

September 2000

INTER-AMERICAN  
FOUNDATION

Better Compliance  
With Some Key  
Procedures Needed



G A O

Accountability \* Integrity \* Reliability



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## Abbreviations

IAF	Inter-American Foundation
USAID	U.S. Agency for International Development

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

National Security and  
International Affairs Division

B-286177

September 28, 2000

The Honorable Jesse Helms  
Chairman, Committee on Foreign Relations  
United States Senate

Dear Mr. Chairman:

In 1969, Congress created the Inter-American Foundation, a government corporation, as an experimental agency to support grassroots development in Latin America and the Caribbean. A nine-member board of directors appointed by the President and confirmed by the Senate governs<sup>1</sup> the Foundation. In creating the Foundation, the United States broadened its foreign assistance strategy by channeling financial resources to the poor through nongovernmental organizations rather than solely through governmental entities. Since that time, other government-related entities and governmental agencies, such as the U.S. Agency for International Development, have started programs that also provide assistance through nongovernmental organizations directly to the poor.

The Foundation has awarded over 4,250 grants, totaling about \$500 million, since its inception to support activities such as agriculture and community development, microenterprise<sup>2</sup> development, and education and research. The Foundation's policy is to award grants only to organizations that have not engaged in any type of illegal, political, or other activity or behavior that would make them unsuitable to receive a grant from the U.S. government. Due to a range of concerns about the Foundation's activities and management practices, Congress reduced appropriations to the Foundation from an average of the \$21 million it received during the last 4 years to \$5 million in fiscal year 2000.

As a part of the ongoing debate on the continuing relevance and funding level for the Foundation and its management practices, you raised concerns about how the Foundation awards, monitors, and administers its

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<sup>1</sup>Currently, six of the nine board positions are vacant.

<sup>2</sup>Microenterprises are firms with 10 or fewer employees, including the microentrepreneur and any family workers.

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grants and whether it duplicates efforts of the U.S. Agency for International Development. As agreed with your office, this report (1) describes the Foundation's procedures for selecting organizations to receive grants, monitoring grantee organizations' compliance with grant agreements, and auditing grantees' use of funds; (2) analyzes the extent of the Foundation's compliance with these procedures; and (3) discusses the extent to which the Foundation provides grants to organizations that also receive financial support from the U.S. Agency for International Development.

To assess compliance with the Foundation's procedures, we examined program and financial data for a random sample of 50 of the 86 Foundation grants that were completed and terminated in fiscal year 1999.

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## Results in Brief

The Inter-American Foundation has established several key procedures to assure that it awards grants to appropriate organizations and that grantees observe the terms of grant agreements. These procedures include (1) the submission of annual financial disclosure reports from staff, officers, and members of the board of directors to assure the Foundation's activities are free of conflicts of interest; (2) internal reviews by Foundation staff and senior officers to assess the merits of new grant proposals; (3) visits to potential grantee organizations in the country of the grantee organization to obtain information on potential grantees before the Foundation awards its grants; (4) annual oversight staff visits to grantee organizations to monitor implementation of grants and visits to embassies to share information concerning grantee activities; (5) periodic visits to grantee organizations by Foundation contractors to monitor grants and submission of reports on program results; (6) receipt of required financial and progress reports from grantee organizations before disbursing funds; and (7) regularly scheduled audits by independent auditors to assess the grantees' use of U.S. resources.

Our analysis showed that the Foundation's compliance with its key procedures has been mixed. The Foundation fully complied with procedures requiring the submission of financial disclosure reports, the performance of internal reviews of new proposals, and the disbursement of funds only after the review of required financial and progress reports. However, we found compliance problems in the following areas. For only 10 percent of the grants we reviewed did the Foundation's staff meet its requirements to make annual monitoring visits to grantee organizations and document the results. Further, it met its requirement to visit embassies and document the results for only 63 percent of the time its staff made

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country visits. In addition, Foundation contractors submitted required monitoring reports for only 50 percent of the grants in our sample. Finally, in only 25 percent of the grants in our sample were financial audit reports submitted within a reasonable time frame. We could not assess the extent of the Foundation's compliance with its requirement to visit potential grantee organizations before the award of a grant because the grants in our sample were approved before the Foundation required staff to document their visits. The underlying cause for the low compliance with some established procedures was the Foundation's lack of management controls and oversight to ensure that procedures were being followed. The Foundation has recently taken some steps to address these issues. For example, in July 2000, it expanded the role of its internal auditor to monitor the effectiveness of the Foundation's operations, policies, and procedures. However, although this step may help the Foundation to identify and correct compliance problems after they occur, the Foundation has not developed specific mechanisms to provide reminders or incentives for staff to comply with required procedures as they carry out their duties.

Although the Foundation and the U.S. Agency for International Development generally operate in the same countries in Latin America and the Caribbean, and both agencies fund microenterprise development projects, they do not, with very few exceptions, fund the same organizations. The Foundation typically awards grants to small, grassroots organizations, while the U.S. Agency for International Development focuses on supporting larger, well-established international organizations whose resources reach large groups of individuals. Since fiscal year 1998, the Foundation's criterion for grant selection is to award grants to organizations that have not received support from the U.S. Agency for International Development.

We are recommending that the President of the Inter-American Foundation develop a management control mechanism to facilitate compliance with key procedures designed to assure that appropriate organizations receive grants and grant activities are carried out as intended.

In commenting on a draft of this report, the Department of State said the Foundation has recognized most of the deficiencies we cited and had taken steps to remedy them. The Inter-American Foundation stated that the report disproportionately emphasizes the Foundation's shortcomings at a time when its efforts to improve management and oversight are just becoming evident. We disagree with the Foundation's comments and believe that our work reflects improvements made by the Foundation as

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well as areas needing improvement. The Foundation also stated that the report overstates the extent of its noncompliance with certain key auditing and monitoring requirements, because we assessed grant performance using Foundation policies that had not yet taken effect. We disagree with the Foundation's comments. In reviewing the 50 grants, we recognized that the Foundation's policies changed over the life of the grants and took care to apply the appropriate policies in each area we assessed.

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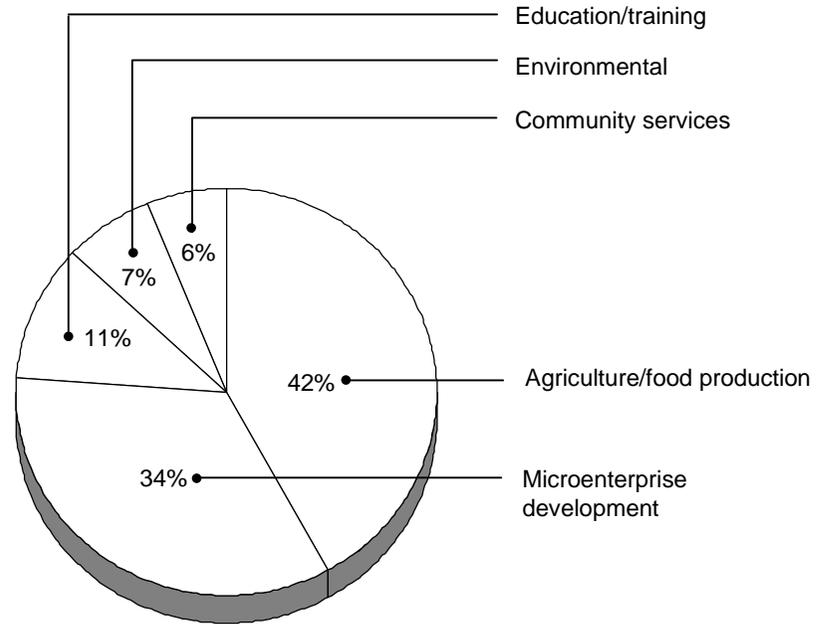
## Background

Congress created the Inter-American Foundation (IAF) in 1969 to expand economic opportunities to the poor not reached by U.S. government-to-government programs in Latin America and the Caribbean. The IAF funds projects that support self-help, participatory, local development initiatives from nongovernmental, private, and nonprofit organizations and provides grants to the organizations directly. The average size of the grants awarded in fiscal year 1999 was about \$186,000; the largest was about \$458,000. Grants generally last 2 to 3 years.<sup>3</sup> Food production and agricultural projects comprise 42 percent of IAF grants awarded in 1999. One such grant provided about \$190,000 to an organization in Peru to help 300 farmers improve their farming techniques and learn how to process oregano. The next largest category in 1999 was microenterprise development, making up 34 percent of IAF grants. For example, one fiscal year 1999 project provided \$190,000 to establish two loan funds to support income-generating activities carried out by indigenous women in Mexico. Specifically, the loans will assist the Mexican women to develop and implement marketing strategies in order to sell their local crafts both domestically and internationally. Figure 1 provides a profile of IAF grants awarded in fiscal year 1999 by type of activity.

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<sup>3</sup>Prior to 1997, IAF routinely amended existing grants, which extended the duration of the grant for several years. This is no longer a common practice.

Figure 1: Program Profile of IAF Grants Awarded, Fiscal Year 1999



Source: The Inter-American Foundation.

IAF is funded by congressional appropriations and the Social Progress Trust Fund. The Social Progress Trust Fund is administered by the Inter-American Development Bank and consists of repayment of loans originally made by the U.S. government to various Latin American and Caribbean governments. These funds are available in the national currencies of 15<sup>4</sup> countries in which the Foundation operates and may be spent only in those countries. The current agreement between the Foundation and the Inter-American Development Bank provided a total of \$44 million over a 5-year period from the Social Progress Trust Fund for Foundation projects. When this agreement expires at the end of 2000, the Foundation will no longer have access to funds from the Social Progress Trust Fund.

<sup>4</sup>The countries are Argentina, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Venezuela.

In 1998, IAF was informed of the involvement of three grantees in inappropriate or illegal activities. In May 1996 and again in July 1997, an IAF grantee organization issued public statements threatening the safety and well-being of an American citizen. By the time IAF was made aware of the threats in January 1998, as a result of congressional contact, the grant had expired and had not been renewed. Similarly, in February 1997, two IAF grantee organizations receiving IAF funds at that time supported the kidnapping of two American citizens and others in Ecuador. The kidnapping victims were eventually released unharmed. IAF did not know about the kidnapping incident until February 1998 when IAF officials contacted the U.S. embassy in Ecuador while investigating the prior incident. By that time, one of the organization's grants had expired, and IAF terminated the other organization's grant in April 1998, according to IAF documents. As a result of these two incidences, IAF revised its policy for selecting grantee organizations to preclude organizations with broad-based memberships that might potentially engage in political activities.

## Key Elements of Grant Selection, Monitoring, and Auditng Procedures

The Foundation's procedures for awarding grants and for monitoring grantee organizations' compliance with the grant agreements are outlined in its program operations guide. We identified several aspects of the Foundation's procedures that are important for assuring that appropriate organizations received grants, which include

- annual submission of financial disclosure forms by officers, the board of directors, and all employees involved in awarding grants or contracts to assure that IAF's activities are free of conflicts of interest;
- internal reviews of grant proposals by staff and senior officers to identify proposals that best meet the Foundation's funding policy; and
- staff visits to potential grantee organizations before grant approval to assess the merits of the proposal and the capacity of the organization to carry out the proposed activities.

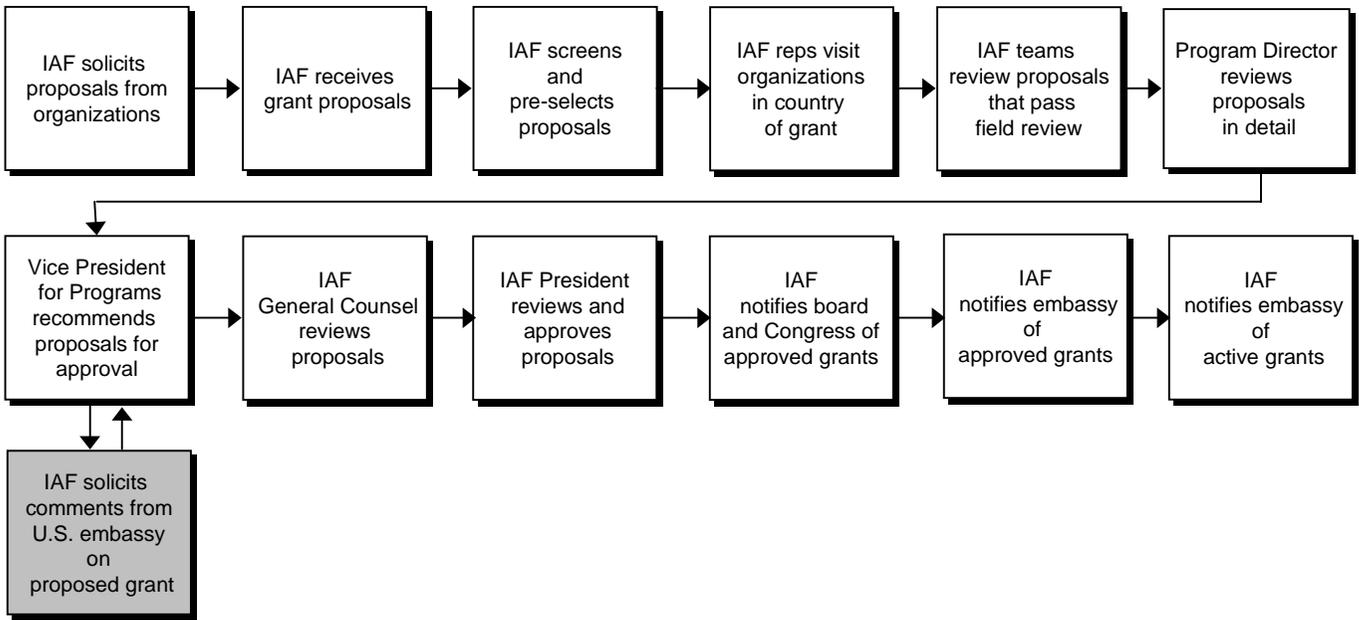
The Foundation's procedures for monitoring grantee performance and use of funds are also included in its program operations guide. We identified several aspects of the Foundation's procedures that are important for effective oversight of grant activities, such as

- review, before funds are disbursed, of financial reports and progress reports from the grantee organization that describe difficulties grantees encounter during grant implementation and their efforts to resolve them;

- visits, at least annually, to monitor the grantee organization's implementation of grants to determine if grant activities are carried out properly and effectively and to the U.S. embassy during each country visit to update embassy officials on grant activities and obtain their feedback, and document the results; and
- visits by contractors hired by IAF who are located in the country of the grantee organization to monitor the progress of grant activities, verify and complete program results data, and submit monitoring reports on the results. Since December 1997, IAF requires the contractors to submit reports that describe program results twice a year.

In addition, IAF requires audits, conducted by local independent accounting firms, to determine whether the grantee is effectively obtaining, controlling, and using U.S. funds in accordance with the grant agreement. The requirements and frequency for the financial audits are indicated in the grant agreement between IAF and the grantee organization. The audits are to be performed 6 months after the first disbursement of funds, every 18 months thereafter, and at the completion of the grant. The Foundation's internal auditor reviews each audit report submitted by the accounting firms and is responsible for taking action to resolve any discrepancies. Figures 2 and 3 illustrate the grant selection (including coordination), monitoring, and auditing processes.

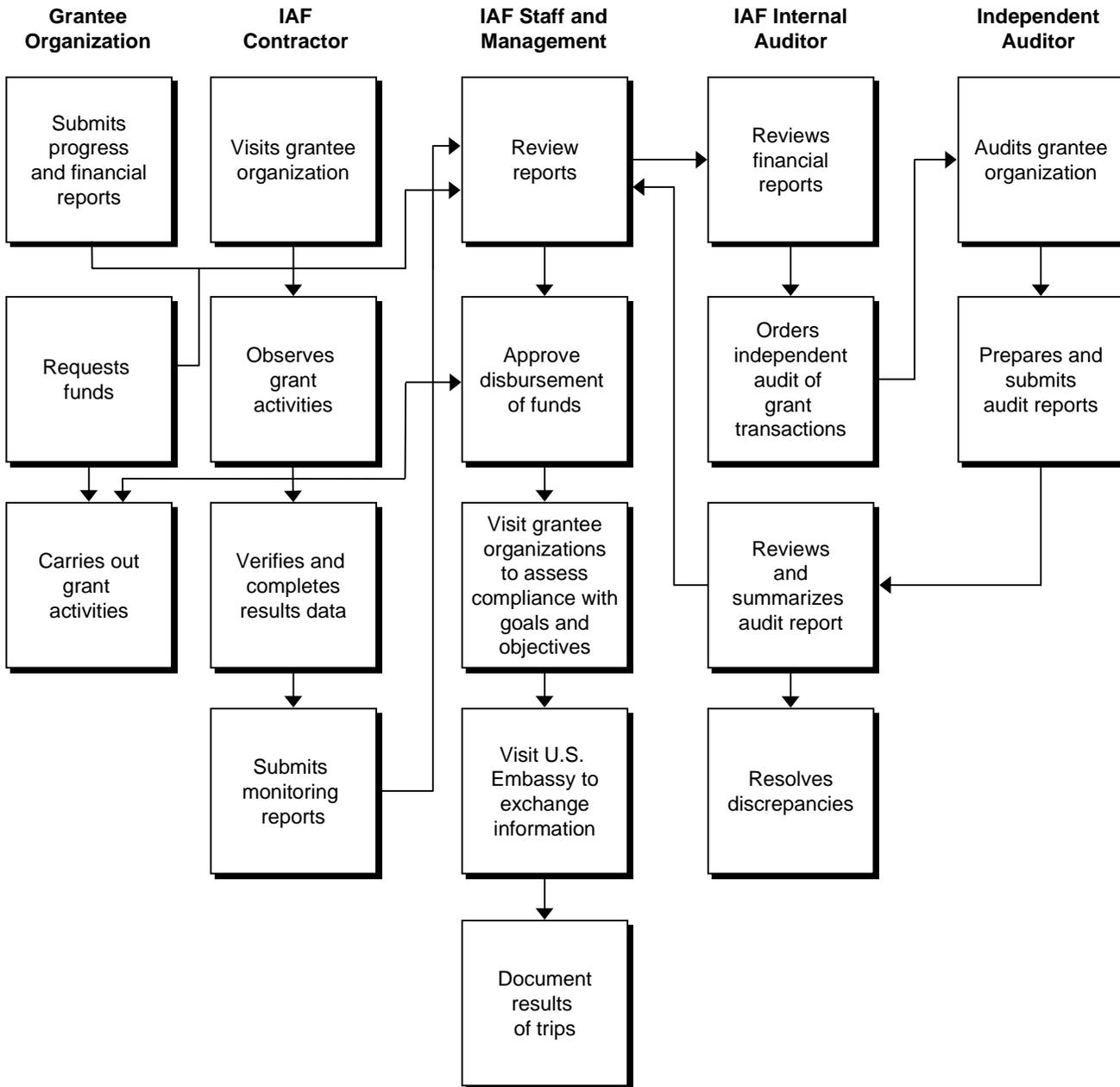
Figure 2: IAF Grant Selection Procedures



■ New step starting with fiscal year 2000 grants.

Source: Inter-American Foundation.

Figure 3: IAF Grant Auditing and Monitoring Procedures



Source: Inter-American Foundation.

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## Compliance With Key Procedures Has Been Mixed

Our analysis of 50 randomly selected grants that terminated in fiscal year 1999 as well as discussions with IAF, State, and U.S. Agency for International Development (USAID) officials found that IAF's compliance with its key monitoring and auditing procedures was mixed. We found full compliance with procedures for identifying potential conflicts of interest, conducting required internal reviews of grant proposals, and disbursing funds after reviewing and analyzing the required reports. However, we could not test compliance with IAF's requirement that staff visit potential grantee organizations because the grants in our sample were approved before IAF staff were required to document these visits. We found that IAF did not always comply with its requirements to visit grantee organizations and U.S. embassies during grant implementation and document the results and obtain reports from contractors hired to monitor programs. In addition, we found that independent auditors that IAF hired did not perform independent audits of the grants in a timely manner. We further found that the Foundation did not have a management control mechanism to better facilitate compliance with key procedures designed so that only appropriate organizations receive grants and that grant activities are carried out as intended. To help address this situation, IAF has expanded the role of its internal auditor to monitor the effectiveness of the Foundation's operations, policies, and procedures.

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## IAF Complied With Conflict of Interest and Other Internal Review and Monitoring Procedures

IAF complied with the requirements in three of the seven areas that we examined. To assure that its activities are free from conflicts of interest, IAF requires that certain individuals file financial disclosure reports annually. This requirement applies to all employees involved in contracting services, procuring goods, administering and monitoring grants, auditing any nonfederal entity, and engaging in other activities and actions that directly affect the economic interest of any nonfederal entity. In fiscal year 1999, 45 individuals, including staff, officers, and board members, were required to file the reports. We compared a list of those required to file disclosure reports to the actual reports filed in fiscal year 1999. Reports were filed for all but two of the individuals on the list. Both individuals resigned in 1999. An IAF official stated that these individuals had filed disclosure forms in the past.

IAF procedures call for staff to prescreen proposals to assess the merits of the grant and the suitability of the organization to receive U.S. government funds. In addition, staff and senior officials, including the Vice President, the General Counsel, and the President, perform in-depth reviews of the

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proposals that pass the prescreening process and are required to sign tracking documents indicating that the reviews have taken place. Our analysis showed that the review documents contained all the appropriate signatures for 100 percent of the grants in our sample.

In addition, IAF's procedures require that staff review financial and progress reports from the grantee organization before each grant disbursement is approved. We found IAF staff complied with this requirement for all 50 grants in our sample.

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## Extent of IAF Visits to Grantees Is Uncertain

We could not assess the extent of the Foundation's compliance with its requirement to visit potential grantee organizations before awarding grants because the grants in our sample were approved before the Foundation required staff to document their visits. IAF officials explained that although these visits were not documented, staff always visited potential grantee organizations prior to grant approval. To improve accountability in this area, since 1998 IAF has required its employees to submit reports documenting the required visits to potential grantee organizations. In these reports, staff are to document meetings and contacts and discuss the merits of the proposals and the capacity of the organizations to carry out proposed activities. To ensure that the reports are submitted, IAF initiated a new practice in June 2000 that requires staff to submit the trip reports before their travel vouchers are approved.

In addition, in April 1999, to avoid incidents similar to those that occurred in Ecuador in 1997,<sup>5</sup> the board of directors, in dialogue with congressional committees, instructed IAF management to improve their grant selection procedures by developing a process to better consult with State and U.S. embassy officials about proposed grantees. At that time, discussions between IAF and embassy staff were informal, and IAF officially notified the embassy of the grants after they were approved. In response to the board's instructions, the Foundation added a new step to its grant selection procedures. Starting with grants approved in fiscal year 2000, staff are to submit summaries of the grant proposals selected for in-depth reviews to the U.S. embassy in the country of the grantee organization for review and comment before the grants are approved. The purpose of the coordination procedures is to obtain information on (1) whether the potential grantee

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<sup>5</sup>Two IAF grantee organizations supported the kidnapping of Americans who were subsequently released unharmed. IAF withdrew its support from the active organization.

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organization has engaged in any type of illegal, political, or other activity or behavior that would make it unsuitable to receive a grant from the U.S. government and (2) whether the general objectives of the proposed project are compatible with U.S. foreign policy interests.

The U.S. embassies have established internal procedures to implement the new requirements. In August 1999, State and USAID sent directives to all diplomatic posts in Latin America and the Caribbean informing them of IAF's new coordination requirement and directing them to establish implementing procedures. State and USAID instructed the embassies to develop procedures that provided for a lead office to send the grant proposal summaries to other sections of the embassy as appropriate, review the proposals, and draft a response from the Ambassador.

In June 2000, we contacted the U.S. embassies in the 10 countries in which the IAF will fund new grants in fiscal year 2000 to determine if they had established procedures to implement the new coordination requirements. All of the embassies we contacted except for the posts in Bogota, Colombia, and Caracas, Venezuela, had received the guidance and had established implementing procedures. These embassies were subsequently notified of IAF's new coordination requirements. The embassy officials we contacted said they had discussed proposed activities with IAF officials but thus far had received few proposals to review. As of June 2000, IAF had sent summaries of 17 grant proposals to embassies for review and received responses for 10 of the proposals.

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**Field Visits During Implementation Not Conducted as Frequently as Required**

We found that staff did not comply with the Foundation's requirement for visiting the grantee organizations annually during grant implementation and documenting the results for 45, or 90 percent, of the grants in our sample of 50 grants. Before 1998, IAF required staff to visit the grantee organizations, but it did not require them to document the visits. Because of this situation, we could not determine whether staff performed the monitoring visits during most of the time the grants in our sample were active. At the beginning of 1998, according to IAF's Acting President, the Foundation's policies were revised to require staff to prepare a trip report for each country that is visited. The report is to document the grantees, beneficiaries, and others contacted and comment on the grantee's progress in meeting the objectives of the grant.

We reviewed the Foundation's trip reports covering 1998 and 1999 for the countries in which the grantee organizations were located. Analysis of

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these reports revealed that IAF representatives met the requirement to conduct annual visits and document the results for only 5 grants, or 10 percent of the grants, in our sample. IAF was unable to provide documentation to show that staff met the requirement to visit the grantee organizations once a year for the remaining grants in our sample. An IAF official stated that despite the information shown in the trip reports, it is unlikely that Foundation staff would not have visited a grantee organization at least once during a 2-year period. He stated that IAF has reemphasized the importance of the field visits to staff. For example, in 1999 IAF issued written monitoring guidelines to the staff and made monitoring responsibilities a major element of their performance appraisals.

In addition, since 1997, IAF has required its staff to visit the U.S. embassy in the country of the grantee organization during every visit to the country. Our analysis of the trip reports for 1998 and 1999 showed no documentation of IAF staff visits to the embassies in 37 percent of the time when they made country visits. An IAF official explained that it is a matter of policy that Foundation employees visit the embassy each time they visit a country. The official attributed the problem to staff not consistently documenting all organizations they visited in the reports and stated that IAF needs to improve its documentation practices. He further stated that in 1998, IAF officials sent a memo to staff that oversee the grants reminding them of the Foundation's long-standing policy requiring meetings with U.S. embassy officials on all country visits.

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### Monitoring Reports Not Submitted as Often as Required

Our analysis of IAF grant files showed that IAF contractors had not submitted the required numbers of monitoring reports for 23, or 46 percent, of the grants that we reviewed. The contractors submitted the required number of reports for 25, or 50 percent, of the grants.<sup>6</sup> For one grant in our sample, no reports were provided because IAF did not have a contractor in the country during the period under review. For another grant, no report was provided because the contractor was not able to visit the project due to the damage caused by Hurricane Mitch. According to IAF, prior to December 16, 1997, the contractor's statement of work specified the number of reports required. Beginning after December 16, 1997, IAF required the contractors to submit two reports a year.

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<sup>6</sup>These rates can be projected to the population of grants terminating in 1999 with margin of error of  $\pm 10$  percentage points.

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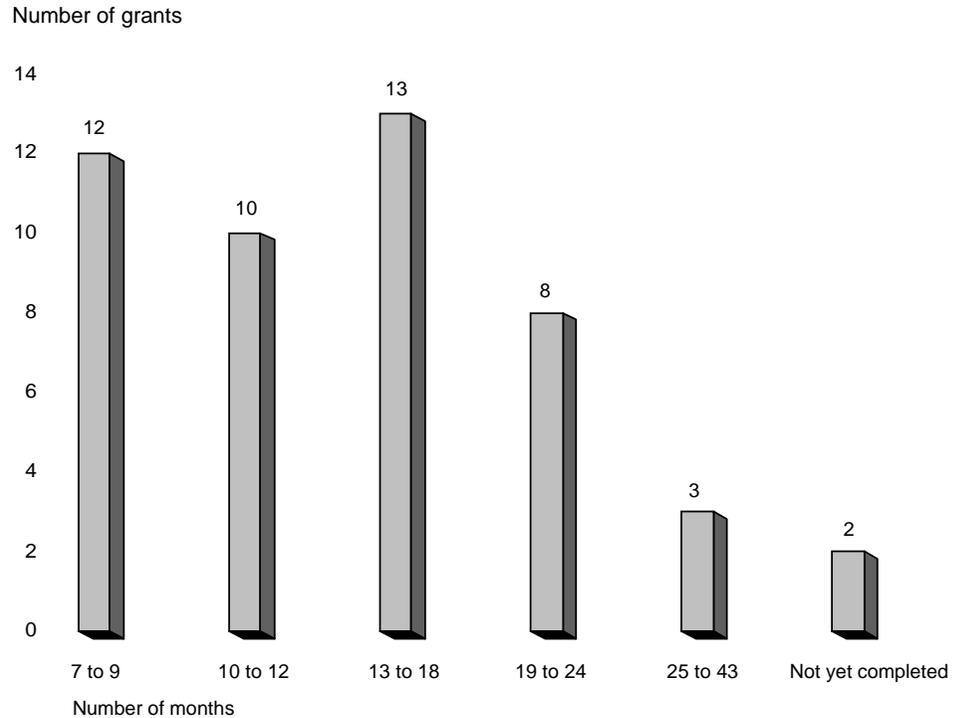
An IAF official explained that in some cases the contractors might have discussed the program results with Foundation staff via telephone, even though there were no reports in the files. The IAF official acknowledged that reports are required and stated that because of budgetary and policy considerations, IAF is reducing the number of its grants; therefore, the workload for the Foundation employees and contractors will be more manageable in the future.

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**Independent Audits Not Timely, and Some Unused Grant Funds Have Not Been Returned**

We found that many of the audits to assess grantee organizations' use of funds and compliance with the grant agreement were performed late and that audit discrepancies remain unresolved. IAF requires an audit covering the first 6 months of grant activity, and, although IAF procedures do not specify when the auditor should submit the audit report to the Foundation, IAF's internal auditor stated that 9 months from the first disbursement is a reasonable time to receive the first report. Figure 4 shows the number of months between IAF's first disbursement of funds and receipt of the audit report.

**Figure 4: Number of Months Between the IAF's First Disbursement of Funds and Receipt of First Audit Report**



Source: GAO analysis of sample of 50 IAF grants (two grants were for less than \$35,000 for which no audit is required).

We found that 36 of 48, or 75 percent, of the grants in our sample requiring audits were not received within 9 months after the first disbursement of funds. The graph shows a range of 7 to 43 months between the date of first disbursement and the time IAF received the first audit report.

Moreover, as of June 13, 2000, IAF had not received reports for 38 grants that ended between 1995 and 1999. The total amount of funds that have not been audited is about \$3.7 million. IAF officials acknowledged that these audits have been untimely. They attributed the lateness to past vacancies in the internal auditor position, miscommunication between the independent auditors and the Foundation, and the lack of preparedness of the grantee organization. According to one official, the internal auditor position has been vacant three times since about 1996. He stated that the position is

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now filled and, because of the reduction in the number of grants, the auditor will have time to make sure the audits are completed on time.

Our analysis showed that IAF had not obtained the return of about \$130,000 in unused grant funds that remained at the termination of five grants in our sample. About \$74,000, or 57 percent of this amount, has not been collected because of a dispute between IAF and the grantee organizations over the calculation and use of exchange rates. At the time, according to IAF, the Foundation did not have established procedures for determining which exchange rate to use. IAF now has such procedures. In addition, about \$54,000 of the uncollected funds are unused funds from a grantee organization that IAF has been unable to locate since the grant terminated. The remaining approximately \$1,800 consists of unused grant funds temporarily frozen by the Ecuadorian government in the grantee organization's bank accounts because of a banking crisis. IAF's internal auditor is still trying to resolve these discrepancies.

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### Expanded Role for IAF's Auditor

In July 2000, to assure compliance with procedures, IAF expanded the role of its internal auditor to monitor the effectiveness of the Foundation's operations, policies, and procedures. Previously, the auditor's sole role was to manage and review the audits of the Foundation's grants. To accomplish this task, as of July 2000, the auditor will report directly to the Office of the President rather than the Office of Financial Management. The Foundation's Acting President stated that the auditor would have the time to perform internal reviews as well as handle his other duties because the number of active grants has decreased.

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### IAF and USAID Generally Fund Different Organizations

Although IAF and USAID fund some similar types of activities and operate in some of the same countries, they generally do not fund the same organizations. Both agencies provide grants to organizations to increase the availability of financial services, such as microenterprise loans, to the poor. For example, in fiscal year 1999, a typical IAF project in El Salvador provided about \$297,000 over 2 years to an organization to establish 24 credit funds. About \$8 million, or 34 percent, of IAF's program were for microenterprise projects in fiscal year 1999. Similarly, a typical USAID microenterprise project in El Salvador provided about \$566,000 to an organization to improve the quality of financial services to poor clients by developing a consortium of nongovernmental organizations to provide financial and nonfinancial services to more than 15,000 clients. The vast majority of USAID's microenterprise grants involve financial services

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programs. In fiscal year 1999, both agencies funded projects in Bolivia, Brazil, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, and Peru.

IAF's current policy for selecting grantee organizations is to provide grants to organizations that are not funded by USAID. According to an IAF official, the Foundation's policy for approving grants has evolved over time, and at one time IAF was encouraged to co-fund organizations with USAID. However, during fiscal year 1998, IAF's board of directors stressed the need for IAF to distinguish itself from other development agencies. To accomplish this task, the board suggested that the Foundation seek to support organizations that have not received previous USAID funding and that are unlikely to be funded by USAID. In fiscal year 1999, the search for new potential grantees that had not received previous IAF funding or support from other U.S. government foreign assistance programs became a primary focus of the Foundation.

IAF has provided grants to a few organizations in fiscal years 1998 and 1999 that also received support from USAID. A comparison of about 200 IAF grants approved beginning fiscal year 1998 to a list of organizations involved in USAID's microenterprise program yielded 6 IAF grantee organizations that were also funded by USAID. Most of these organizations received support from USAID indirectly through another organization. For example, in 1998, IAF awarded a grant of about \$310,000 over 3 years to a nonprofit development association in Nicaragua to provide local, small-scale businesses with loans and training to improve their workplaces and strengthen their business skills and income-generating enterprises. Through the Public Law 480 title III program,<sup>7</sup> USAID donated agricultural commodities valued at about \$100,000 from June 1996 to September 1999 to the Nicaraguan government. The donated commodities were sold on the domestic market, and the revenue generated from the sale was used to finance a microenterprise credit fund for the same nonprofit association for which IAF awarded a grant. According to IAF's Acting President, the Foundation's policy of not awarding grants to organizations funded by USAID applies to organizations that receive funds directly, rather than indirectly, from USAID.

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<sup>7</sup>Under this food assistance program, support, sometimes in the form of commodities or technical assistance, is provided through another organization or through the host country government.

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The IAF official stated that IAF has sometimes awarded grants to organizations also supported by USAID because of special circumstances in the country of the grant. For example, in fiscal year 1999 IAF awarded a grant of about \$458,000 to an organization in Nicaragua to help the people in the western region of that country recover from the damage caused by Hurricane Mitch by establishing a local-development small loan fund. This organization also received about \$171,000 under USAID's program for rapid reconstruction and sustainable recovery in Hurricane Mitch-affected areas of Nicaragua.

Although IAF and USAID awarded grants to a few of the same organizations, and fund similar microenterprise projects and work in some of the same countries, IAF and USAID officials stated that they do not consider their programs to be duplicative. IAF tends to support small, local grassroots organizations that are not generally reached by most other U.S. government entities, including USAID. For example, one USAID official overseas stated that many of the organizations that IAF usually works with would not qualify for USAID support, because they are too small to have the accountability systems USAID requires. Other USAID officials stated that they have sometimes referred organizations not eligible for USAID grants to IAF. USAID generally works with larger organizations, such as the World Council of Credit Unions and Catholic Relief Services. Most are umbrella organizations that funnel USAID assistance to member organizations. In contrast, IAF deals directly with the small groups that are members of the umbrella organizations.

The agencies' approaches to developing projects and policies for selecting organizations also differ. IAF solicits proposals from local, grassroots organizations that identify local problems and design their own projects to solve those problems. It does not identify broad development needs for a country or design projects to meet those needs. In addition, IAF does not maintain a permanent presence overseas. In contrast, USAID identifies development needs, designs programs, and maintains a permanent presence overseas. While IAF stresses local development and gives preference in awarding grants to organizations to which it has not previously awarded a grant, USAID requires the organizations that it supports to have established performance records or be headed by experienced management teams. It also emphasizes large-scale projects that reach large populations.

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## Conclusions

The Inter-American Foundation has complied with its procedures for requiring the submission of financial disclosure reports, performing internal reviews of new proposals, and disbursing funds only after it reviews required financial and progress reports from the grantee organization. It has also improved its grant selection procedures by developing a process to better consult with State and U.S. embassy officials about proposed grantees. Nevertheless, the Foundation does not have a mechanism in place for assuring that key procedures are implemented. Specifically, mechanisms are lacking to facilitate compliance with procedures for (1) documenting staff visits to monitor grantees and to embassies to share information concerning the grantees, (2) submitting contractor monitoring reports, and (3) receiving audit reports on a timely basis. Without such compliance, IAF does not have assurance that appropriate organizations are selected to receive grants and that grant activities are carried out as intended. IAF's recent decision to expand the role of the internal auditor should help. However, assessing compliance after the fact is not enough to ensure that the procedures are actually followed.

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## Recommendation for Executive Action

In order to effectively oversee and monitor grantee activities, we recommend that the President of the Inter-American Foundation, with the board of directors' approval, develop a management control mechanism to provide oversight of compliance with monitoring and auditing procedures designed to ensure that the appropriate organizations receive grants and grant activities are carried out as intended.

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## Agency Comments and Our Evaluation

We received written comments from the Inter-American Foundation and the Department of State. These are reprinted in appendixes I and II. State commented that the Foundation has recognized most of the deficiencies cited in our draft report and has taken additional steps to remedy them, particularly in ensuring that the Foundation maintains close contact with U.S. embassies in the countries of the grantee organizations. We agree that the Foundation has taken steps to improve its oversight of grantees, as evidenced by its establishment of several new procedures during the past few years. However, we believe that our analysis demonstrates that further steps are needed to assure greater compliance with grant monitoring and auditing procedures.

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The Foundation stated that the draft report disproportionately emphasizes the Foundation's shortcomings at a time when its efforts to improve management and oversight are just becoming evident. We do not agree with the Foundation's statements and believe that the draft is both balanced and accurate. The draft report (1) describes steps the Foundation is taking to better consult with State and U.S. embassy officials about proposed grantees and its recent decision to expand the role of its internal auditor to assess compliance with its requirements, (2) discusses areas of compliance, and (3) presents areas where better compliance is needed.

The Foundation also stated that our report overstates the extent of noncompliance with its requirements for (1) documenting staff visits to grantees, (2) obtaining contractor monitoring reports, and (3) receiving audit reports on a timely basis. The Foundation stated that we did not use the appropriate policy for determining compliance in these areas. We disagree with the Foundation's view and believe our report accurately reflects the extent of noncompliance. In reviewing the 50 grants, we recognized that the Foundation's policies changed over the life of the grants and took care to apply the appropriate policies in each area we assessed. Where the Foundation's policies were not formally issued or clearly documented, we relied on statements made by Foundation officials to determine the policy in place and the effective date of the policy. We afforded the Foundation with opportunities to provide additional documentation in each instance of noncompliance and where it did we incorporated the changes to our analysis prior to sending the draft report to the Foundation and State for comment.

Specifically, we disagree with the Foundation's statement that we used the wrong effective date for the policy requiring staff to document visits to grantee organizations and, as a result, overstated the extent of noncompliance. We were told by the Acting President that the policy to document visits took effect at the beginning of 1998. During the course of our review, the Foundation provided us several draft policy documents with varying effective dates for when the requirement was to start. In its comments on our report draft, the Foundation stated that its requirement for staff to document visits took effect in June 1998, however, the Foundation did not provide us any formal documentation to this effect. Even if we used June 1, 1998, rather than January 1998, as the starting date of the policy and eliminated grants expiring within 1 year from our sample, only 6 of 17 remaining grants would have met the requirement. In assessing the extent to which contractors submitted required monitoring reports, we used either the specific requirements which were included in the scopes of

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work in some contracts, or the Foundation's general policy which required all contractors to submit reports twice a year beginning after December 16, 1997. Finally, in absence of specific policies for assessing compliance with audit requirements, we used 10 months as the standard in our analysis even though the Foundation's internal auditor stated that 9 months following the first disbursement of funds was a reasonable timeframe for expecting results to be submitted.

State and the Foundation stated that our report found no overlap or duplication in missions between the Foundation and the U.S. Agency for International Development. However, our work focused on whether the Foundation and USAID awarded grants to the same organizations in the past and on the types of entities that each organization funds. We did not examine whether or not there is overlap between the missions of the Inter-American Foundation and USAID.

See appendix I for GAO's detailed response to the Foundation's comments.

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## Scope and Methodology

To describe IAF's procedures for selecting organizations to receive grants, monitoring grantee organizations' compliance with grant agreements, and auditing grantees' use of funds, we examined IAF documents such as the Foundation's program office operations guide, audit guidelines, policy memorandums, minutes of meetings of the board of directors, and cables to the U.S. embassies between 1999 and 2000. We discussed the procedures and any planned improvements with senior officials at IAF, State, and USAID in Washington, D.C. We also contacted State and USAID officials at the U.S. embassy in Brasilia, Brazil; Bogota, Colombia; Santo Domingo, Dominican Republic; San Salvador, El Salvador; Guatemala City, Guatemala; Mexico City, Mexico; Managua, Nicaragua; Panama City, Panama; Lima, Peru; and Caracas, Venezuela, to discuss the extent of coordination with IAF. In addition, we contacted the current members of IAF's board of directors to discuss the board's role and responsibilities.

To analyze whether the Foundation complied with its procedures, we randomly sampled and reviewed the program, financial, and audit files for 50 of the 86 grants that terminated in fiscal year 1999. With the exception of the monitoring reports from the contractors and the audit reports from the independent auditors, the required documentation in the files was in English. We used the services of a GAO employee fluent in Spanish to review the monitoring reports and other documents. We used a data collection instrument that incorporated IAF's procedures in effect during

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the life of the grants. The population was limited to terminated grants because some of the requirements are not accomplished until the grant has been completed. Selecting ongoing grants would have resulted in missing data for many of the requirements. The sampling strategy resulted in population estimates with a precision of  $\pm 10$  percentage points.

To discuss the extent to which IAF awards grants to organizations that are also supported by USAID, we compared an IAF list of about 200 grants approved in fiscal years 1998 and 1999 to a list of organizations that participated in USAID's microenterprise program during those same years. We also discussed the policies IAF and USAID use to select grantee organizations with officials from both agencies.

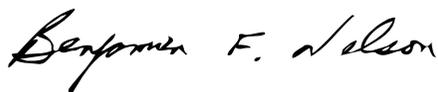
We performed our work from January 2000 through August 2000 in accordance with generally accepted government auditing standards.

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We are sending copies to David Valenzuela, Acting President, Inter-American Foundation; the Honorable Madeleine K. Albright, the Secretary of State; the Honorable J. Brady Anderson, Administrator, U.S. Agency for International Development; and interested congressional committees. We will also make copies available to others upon request.

Please contact me at (202) 512-4128 if you or any members of your staff have any questions concerning this report. Other GAO contacts and staff acknowledgments are listed in appendix III.

Sincerely yours,



Benjamin F. Nelson  
Director, International Relations  
and Trade Issues

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# Comments From the Inter-American Foundation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



## Inter-American Foundation

An Independent Agency of the U.S. Government

September 7, 2000

Mr. Benjamin F. Nelson, Director  
International Relations and Trade Issues  
United States General Accounting Office  
Washington, D. C. 20548

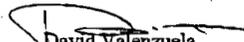
Dear Ben:

First, many thanks for the opportunity to meet with you and the GAO team that conducted the investigation of the Inter-American Foundation's (IAF) grant procedures. I believe we were able to clarify a number of important issues.

As agreed, attached you will find the IAF comments on your draft report. I trust that the full text of our comments will be included in the final report, unless you decide to modify the text to reflect corrections or clarifications contained in our comments.

Once again, I wish to express my appreciation for your patience and goodwill, as well as that of the investigators, during the entire review process. Please let me know if there are still issues for discussion prior to issuing the final report.

Sincerely,

  
David Valenzuela  
Interim President

Attachments:

Response of the IAF to the GAO Draft Report on IAF grant management;  
Policy for Grant Management and Monitoring (Memorandum to George Evans,  
8/19/1999;  
Standard Scope of Work for ICS Contracts (Memorandum to Ron Arms and Steve Pierce,  
12/15/97;  
COICA Press Release dated June 26, 1996 disseminated via internet;  
COICA Press Release following May 17, 1997 Assembly disseminated via internet;  
COICA letter addressed to George Evans and Adolfo Franco of approximately  
April/May, 1998;  
Statement by seven Ecuadorian Amazonian indigenous organizations on the detention of  
two U.S. citizens conducting environmental studies for the Walsh Corporation of Canada.

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**RESPONSE OF THE INTER-AMERICAN FOUNDATION  
TO THE AUGUST 2000 DRAFT REPORT OF THE  
UNITED STATES GENERAL ACCOUNTING OFFICE**

See p. 23.

The Inter-American Foundation (the "Foundation") was pleased to note that the August 2000 draft report (the "Draft Report") submitted to the Foundation by the General Accounting Office ("GAO") found no overlap between the respective missions of USAID and the Foundation. Indeed, the Draft Report acknowledges the distinctive role the Foundation plays in U.S. foreign affairs and development policy.

The Foundation was also pleased to note that the GAO recognized the Foundation complied fully with financial disclosure measures, grant award procedures and disbursement requirements, especially given that these are the areas where performance matters most.

The GAO found "compliance problems" in frequency of trip reports and monitoring reports, however. It also faulted the Foundation on audit timeliness and embassy relations grounds. Yet the Foundation's verification of the GAO's calculations disclosed that the matching of grants and the procedures applicable to them was imprecise. As a result, the Draft Report's findings are incorrect in varying degrees. This response details the Foundations findings.

See p. 22.

On a more general note, the Draft Report disproportionately emphasizes the Foundation's shortcomings at a time when its efforts to improve management and oversight are just becoming evident. The title of the Draft Report exemplifies this. Similarly, the Draft Report refers to the Foundation's "lack of management controls and oversight"—a characterization at odds with the overwhelmingly favorable ratings the Foundation receives in key areas. The recommendation that the Foundation's President develop a management control mechanism, coupled with the Draft Report's omission of the Foundation's comprehensive procedural reforms, also illustrate the point.

See comment 1.

The Draft Report reflects oversights in other areas. None of the GAO reviewers has Spanish capability although most reports and material in project files are in Spanish. The Draft Report was formulated notwithstanding an absence of field visitation, although field visits would be indispensable to reach adequate understanding of what transpired during the life of the 50 sample grants the Draft Report covers.

The Foundation requests the following:

- Replace the Draft Report's title with: "No Overlap with USAID," "Successful Grantmaking and Monitoring Procedures Substantially Adopted," or another genuinely descriptive phrase.

**Appendix I  
Comments From the Inter-American  
Foundation**

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See comment 2.

**Trip Reports.** From 1989 to 1997, the Foundation did not require representatives to submit grant visit reports; this requirement was issued June 1, 1998. The GAO concludes that the Foundation met its requirement for staff to make annual visits to grantee organizations for only 12 percent of the grants reviewed. Yet an examination of the subject grants reveals that this policy was applied to grants under which the requirement was not, or was or not fully, applicable.

For example, two grants expired in 1997. Some nine (ES-084, ES-102, HO-180, ME-349, ME-398, PN-250, PY-181 and VZ-140) were due to expire six months or less after the policy came into effect, rendering the conclusion that the requirement had been violated premature. In fact, a number of other grants that also would have expired before a year had tolled following the date the policy came into effect were cited incorrectly.

The GAO reviewer's handwritten note accompanying his findings discloses that he used Fiscal Year 1998—covering nine months before the policy took effect—as the point of policy initiation. In any case, the Foundation has substantial travel records, itineraries, travel orders and other written documentation of grantee visitation by Foundation representatives. Finally, and most importantly, to conclude that an event occurs only if it is documented represents an error of logic, which is memorialized in a graph that purports to depict the frequency of trips (figure four).

See comment 3.

**Monitoring Reports.** From 1989 to 1998, the scopes of work for in-country service ("ICS") contractors (which performed grantee monitoring functions) varied greatly in terms of requirements, often contained vague provisions and frequently were not required at all. In El Salvador, for example, which accounts (inexplicably) for 14 of the 50 grants reviewed, the ICS contractors were not required to submit monitoring reports. The requirement that all ICS contractors send annual monitoring reports was phased in from March 1998 to September 1998.

Again, the Foundation retraced the GAO's steps. In this instance, the Foundation discovered that the GAO reviewer had applied the 1998 policy to periods dating as far back as seven years before the policy took effect to arrive at the Draft Report's conclusions. For example, regarding one grant (ES-084), the reviewer concluded that the Foundation had averaged 0.6 reports per year over a project duration of 8.25 years. Yet at best five months of the period on which he based that conclusion fell within the policy's applicability. In another instance, the offending grant (HO-212) had expired the year before the policy was issued!

See comment 4.

**Audit Reports.** Regarding the audit function the Foundation can boast a compliance rate of at least 98 percent on all audits and a similar record with respect to acceptable audits. Yet GAO examiners did not take into consideration the fact that frequent delays occur in the scheduling and completion of audits for a host of reasons. Such delays do not jeopardize the audit function. Moreover, the examiners treated the date that audits are to be initiated, such as six months from the execution of the agreement, as the same date they should be completed. The Draft Report states that eight to nine months after the date of the first disbursement is a

**Appendix I  
Comments From the Inter-American  
Foundation**

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reasonable time period within which to receive the first audit report. This is rarely possible, however. Floods, remote locations, travel delays and cultural differences frequently mean that audits are received later than that. Perhaps Foundation policy should state explicitly a realistic period within which audits should be delivered, rather than stating solely when they should be commenced.

See comment 4.

Similarly, the Draft Report sets forth \$130,000 of uncollected unused funds out of \$62,004,160, or .02 percent total grant funds outstanding. Although the Foundation continues to pursue uncollected funds, the amount the GAO mentions is not considered material by professional standards.

See comment 5.

**Embassy Visits.** Foundation representatives were required to make visits to U.S. Embassies on every visit beginning in 1997. The previous norm was one visit per year. Some U.S. Embassies discouraged Foundation staff from visiting each time they were in country, however. In 1998, the Foundation restated its policy that all country visits required U.S. Embassy clearances. To conclude that representatives visited U.S. Embassies only 63 percent of the time neglects to take into consideration Foundation policies at different times and individual U.S. Embassy preferences. Also, this figure is based on the presumed synonymy of documentation and occurrence—an error previously noted.

**Factual Errors**

See comment 6.

- The mention of two problem grants is not germane to the GAO report, as they were not part of the 50 sample grants used in the study. Even if they were, the GAO should specify that two Foundation grants experienced difficulties, rather than the vague and possibly misleading phrase "a few." This should also be placed in the context of 4,260 grants funded over the course of 30 years.
- The Draft Report states that unaudited grant dollars number 3.7 million. The Foundation provided the GAO with information stating that the figure was 3.2 million between 1995 and 1999. For that time period, the number of total grants outstanding averaged 393. The average dollar per grant outstanding was \$167,929. The amount of unaudited dollars was thus 2.2 percent—a respectable figure in any case.
- In the first graph, the last two lines suggest that what the Foundation and AID do in terms of providing assistance through NGOs directly to the poor is similar. Yet the Foundation funds poor people's own ideas about development, not its own. That, more than the level of groups the organizations reach, is the fundamental difference

**Appendix I  
Comments From the Inter-American  
Foundation**

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See comment 7.

- Through Fiscal Year 1999, the Foundation funded over 4,250 grants rather than over 4,000 grants as the Draft Report states.
- The establishment of the internal auditor to monitor effectiveness of internal operations is not primarily to address grant management concerns, but to improve the Foundation's overall financial management.

See comment 8.

- The section covering the relationship and procedures among State, USAID and the Foundation reflects confusion and misunderstanding of the facts. For example, there has never been, and does not now exist, a requirement to visit the embassy before awarding each grant. The requirement is to advise the embassy in writing, by submitting the project's public statement, about the group and the project, before a grant is awarded.

See comment 9.

- One former grantee, and not two, as stated by the GAO, issued a press release stating that it would not guarantee the safety of a specific U.S. citizen if he should set foot in the Amazon region. The grantee, the Confederation of Indigenous Organizations of the Amazon Basin (COICA), which brings together the national indigenous organizations in Brazil, Venezuela, Colombia, Perú, Ecuador, and Bolivia, later toned down this statement considerably in a letter to the Foundation. COICA was concerned that patenting the Ayahuasca plant, which is sacred to all Amazonian Indians, would deny them access to this important ceremonial plant. The patent request was not granted. The incident provoked worldwide protest, in which many prominent persons and organizations participated.

See comment 9.

- COICA was not involved in the second incident, which included an active and a former grantee in Ecuador at the time the Foundation learned of the incident. These grantees, one of which is the confederation of all Ecuadorian Amazon organizations (CONFENIAE) and the other representing the indigenous groups in the State of Pastaza (OPIP), joined five other organizations in signing a statement expressing solidarity with the groups directly responsible. CONFENIAE and OPIP were not involved in the holding of two oil company workers—nor did they demand ransom for themselves, however. The incident, which reflected concern among indigenous groups over alleged environmental damage caused by oil exploration, ended after nine days without loss of life or injury and no ransom payment. The Foundation terminated the grant to OPIP, which provided funding for bilingual education rather than political activities as the Draft Report suggests.

See comment 9.

- The last sentence in the second paragraph of page seven states that the Foundation "terminated its association with the organizations." The Foundation terminated its affiliation with only one of the organizations, OPIP. The Foundation's relationship with COICA and CONFENIAE had terminated before the Foundation became aware that the incident had taken place.

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The following are GAO's comments on the Inter-American Foundation's letter dated September 7, 2000.

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## **GAO Comments**

1. The Foundation commented that none of our reviewers had Spanish capability, although most reports and material in the files are in Spanish. While the monitoring reports submitted by the contractors and the audit reports submitted by the independent auditors were in Spanish, the required documentation of Foundation compliance with procedures was in English. A GAO staff member fluent in Spanish reviewed the monitoring reports and other documentation in the files. We have revised our methodology section to reflect this review. The Foundation also faulted us for not making field visits. However, field visits were not necessary to assess compliance with the Foundation's internal procedures for administering and monitoring grant activities because these procedures require staff to place in the Foundation's grant files documentation showing compliance with Foundation procedures.
2. We disagree with the Foundation's statement that we did not use the appropriate effective date for the policy to document staff visits to grantee organizations. We relied on statements made by the Acting President that the policy took effect at the beginning of 1998, because during the course of our review, the Foundation provided several policy documents in draft with varying effective dates. In its comments to a draft of our report, the Foundation stated that its requirement for staff to document visits took effect June 1, 1998; however, the Foundation did not provide formal written documentation of this requirement. As a result, we believe our analysis is correct as presented in the report. It should be noted that even if we used June 1, 1998, as the starting date for the requirement to document visits and eliminated the grants expiring within 1 year from our sample, only 6 of 17 remaining grants would have met the requirement.

The Foundation also stated that two grants in our sample expired in 1997. We disagree with this comment. We selected our sample from a list that was provided by the Foundation of grants that terminated in fiscal year 1999.

For the grants in our sample where the Foundation did not have trip reports that documented the visit to the grantee, we requested other forms of documentation showing that the Foundation staff visited the

grantee organization. In a couple of instances, the Foundation provided documentation, such as travel vouchers or notes, and we reflected the changes in our analysis. However, for most instances, the Foundation was not able to document required visits to grantees, and therefore we did not revise our report.

3. The Foundation stated that GAO did not apply the appropriate criteria for assessing whether contractors submitted monitoring reports for the grants in our sample. Specifically, the Foundation stated that the contractors for the El Salvador grants in our sample were not required to submit monitoring reports during the period that the grants were in effect. We disagree with this comment. The Foundation's scope of work for its contractors in El Salvador states that they were required to submit monitoring reports twice a year beginning in December 1996 through June 2000. Our analysis showed that 6 of the 14 grants in our sample from El Salvador met the requirement for submitting monitoring reports twice a year. We revised our report to describe in detail the criteria we used to assess compliance with this requirement.

For one grant in our sample, IAF stated that we applied the policy requiring monitoring reports to a grant that had expired a year before the policy was issued. We had, in fact, concluded that the contractor met the reporting requirement for this grant.

4. The Foundation took exception to the fact that we did not give it credit for having a 98-percent compliance rate for completing the audits and that the amount of uncollected funds we reported was not material. However, despite our requests, the Foundation did not provide us documentation of the total number of grants requiring audits for the period covered by our review. Therefore, we could not verify the Foundation's compliance rate.

The Foundation also stated that we applied inappropriate criteria in determining whether audits performed by independent contractors of grantee activity were late. The Foundation requires an audit after the first disbursement of funds to cover 6 months of grant activity, but it does not have an explicit policy stating when audit reports should be submitted. However, the Foundation's internal auditor stated that 9 months after the first disbursement was a reasonable time to receive the report. We counted reports as being late only if they were received at least 10 months from the date of the first disbursement. We added a chart to our report that provides the details of our analysis.

As to the materiality of the \$130,000 of uncollected, unused funds identified by grant audits, the Foundation did not provide documentation, so that we could confirm whether \$62,004,160 was the total amount of grants outstanding.

5. The Foundation stated that our analysis of its requirement for staff to visit embassies during each country visit did not take into consideration the various Foundation policies in effect at different times. We disagree with the Foundation's view that we did not use the appropriate policy. Our assessment was based on the Foundation's policy that took effect in 1997 requiring that staff visit embassies as part of every country visit. However, trip reports to document the visits were not required until 1998. Our analysis of the trip reports for visits that took place in 1998 and 1999 showed that for 56 country visits, IAF staff visited the embassy in the respective countries 35 times.
6. The Foundation questioned our statement that the amount of grants not audited totaled \$3.7 million rather than the \$3.2 million the Foundation reported. As we explained to Foundation staff and officials, our analysis of the sample of 50 grants revealed two additional grants that had not been audited. We added the unaudited amount of the grants we identified to the amount IAF reported to arrive at the \$3.7 million.
7. We revised the report to show the number of grants IAF reported.
8. We revised the report to remove the reference to the requirement that Foundation staff visit the U.S. embassy before the grant is awarded.
9. We revised the report to reflect the information provided by the Foundation that one grantee, not two, made statements threatening an American citizen. However, the Foundation's statements concerning the status of the grantee involved in the threat and the involvement of grantees in a kidnapping are not supported by the documentation in the Foundation's files. The Acting President stated that the organization that made the threat was a former grantee and that the organization later considerably "toned down" this statement in a letter to the Foundation. Our audit work, however, indicates that the grantee organization was receiving funds from the Inter-American Foundation at the time that it issued threats against the American citizen. Moreover, documentation provided by IAF does not show that the organization later toned down its statements. IAF also stated that one of the organizations that supported the kidnapping was a former grantee and

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**Appendix I  
Comments From the Inter-American  
Foundation**

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that neither organization was involved in the demand for ransom. However, Foundation documents we reviewed stated that both organizations were receiving funds at the time of the kidnapping. Moreover, according to an internal Foundation memorandum, the grantees not only supported the kidnapping, but also signed, along with other indigenous groups, a document that raised the ransom demand to \$2 million. We also provided additional details in the background to reflect these corrections.

# Comments From the Department of State



**United States Department of State**

*Chief Financial Officer*

*Washington, D.C. 20520-7427*

*September 5, 2000*

Dear Mr. Hinton:

We appreciate the opportunity to review your draft report, "INTER-AMERICAN FOUNDATION: Better Compliance With Grant Procedures Needed," GAO/NSIAD-00-235, GAO Job Code 711553.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Mr. Paul Hurley, Deputy Director, Regional Economic Policy, Office of Regional Economic Policy, Summit Coordination, Bureau of Western Hemisphere Affairs, at (202) 647-0614.

Sincerely,

A handwritten signature in black ink that reads "Bert T. Edwards".

Bert T. Edwards

Enclosure:

As stated.

cc:

GAO/NSIAD – Ms. Anderson  
State/WHA/EPSC – Mr. Hurley

Mr. Henry L. Hinton, Jr.,  
Assistant Comptroller General,  
National Security and International Affairs,  
U.S. General Accounting Office.

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**Appendix II**  
**Comments From the Department of State**

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Department of State Comments on the GAO Draft Report,  
"INTER-AMERICAN FOUNDATION: Better Compliance With Grant  
Procedures Needed," GAO/NSIAD-00-235, GAO Job Code 711553

The Inter-American Foundation (IAF) provides a unique "grassroots" approach to development that does not duplicate the capabilities and programs of USAID. Indeed, the GAO report asserts that there is no significant duplication of effort between the IAF and USAID. IAF grants generally are made to small community groups in poor regions and are often coupled with assistance from interested multinational corporations, local businesses and local municipalities. This development strategy magnifies the effect on the poor of U.S. assistance.

The GAO report faults the IAF for not following established procedures on grantee oversight/monitoring. Over its thirty-one year history, the IAF has refined its grant making and grantee oversight/monitoring procedures to ensure the integrity of the grant making process and prevent the misuse of U.S. funds. Most of the deficiencies cited in the GAO report are recognized by the IAF, which has taken additional steps in grantee oversight/monitoring to remedy them.

Among the remedies, the Department of State has a particular interest in ensuring that the IAF maintains close contact with U.S. embassies in the countries of grantee organizations and will continue working with the IAF to that end.

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Jess Ford (202) 512- 4128  
Phyllis Anderson (202) 512-7364

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## Acknowledgments

In addition to those named above, La Verne Tharpes, Norm Thorpe, and Mary Moutsos made key contributions to this report. Other contributors include Jack Edwards, Rona Mendelsohn, Jeanette Espinola, and Jody Woods.

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