 and 2001 are summarized below:

	<u>FY 2002</u>	<u>FY 2001</u>
Bankers Trust	\$ 44,444	\$ 47,139
Barclays Bank of Botswana	243,521	91,297
Citibank Nigeria	<u>53,551</u>	<u> </u>
Total	\$ 341,516	\$ 138,436

Note 4. Advances

ADF's advances as of September 30, 2002 and 2001 are summarized below:

	<u>FY 2002</u>	<u>FY 2001</u>
Grants	\$ 1,968,857	\$ 1,991,832
Travel	57,150	41,750
Prepayment – Contracted Services	<u>1,826,614</u>	<u>562,170</u>
Total	\$ 3,852,621	\$ 2,595,752

Note 5. Accounts Receivable

The Intragovernmental Accounts Receivable from FY 2001 represents balance due from reimbursable income from services provided by ADF to AID and subsequently collected in FY 2002.

	<u>FY 2002</u>	<u>FY 2001</u>
Total Intragovernmental Receivable	\$ 0	\$ 82,467

The Accounts Receivable represents the excess of receipts over expenditures by In-Country Partnerships and Development and Technical Assistance Grantees for FY 2002 and 2001.

	<u>FY 2002</u>	<u>FY 2001</u>
Accounts Receivable	\$ 123,016	\$ 252,307
Less Allowance for Uncollectible	<u>(105,924)</u>	<u>(101,602)</u>
Net Accounts Receivable	\$ 17,092	\$ 150,705

The Accounts Receivable-Other Revenues represents the balance due from ADF's Strategic partnerships with African Governments and other donor agencies.

	<u>FY 2002</u>
Government of the Republic of Guinea	\$ 270,247
Government of Jagawa State, Nigeria	414,193
Government of the Republic of Botswana	<u>19,783</u>
	\$ 704,223

Note 6. Property, Plant and Equipment, Net

Equipment is capitalized at cost if the initial unit acquisition cost is \$5,000 or more and service life is two years or more. Equipment with an acquisition cost of less than \$5,000 or less than two years of life is expensed when purchased.

ADF's property, plant and equipment as of September 30, 2002 and 2001

	<u>FY 2002</u>	<u>FY 2001</u>
Equipment, at cost	\$ 801,007	\$ 873,612
Accumulated Depreciation	<u>(582,573)</u>	<u>(599,722)</u>
Equipment, net	\$ 218,434	\$ 273,890

Note 7. Unexpended Appropriations

	<u>FY 2002</u>	<u>FY 2001</u>
Unexpended Appropriations	\$ 18,963,953	\$ 15,822,252
Unobligated		
Available	2,806,885	4,049,482
Unavailable	<u>806,185</u>	<u>748,462</u>
Total unobligated	3,613,070	4,797,944
Undelivered Orders	<u>15,350,883</u>	<u>11,024,308</u>
Total	\$ 18,963,953	\$ 15,822,252

Note 8. Donations & Honorariums & Other Revenues

Other Revenue recognized in FY 2002 represents the funds generated by the Foundation through its strategic partnerships with national and local African governments.

	<u>FY 2002</u>
Government of the Republic of Botswana	\$ 363,695
Government of the Republic of Guinea	270,248
Government of Jagawa State, Nigeria	<u>469,745</u>
Total	\$ 1,103,688

This represents an honorarium to ADF's General Counsel from World Learning in FY 2002.

	<u>FY 2002</u>	<u>FY 2001</u>
Honorarium	\$ 50	\$ 1,310

Note 9. Accounts Payable

Accounts payable Intragovernmental represents collections from Other Revenues awaiting disposition by the Foundation.

	<u>FY 2002</u>
Government of the Republic of Botswana	\$ 363,695
Government of the Republic of Guinea	270,248
Government of Jagawa State, Nigeria	<u>469,745</u>
Total	\$ 1,103,688

Accounts payable represent amounts owed to non-federal entities, primarily commercial vendors for goods and services received by ADF, and accrued employee payroll and annual leave.

	<u>FY 2002</u>	<u>FY 2001</u>
Commercial vendors	\$ 90,114	\$ 164,564
Payments in transit		23,213
Grantees		164,499
New Partnership transition		290,467
Accrued employee payroll and leave	<u>371,570</u>	<u>287,769</u>
Total	\$ 461,684	\$ 930,512

November 8, 2002

To the Board of Directors and the President,
African Development Foundation

Under generally accepted auditing standards, auditors are encouraged to report on “significant deficiencies in the design or the operation of the internal control structure that, in the auditor’s judgment, could adversely affect the organization’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.” In addition, auditors are encouraged to report, in a separate management letter, less material issues.

In performing an audit of the African Development Foundation’s (ADF) Principal Financial Statements, as of and for the year ended September 30, 2002, we considered ADF’s internal controls, in determining the nature, timing, and extent of the audit test applied in connection with our audit. Additionally, in accordance with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, for those significant internal control policies and procedures that were properly designed and placed in operation, we performed sufficient tests to justify a low assessed level of control risk consistent with Statement on Auditing Standards No. 55, promulgated by the American Institute of Certified Public Accountants. Our consideration of the internal controls did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the internal controls to prevent or detect all errors and irregularities.

ADF’s management is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures.

The objectives of internal controls 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 the comprehensive basis of accounting described in OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*.

Because of inherent limitations in any internal controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that it may become inadequate because of changes in conditions or deterioration in its operating effectiveness.

Although the purpose of our consideration of the internal controls was not to provide assurances thereon, matters came to our attention that we want to report to you. These matters are discussed in the attachment (see page 24). These matters do not affect our report dated November 8, 2002, on the ADF's Principal Financial Statements referred to above.

This report is intended solely for the use of the ADF's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Very truly yours,

/s/

Leonard G. Birnbaum and Company

Attachment: As Stated

AFRICAN DEVELOPMENT FOUNDATION
Audit of Principal Financial Statements
September 30, 2002

Observations and Conclusions

1. Management Accountability and Control:

OMB Circular A-127, Financial Management Systems, requires agencies to establish and maintain an accounting system that provides for (1) complete disclosure of the financial results of the activities of the agency, (2) adequate financial information for agency management and for formulation and execution of the budget, and (3) effective control over revenue, expenditures, funds, property and other assets. Because of the inadequacies of GSA's processing of ADF's accounting transactions, ADF's internal accounting and administrative controls in place during the year ended September 30, 2002 were not capable of providing adequate, timely, and accurate information to assist ADF management in discharging fiscal responsibilities. As a result, ADF had failed to comply with OMB Circular A-127.

We recommend that ADF take such action as is necessary to comply with these provisions of the OMB Circular A-127.

**Management
Comments and
Our Evaluation**

We consider the management comments to be responsive to the recommendations made in this report. We have included these comments in their entirety in Appendix II.

Based on the comments provided, we consider final management decisions to have been reached on both of the recommendations included in this report. Upon completion of final actions taken to implement the recommendations identified in the report, the African Development Foundation should consult with the Office of Inspector General to request closure.

Management Comments

January 29, 2003

Director of Financial Audits
Office of the Inspector General, U.S.A.I.D.
Room No: 8.10 RRB
1300 Pennsylvania Avenue
Washington, D.C. 20523-8100

Re: Audit Report of the 2002 Financial Statement

Dear Mr. Brown:

We have received the audit report supplied by Leonard G. Birnbaum and Company, including the opinion on the African Development Foundation's (ADF) fiscal year 2002 financial statements, internal controls status, and compliance with applicable laws and regulations. We are pleased to note that all five comparative financial statements: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing have continued to receive unqualified opinions. Thank you and your team as well as Birnbaum and Company for working closely with us during the audit process.

During the course of the audit, you identified and reported one instance of weakness in the internal controls over financial reporting and three instances of non-compliance with selected provisions of applicable laws and regulations. In general, we concur with your findings and recommendations. ADF corrected the one material weakness in internal control on October 1, 2002, with the implementation of the U.S. General Ledger at the transaction level. ADF will correct the remaining three instances of non-compliance with selected provisions of applicable laws and regulations following our validation of General Services Administration's conversion to their new financial and accounting systems. By May 31, 2003, all weaknesses identified in the FY 2002 audit report will be corrected prior to ADF's submission of its third quarter financial statements. The effectiveness and success of ADF's quality improvement program is evidenced by the continued unqualified opinions received on ADF's financial statements and the timely resolution all reported weaknesses.

We at the African Development Foundation recognize the importance of accountability and public disclosure and our goal is to achieve excellence in our financial management systems. We are committed to resolving the issues in your report and have dedicated the staff and resources to ensure our systems are in full compliance. We look forward to working with you and your staff on the 2003 audit. Any questions may be addressed to Vicki Gentry at ADF.

Sincerely,

/s/

Nathaniel Fields

President