



## MEMORANDUM

**DATE:** December 21, 2020

**TO:** Inter-American Foundation, President and CEO, Paloma Adams-Allen

**FROM:** Deputy Assistant Inspector General for Audit, Alvin A. Brown /s/

**SUBJECT:** Transmittal of the Management Letter for Inter-American Foundation's Fiscal Year 2020-2019 Financial Statement Audit Report (0-IAF-21-004-C)

On November 10, 2020, we transmitted the financial statement audit report performed by the independent public accounting firm of Williams, Adley & Company-DC LLP (Williams Adley). The auditors issued an unmodified opinion on Inter-American Foundation's fiscal year (FY) 2020-2019 financial statements.

When performing an audit of an agency's financial statements, auditors may identify certain matters involving internal controls that do not rise to a level of significance to be reported in the independent auditors' opinion report; instead these matters are communicated in a management letter. This memorandum transmits a copy of the FY 2020-2019 management letter dated November 6, 2020, which reports on such matters.

This letter does not affect the auditors' unmodified opinion on the financial statements. Williams Adley is responsible for the enclosed letter and the conclusions expressed in it.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.



## MANAGEMENT LETTER

Ms. Paloma Adams-Allen  
President and Chief Executive Officer  
Inter-American Foundation

We have completed the audit of the financial statements of the Inter-American Foundation (IAF) as of and for the year then ended September 30, 2020 and have issued our Independent Auditor's Report thereon dated November 6, 2020.

In planning and performing our audit of the IAF financial statements as of and for the year ended September 30, 2020, in accordance with U.S. generally accepted government auditing standards, we considered IAF's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IAF's internal control over financial reporting. Accordingly, we do not express an opinion on IAF's internal control over financial reporting.

In our fiscal year 2020 audit, we identified a control deficiency that does not rise to the level of a material weakness or significant deficiency but still warrants management attention, which is provided in Appendix I of this Management Letter. We have discussed this comment with IAF personnel, and we will be pleased to discuss them in further detail at your convenience.

IAF has provided an official response to this Management Letter in Appendix II. We did not audit IAF's response and, accordingly, we express no opinion on the response.

This Management Letter is intended for the information and use of IAF management, and those charged with governance.

*Williams, Adley & Company-DC, LLP*  
Washington, DC  
November 6, 2020

cc: U.S. Agency for International Development, Office of the Inspector General

**MLC-2020-01 – Non-Compliance of Grant Advance Methodology with FASAB Technical Release 12**

**Condition:** During our testing of IAF’s Grant Advance calculation and methodology, we determined that IAF’s methodology was not in compliance with the Federal Accounting Standards Advisory Board’s (FASAB’s) Technical Release 12 (TR-12), Accrual Estimates for Grant Programs. Currently, IAF’s methodology for accruing their grant advances consist of disbursing funds in advance to grantees to cover their projected expenses over a quarterly period. IAF then multiplies the quarter’s disbursements by a rate of 50%.

Although the 50% has been the rate applied to IAF’s Grant Advances since FY2014, we determined that IAF has not performed a “look back” analysis that compares the estimates with subsequent grantee reporting to ensure that grant accrual estimates were reasonable. Additionally, IAF does not have documented procedures for calculating the grant advance amount, documenting the review and approval process for the estimate, and maintaining support for the calculation of the estimate including the underlying assumptions used and historical data. Therefore, we determined that IAF was not in compliance with the requirements of FASAB TR 12.

**Cause:** This occurred because IAF does not have a documented policy that requires the agency to:

1. Use historical or actual data to determine the grant advance estimate; and
2. Conduct a validation or re-assessment of the reasonableness of the methodology by comparing the estimate to actual grantees disbursements.

According to IAF management, the 50% rate is reviewed quarterly for reasonableness by IAF and the Bureau of Fiscal Service. IAF also stated that in May 2020 they began planning a review of the grant advance methodology and assumptions; however, IAF believed it would not be appropriate or feasible to adjust the rate in the middle of the current fiscal year. Therefore, IAF plans to re-assess the grant advance calculation in fiscal year 2021.

**Effect:** Because IAF has not validated the reasonableness of the 50% rate used to calculate its grant advance since 2014, IAF may be misstating the overall Grant Advance line item on its financial statements. Without a documented process to determine a reasonable rate to use, as well as a consistent re-evaluation process, IAF cannot ensure that the current methodology is compliant with FASAB TR-12 and that the grant advance amount is reasonably estimated.

**Criteria:** FASAB Technical Release 12 (TR-12) “Accrual Estimates for Grant Programs”, August 2010, Sections 14 and 15 state:

*“Agencies must accumulate sufficient relevant and reliable data on which to base accrual estimates. Each agency should prepare grant accrual estimates based upon the best available data at the time the estimates are made.”*

**Appendix I**  
**Current Year Control Deficiency**

*For existing programs, management should ensure that adequate documentation is available for accrual estimates relating to existing grant programs. Typical support documentation may include:*

- 1. procedures used for calculating the estimate*
- 2. documentation for the review and approval process for the estimate*
- 3. support for the calculation of the estimate, including the underlying assumptions used*
- 4. historical data supporting the assumptions*
- 5. relevant documentation of supporting actual cash and/or accrual experience (including the date and source of reports, whether grantees reported on a cash or accrual basis, and how recently the data were updated). The documentation may include:*
  - i. historical data and trends, citing sources of information and relevant time frame*
  - ii. an analysis that identifies the most critical factors*
  - iii. trend analysis developed from reports from the accounting or program management systems*
  - iv. evidence of experience by other agencies with similar programs*
  - v. evidence of emergencies or legislated changes, such as changes in program terms, program size, or characteristics of grant recipients*
  - vi. evidence of other relevant factors that may be identified by grant program managers”*

Additionally, Sections 26-28 state:

*“As part of agencies’ internal control procedures to ensure that grant accrual estimates for the basic financial statements were reasonable, agencies should validate grant accrual estimates by comparing the estimates with subsequent grantee reporting.*

*When subsequently validating the reasonableness of accrual estimates, an agency does not need to obtain data from 100% of grantees in order to validate the reasonableness of grant accrual estimates. For example, agencies may validate estimates based upon:*

- a. grantee data that represents a majority of the total grant portfolio, or*
- b. data from a statistically valid sampling of the total grantee portfolio.*

*When developing grant accrual estimates, agencies only have access to data that is available at the time. The nature and reliability of available grant data varies widely and, because of the relationship between the grantor and the grantee, is often only indirectly influenced by management. The validation process includes an understanding that estimates are inherently uncertain, and that management must use judgment in determining:*

- a. whether differences between estimated and actual expenses are reasonable*
- b. if different estimation methods could result in more accurate estimates of net cost in the future”*

To: Damian Wilson, Director, Financial Audit Division  
U.S. Agency for International Development, Office of the Inspector General

Cc: Kola Isiaq, Managing Partner, William Adley  
Malik Powell-Hodge, Senior Manager, Williams Adley

From: Lesley Duncan, Chief Operating Officer  
Chris Wood, Senior Financial Manager

Re: IAF Response to Management Letter for the Financial Statement Audit for  
the Year Ending September 30, 2020

Date: December 7, 2020

Thank you for the management letter for the Inter-American Foundation's (IAF) Financial Statement Audit for the year ending September 30, 2020. IAF will review the recommendations, including the need for a documented "look back" re-assessment of IAF's grant accrual methodology, and provide the OIG with the results of our assessment by April 1, 2021.

A few factual points of clarification:

- (1) IAF's methodology for accruing grant advances consists of multiplying the quarter's aggregate disbursements at the end of each quarter by a rate of 50 percent to determine the accrual.
- (2) The 50 percent rate is determined by dividing the reporting period (three months) by the period covered by the projected grantee expenses (six months), and is derived from a prior audit finding recommendation as provided to the auditors on October 20, 2020 as PBC YE-230.
- (3) IAF's and the Bureau of Fiscal Service's procedures for determining, reviewing and approving IAF's grant advance amount and rate, were provided to the auditors on October 13, 2020 as PBC YE-218.

Based on our initial review, we found no evidence that would lead us to believe that the IAF has misstated the overall Grant Advance line item on our financial statements. IAF will, aligned with FASAB Technical Release (TR-12) requirements, document our grant accrual methodology procedures to include a timeframe, and the underlying assumptions of the methodology.