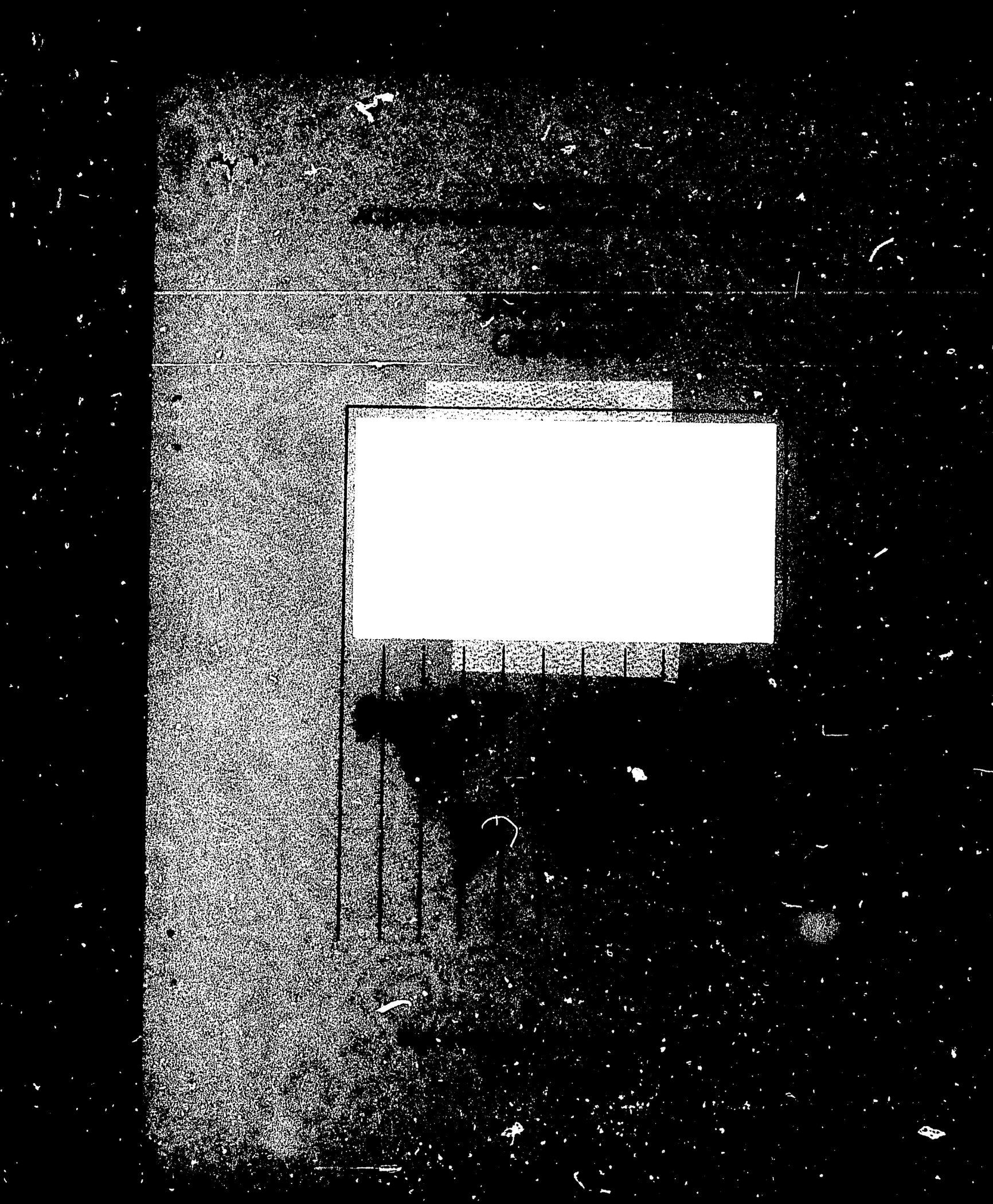

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AUDIT OF
THE SUPPORT PROVIDED BY
THE FOUNDATION FOR SUPERIOR EDUCATION
TO THE REGIONAL ADMINISTRATION
OF JUSTICE PROJECT IN COLOMBIA
LATIN AMERICA AND CARIBBEAN BUREAU
PROJECT NO. 598-0642

AUDIT REPORT NO. 1-598-89-34-N
May 19,1989

4/3/8

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987
also 32-3120 EXT. 2701-2703

May 19, 1989

MEMORANDUM

TO: A.I.D./Colombia, Representative, James F. Smith

FROM: RIG/A/T, Coinage N. Gothard, Jr.

SUBJECT: Audit Report No. 1-598-89-34-N, "Audit of the Support Provided by the Foundation for Superior Education to the Regional Administration of Justice Project in Colombia"

This report presents the results of a non-Federal financial audit that you requested of the support provided by the Foundation for Superior Education, Fundacion para la Educacion Superior, (the Foundation) to the Regional Administration of Justice Project in Colombia, Latin America and Carribean Bureau Project No. 598-0642, from September 1, 1986 to December 31, 1987. The certified public accounting firm of Arthur Andersen & Co. prepared the report, which is dated March 31, 1989.

The purpose of this audit was to report on: (1) the fairness of the project's fund accountability statement for the period September 1, 1986 to December 31, 1987, (2) the adequacy of the system of internal accounting control, and (3) compliance with applicable laws, regulations, and agreement terms.

In the opinion of Arthur Andersen, the fund accountability statement presents fairly the cash receipts and disbursements for the period September 1, 1986 to December 31, 1987 except for the fact that the statement was prepared using a cash basis of accounting and included Col$4,006,991 (US$16,385) in questionable costs. Arthur Andersen's study and evaluation of the system of internal accounting control was limited to a preliminary review of the system to obtain an understanding of the control environment and the flow of transactions through the accounting system. The auditors did not express an opinion on the system of internal accounting control taken as a whole, but they were not aware of any condition that they considered a material weakness. The results of Arthur Andersen's study of compliance with applicable laws and regulations and agreement terms indicated that unallowable administrative

costs had been charged to the project and that A.I.D. funds had been commingled with the organization's other funds rather than having been deposited in a separate interest bearing bank account. Nothing came to the auditors' attention to indicate non-compliance with items not tested.

As a result of the Arthur Andersen report, we are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that A.I.D./Colombia:

a. either amend the agreement with the Foundation for Superior Education to allow reimbursement of the grantee's administrative costs directly attributable to the administration of the program or recover the presently unallowable amounts that have already been disbursed; and

b. require the Foundation for Superior Education to maintain funds provided by A.I.D. in a separate interest bearing bank account and require that the minutes of consultant committee meetings be signed by the committee members as evidence of approval.

The Arthur Andersen report was discussed with the Foundation management and appropriate changes were made to the final report. The Foundation was planning to request A.I.D./Colombia approval of the questionable administrative costs charged to the project.

Please advise this office within 30 days of actions planned or taken to resolve and close this recommendation.

AUDIT OF THE
SUPPORT FOR THE PROGRAM TO IMPROVE
THE ADMINISTRATION OF JUSTICE IN COLOMBIA
MANAGED BY THE FOUNDATION FOR SUPERIOR EDUCATION,
USAID/COLOMBIA PROJECT No. 598-0642

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APARTADOS AEREOS 12324/075874
BOGOTA, COLOMBIA

Mr. Coinage N. Gothard
Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras, C.A.

Dear Mr. Gothard:

This report presents the results of our financial and compliance audit of the Support for the Program to Improve the Administration of Justice in Colombia, USAID/Colombia Project No. 598-0642, managed by the Foundation for Superior Education (Fundación para la Educación Superior, FES), from September 1, 1986 to December 31, 1987.

BACKGROUND

The U.S. Agency for International Development in Colombia (USAID/Colombia) has developed some assistance programs in Colombia through FES, a well reputed organization which leads the social development of Colombia. The USAID/Colombia projects managed by FES, include the following:

Name	Completion date From	Completion date To	US$(000) Total budget	US$(000) Executed as of 9/30/87
Training Seminar	Jul. 86	Jun. 88	$ 60	$23.7
Child Survival	Aug. 86	Jul. 89	370	26.4
Improvement of the Administration of Justice	Sep. 86	Sep. 89	1,050	51.4
Oral Rehydration	Aug. 87	Sep. 89	500	-

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The Support for the Program to Improve the Administration of Justice, USAID/Colombia Project No. 598-0642 (the project), was approved in September 1986. The project's goals were to promote the modernizing of the judicial and investigative systems and management process. The project activities will support the national utilization of the system's human and financial resources; processing of criminal and some civil cases; management of information; protection of judiciary personnel; and special problems associated with narcotics and terrorist cases.

FES was established in 1964 to support the investigation of the Universidad del Valle in Cali, Colombia. At present, FES is a private not-for-profit organization incorporated in Cali, Colombia with regional offices in Bogotá, Bucaramanga, Barranquilla and Medellín. Additionally, FES is an authorized financial commercial company which supports its social development projects.

The project is managed principally by the regional office of FES in Bogotá, and all the accounting records and documentation regarding the project are managed in that office.

AUDIT OBJECTIVES AND SCOPE

We performed a financial and compliance audit of the Support for the Program to Improve the Administration of Justice from its inception in September 1986 up to December 31, 1987. The objectives of this audit were to determine whether:

A. The fund accountability statement of the Support for the Program to Improve the Administration of Justice, USAID/Colombia Project No. 598-0642, fairly presents the project's receipts and expenditures from September 1986 through December 31, 1987.

B. FES' internal accounting control is adequate for USAID/Colombia purposes.

C. FES has complied with the applicable laws, regulations and agreement terms.

Our examination was performed in accordance with generally accepted auditing standards (GAAS) and the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and accordingly included such tests to determine if funds and/or commodities are being properly accounted for and used as directed by the Agreement or other applicable program documents or the laws of Colombia.

The scope of our work consisted of the following:

1. Overall review of financial information of the project for the period September 1, 1986 to December 31, 1987.

2. A study and evaluation of the internal accounting controls and accounting practices of FES with respect to program activity.

3. Selective examination and testing of supporting documentation for costs charged to the project, to determine whether expenditures were reasonable, allocable and allowable under the terms of the agreement.

4. Evaluation of the procurement practices of FES with respect to program activity.

5. Reconciliation of the amounts recorded as funds advanced under the project, with those reported as having been disbursed by USAID.

6. Review of program transactions for compliance with agreement terms and applicable laws and regulations.

RESULTS OF AUDIT

FUND ACCOUNTABILITY STATEMENT

The method of accounting used to prepare the fund accountability statement differs from generally accepted accounting principles and is not intended to present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Also the audit revealed questionable costs amounting to Col$4,006,991.

Our opinion on the fund accountability statement of the Support for the Program to Improve the Administration of Justice in Colombia for the sixteen months ended December 31, 1987, was qualified due to the matters mentioned above.

INTERNAL ACCOUNTING CONTROLS

Because the audit could be performed more efficiently by expanding substantive testing rather than relying on internal accounting controls, our study and evaluation of the internal accounting controls did not extend beyond a preliminary review phase. Accordingly, we did not express an opinion on the system of internal accounting control with respect to the Support for the Program to Improve the Administration of Justice in Colombia. However, our work revealed that prior to Audit, minutes of the consultant commitee meetings did not have evidence of approval.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

The results of our study determined that, for certain items tested, FES did not comply with contract terms and applicable laws and regulations as listed below:

- Unallowable administrative costs.

- Lack of a separate bank account for funds granted by A.I.D.

MANAGEMENT COMMENTS

A first draft of this report was sent to FES Management for their review and comments. As a result, certain points included in the final draft were deleted or modified based upon additional evidence provided by FES. Also, a copy of this final report, in draft form, was submitted to FES management for their review and comments. On March 9, 1989 we received a request for an extension of the term to issue this report because FES management was requesting before USAID the approval of the questionable costs amounting to Col.$4,006,991. However, as instructed by RIG/AIT, we are issuing this report on March 31, 1989.

Arthur Andersen + Co.

Bogotá, Colombia
March 31, 1989

ARTHUR ANDERSEN & CO.

APARTADOS AEREOS 12324/075874
BOGOTA, COLOMBIA

SUPPORT FOR THE PROGRAM
TO IMPROVE THE ADMINISTRATION
OF JUSTICE IN COLOMBIA MANAGED BY THE FOUNDATION
FOR SUPERIOR EDUCATION, USAID/COLOMBIA
PROJECT No. 598-0642

REPORT ON THE FUND ACCOUNTABILITY STATEMENT
AUDITOR'S OPINION

We have examined the fund accountability statement of the Support for the Program to Improve the administration of justice in Colombia managed by the Foundation for Superior Education (Fundación para la Educación Superior, FES) USAID/Colombia project No. 598-0642, for the sixteen months ended December 31, 1987. Our examination was made in accordance with generally accepted auditing standards and standards for financial and compliance audits contained in the U.S. Controller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision). Accordingly, we included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2, the method of accounting used to prepare the fund accountability statement differs from generally accepted accounting principles and is not intended to present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. As disclosed in Note 5, certain administrative costs amounting to Col$4,006,991 paid for the project might not be in accordance with the terms of the grant agreement between the Foundation for Superior Education and the U.S. Agency for International development.

In our opinion, except for the circumstances disclosed in the second paragraph, the fund accountability statement referred to above presents fairly the cash receipts and disbursements of the Support for the Program to Improve the Administration of Justice in Colombia for the sixteen months ended December 31, 1987 and the cash balance as of December 31, 1987.

Arthur Andersen & Co.

Bogotá, Colombia,
January 30, 1989.

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SUPPORT FOR THE PROGRAM TO IMPROVE THE ADMINISTRATION OF JUSTICE IN COLOMBIA MANAGED BY THE FOUNDATION FOR SUPERIOR EDUCATION

USAID/COLOMBIA PROJECT No. 598-0642

FUND ACCOUNTABILITY STATEMENT

FOR THE SIXTEEN MONTHS ENDED DECEMBER 31, 1987

(Stated in Colombian pesos)

	Actual costs	Administrative costs (Note 5)
RECEIPTS:		
Donations received from USAID	$57,924,950	
DISBURSEMENTS:		
Analysis of judicial administration	789,840	
Extension of automatic data processing	41,158,658	
Provision of basic legal libraries	5,247,960	
Training	1,062,654	
Administration	4,006,991	4,006,991
Total disbursements	52,266,103	$ 4,006,991
CASH BALANCE AT DECEMBER 31, 1987	5,043,328	
Amount receivable from USAID/El Salvador for assistance to their project of improvement of justice	615,519	
	$ 5,658,847	

The accompanying notes are an integral part of this statement.

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SUPPORT FOR THE PROGRAM TO IMPROVE THE ADMINISTRATION OF JUSTICE IN COLOMBIA MANAGED BY THE FOUNDATION FOR SUPERIOR EDUCATION

USAID/COLOMBIA PROJECT No. 598-0642

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE SIXTEEN MONTHS ENDED DECEMBER 31, 1987

1. DESCRIPTION OF THE PROGRAM

The program to improve the Administration of Justice in Colombia USAID/Colombia Project No. 598-0642 (the project) is an assistance program developed by the U.S. Agency for International Development in Colombia (USAID/Colombia) through the Foundation for Superior Education (Fundación para la Educación Superior, FES). The project was approved in September 1986 and its goals are to promote the modernizing of the judicial and investigative systems and management processes. The project activities will support the national utilization of the system's human and financial resources; processing of criminal and some civil cases; management of information; protection of judiciary personnel; and special problems associated with narcotics and terrorists cases.

FES was established in 1964 to support the investigation of the Universidad del Valle in Cali, Colombia. At present, FES is a private nonprofit organization incorporated in Cali, Colombia with regional offices in Bogotá, Bucaramanga, Medellín and Barranquilla. Additionally, FES is an authorized financial commercial company which supports its social development projects.

2. CASH BASIS ACCOUNTING

The Accompanying fund accountability statement was prepared on a cash basis, in which income and assets are recorded when received rather than when earned and expenditures are recognized when paid rather than when the obligation is incurred. This method of accounting differs from generally accepted accounting principles.

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3. RECEIPTS

At December 31, 1987 USAID had approved grant donations to the project amounting to US$474,000, to be allocated as follows:

Category	US$
Analysis of judicial administration	130,000
Extension of automatic data processing case distribution systems	182,000
Provision of basic legal libraries	102,000
Training:	
. National	46,000
. International	14,000
Administration	-
	474,000

From such amount, the equivalent local currency of US$212,454 ($51,955,650 Colombian pesos) was received by FES in Bogotá and US$23,950 were received directly by FES in Washington. The balance of US$237,596 was pending receipt at December 31, 1987 and is not reflected in the statement of cash receipts and disbursements at December 31, 1987.

4. EXTENSION OF AUTOMATIC DATA PROCESSING

This category of disbursements primarily corresponds to the purchase of microcomputers and printing machines which have been donated to the Superior Courts of Justice of the cities of Bogotá, Cali, Medellín, Bucaramanga, Popayán, Pasto, Neiva and Ibagué under the sub-program to improve the automatic data processing of the Colombian Courts.

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5. ADMINISTRATIVE COSTS

FES has not charged and does not contemplate charging indirect administrative expenses (overhead) associated with the project, i.e. time spent by its executives, use of its facilities, etc. However, the program execution has required the disbursement of certain direct administrative costs which are reflected in the fund accountability statement in a separate caption denominated "administration". Due to the fact that such category had not been contemplated in the initial grant and amendment No. 1, these administrative costs are considered questionable in this report. However, FES management has requested from USAID/Colombia the approval of such disbursements by the project. In the opinion of FES management, such approval will be received in the near future.

6. SUBSEQUENT EVENT

On August 18, 1988 USAID/Colombia, approved an amendment to the project, extending its period to December 31, 1989, with an additional grant of US$600,000 allocated as follows:

Category	US$
Analysis of judicial administration	109,400
Extension of automatic data processing case distribution systems	243,000
Provision of basic legal libraries	126,500
Training:	
. National	23,000
. International	70,000
Administration	28,100
	600,000

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APARTADOS AEREOS 12324/015574
BOGOTA, COLOMBIA

SUPPORT FOR THE PROGRAM
TO IMPROVE THE ADMINISTRATION
OF JUSTICE IN COLOMBIA MANAGED BY THE FOUNDATION
FOR SUPERIOR EDUCATION, USAID/COLOMBIA
PROJECT No. 598-0642

REPORT ON INTERNAL ACCOUNTING CONTROL AND PROCUREMENT PRACTICES AUDITOR'S OPINION

We have examined the fund accountability statement of the Support for the Program to Improve the Administration of Justice in Colombia, managed by the Foundation for Superior Education (Fundación para la Educación Superior, FES) USAID/Colombia project No. 598-0642, for the sixteen months ended December 31, 1987 and have issued our report thereon dated January 30, 1989. Our examination was made in accordance with generally accepted auditing standards and standards for financial and compliance audits contained in the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 revision). Solely to assist us in planning and performing our examination, we made a study and evaluation of the internal accounting controls and procurement practices of the Program to Improve the Administration of Justice in Colombia. That study and evaluation was limited to a preliminary review of the system to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because the audit could be performed more efficiently by expanding substantive testing rather than relying on internal accounting controls, our study and evaluation did not extend beyong this preliminary review phase. Accordingly, we do not express an opinion on the system of internal controls taken as a whole. In addition, our examination would not necessarily disclose all material weaknesses in the system of internal accounting controls. During our examination, we did not become aware of any condition that we believe to be a material weakness. However, as discussed in the accompanying finding No. 1 we have made one recommendation for improvement of internal accounting controls, accounting procedures, administrative matters and procurement practices. The matters discussed therein were considered by us during our examination and do not modify the opinion expressed in our report dated January 30, 1989. These comments are offered as constructive

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suggestions for consideration by management as part of the ongoing process of modifying and improving accounting control and other financial and administrative practices and procedures.

This report is intended solely for the use of FES and the U.S. Agency for International Development. This restriction is not intended to limit distribution of this report, which upon acceptance by the Office of the Inspector General is a matter of public record.

Arthur Andersen & Co.

Bogotá, Colombia,
January 30, 1989.

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1. MINUTES OF THE CONSULTANT COMMITTEE'S MEETINGS NOT APPROVED

Condition -

Prior to this audit, the minutes of the consultant committee's meetings did not have evidence of approval.

Criteria -

As evidence of approval of major decisions made, there should be signatures on the minutes by each member of the consultant committee.

Cause -

Because there is close supervision of the project's activities by the members of the consultant committee, the approval of their decisions by their signatures was not done.

Effect -

Approval of the consultant committee's decisions were not adequately supported.

Recommendation -

The minutes of the consultant committee's meetings should be approved by the signatures of the members that participated in the meetings.

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BOGOTA, COLOMBIA

SUPPORT FOR THE PROGRAM
TO IMPROVE THE ADMINISTRATION
OF JUSTICE IN COLOMBIA MANAGED BY THE FOUNDATION
FOR SUPERIOR EDUCATION, USAID/COLOMBIA
PROJECT No. 598-0642

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND AGREEMENT TERMS AUDITOR'S OPINION

We have examined the fund accountability statement of the Support for the Program to Improve the Administration of Justice in Colombia, managed by the Foundation for Superior Education, USAID/Colombia project No. 598-0642, for the sixteen months ended December 31, 1987 and have issued our report thereon dated January 30, 1989. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision). Accordingly, we included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We tested transactions and records to determine FES' compliance with the provisions of the grant agreement, amendments to the grant agreement, and applicable A.I.D. regulations. The results of our study indicate that for the items tested there was certain non-compliance as discussed in the accompanying findings No. 1 and No. 2. For items not tested nothing came to our attention that caused us to believe that FES was not in compliance with the grant agreement, amendments to the grant agreement and applicable laws, regulations and agreement terms.

This report is intended solely for the use of management and the U.S. Agency for International Development. This restriction is not intended to limit distribution of this report, which upon acceptance by the Office of the Inspector General is a matter of public record.

Arthur Andersen & Co.

Bogotá, Colombia,
January 30, 1989.

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1. UNALLOWABLE ADMINISTRATIVE COSTS

Condition -

The project's statement of funds received and disbursed has a caption, "administrative costs", which includes the following major items:

	Col$
Salary of the program coordinator	$1,796,206
Acquisition of computer	1,903,000
Telephone and mailing expenses	91,275
In-country travel	216,510
	$4,006,991

Criteria -

Grant Amendment No. 2 states that all administrative costs pertaining to the initial grant, as amended by Amendment No. 1, shall be borne by the grantee and are not reimbursable under this grant.

Cause -

In the opinion of FES' Management, they have not charged and do not contemplate charging indirect administrative expenses (overhead) associated with the project. However, there are certain administrative costs directly attributable to the administration of the program which have been reflected in a separate caption, as noted above.

Effect -

Non-compliance with the provisions of the agreement.

Recommendation -

USAID/Colombia should require FES to obtain written approval in advance for any questionable disbursements.

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2. LACK OF A SEPARATE BANK ACCOUNT FOR FUNDS GRANTED BY A.I.D.

Condition -

USAID/Colombia's cash advances to FES were not deposited in a separate bank account.

Criteria -

Funds provided by A.I.D. are required to be deposited in a separate bank account and should be earning interest.

Cause -

FES is a financial entity that has sufficient funds available to be disbursed to the project at any time when requested.

Effect -

A.I.D. funds were commingled with the grantee's own funds and, therefore, it was difficult to determine the balance of A.I.D. funds available at any particular time or to estimate possible interest earned on funds provided by A.I.D.

Recommendation -

USAID/Colombia should require FES to maintain funds provided by A.I.D. in a separate bank account earning interest and, interest earned on funds provided by A.I.D. should be remitted to A.I.D. or used for project purposes.

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SUPPORT FOR THE PROGRAM
TO IMPROVE THA ADMINISTRATION
OF JUSTICE IN COLOMBIA MANAGED BY THE
FOUNDATION FOR SUPERIOR EDUCATION, USAID/COLOMBIA
PROJECT No. 598-0642

LIST OF REPORT RECOMMENDATIONS

REPORT ON INTERNAL ACCOUNTING CONTROL AND PROCUREMENT PRACTICES

Recommendation No. 1 - The minutes of the consultant committee's meetings should be approved by the signatures of the members that participated in the meetings.

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND AGREEMENT TERMS

Recommendation No. 1 - USAID/Colombia should require FES to obtain written approval in advance for any questionable disbursements.

Recommendation No. 2 - USAID/Colombia should require FES to maintain funds provided by A.I.D. in a separate bank account earning interest and, interest earned on funds provided by A.I.D. should be remmitted to A.I.D. or used for project purposes.

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APPENDIX 1

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