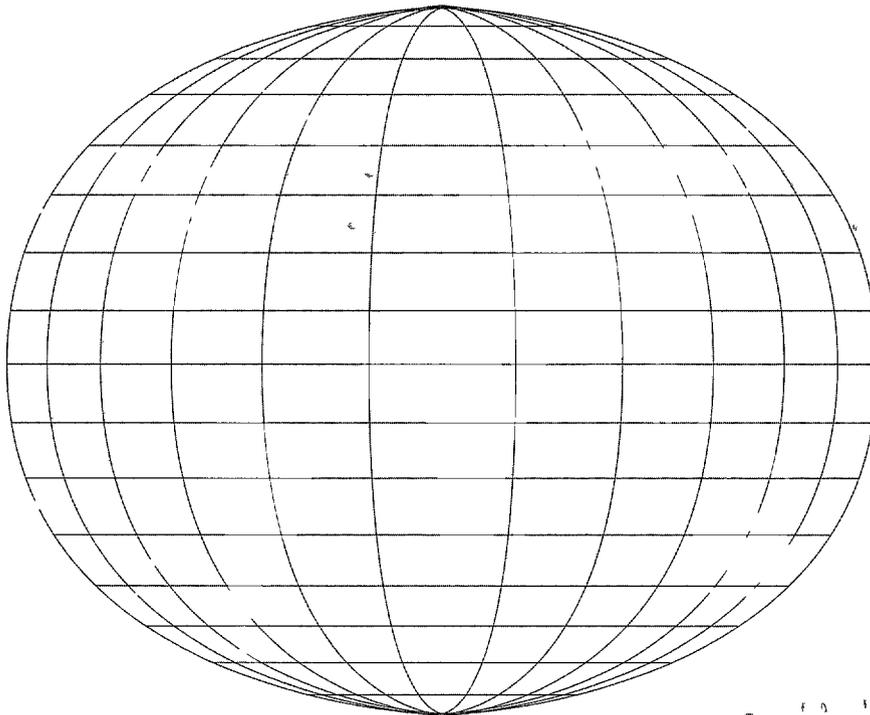


Report of Audit

Preaward Audit of Government of Colombia Office for National Alternative Development (PLANTE)

Audit Report No 1-514-99-006-P
March 26, 1999



Regional Inspector General
San Salvador

**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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March 26, 1999

MEMORANDUM FOR USAID/Colombia Director, Carl A. Cira, Jr

FROM RIG/A/San Salvador, Timothy E. Cox

Steven H. Butler for
←

SUBJECT Preaward Audit of Government of Colombia Office for National Alternative Development (PLANTE) (Report No 1-514-99-006-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments are included in Appendix II.

This report contains three recommendations for your action. Based on the information provided by the Mission, a management decision has been reached on these recommendations. A determination of final action for these recommendations will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

USAID/Colombia on September 18, 1998, approved a new project (514-9003) which provided \$500,000 (not yet disbursed) to the Government of Colombia Office for National Alternative Development (PLANTE) to plan, coordinate, and implement policies and programs designed to provide Colombian farmers involved in the illicit cultivation of coca and poppy with alternative sources of income. PLANTE has been charged by Colombia's new presidential administration with developing a national vision and strategy for the elimination of coca and poppy cultivation through the development of economic alternatives for farmers engaged in illicit activities.

USAID/Colombia expects to receive an additional \$5 million in fiscal year 1999 for alternative development—of which most, if not all, will go to PLANTE. For fiscal years 2000 and 2001, it is possible that PLANTE will receive an additional \$5 million or more each year. Nevertheless, the Director of PLANTE requested an initial audit to answer concerns about the organization's capability to correctly handle USAID funds. The USAID/Colombia Director agreed but found no viable, short-term solution to accomplishing an audit locally. Consequently given this circumstance as well as the size and importance of the program, USAID/Colombia requested the Office of Regional Inspector General/San Salvador to conduct this preaward audit.

Audit Objective

The purpose of this preaward audit is to determine if PLANTE has the capacity to manage the award in accordance with U S government and USAID requirements. Specifically, this preaward audit is intended to answer the following audit objective:

Does the Government of Colombia Office for National Alternative Development (PLANTE) have sufficient institutional capacity to manage projects in accordance with U S government and USAID requirements?

Our audit entailed the review of seven areas—accounting system, internal controls, proposed project costs, management capability, financial capability, compliance with applicable laws, regulations and agreement terms, and prior audit recommendations. Appendix I describes the audit's scope and methodology.

Audit Findings

Does the Government of Colombia Office for National Alternative Development (PLANTE) have sufficient institutional capacity to manage projects in accordance with U S government and USAID requirements?

The Government of Colombia Office for National Alternative Development (PLANTE) does have sufficient institutional capacity to manage projects in accordance with U S government and USAID requirements. We did identify several specific aspects that need to be addressed by the Mission. These items are discussed in detail in the following section with our specific recommendations.

Accounting System and Internal Controls

PLANTE has an acceptable accounting system that is capable of segregating costs to distinguish USAID revenues and costs. Accounting system entries are up-to-date. Bank accounts are reconciled with the bank ledger as well as with bank statements on a timely basis. PLANTE also has controls for signature use on bank accounts. However, at the time of our audit, PLANTE had not yet established a distinct bank account for the soon-to-be-disbursed USAID funds—an important prerequisite.

Internal controls are acceptable for procurement, disbursements, and property management. A contracting manual is available as well as specific PLANTE office procedures. For example, PLANTE's disbursement files showed that controls were in place for the justification, approval, and documentary support of disbursements. Controls were also in place for the warehouse with individual inventory cards and a monthly valuation report. Controls for the disposal of commodities and equipment have not yet been addressed because the organization is young and has not yet addressed this issue. However, PLANTE has models from other Government of Colombia agencies to follow.

In regard to personnel, travel, obtaining technical assistance, and subagreements, PLANTE has acceptable systems of control. For example, travel policies are in place as well as the approval, review, and liquidation of travel vouchers. In addition, PLANTE already has an acceptable system of establishing subagreements with municipalities with detailed conditions elaborated.

Recommendation No 1 We recommend that USAID/Colombia require the Government of Colombia Office for National Alternative Development (PLANTE) to establish a distinct bank account for USAID grant funds.

Proposed Project Costs

At the time of our audit, neither PLANTE nor the Mission had developed sufficiently detailed cost estimates for the current \$500,000 grant, which is composed of two line items: \$375,000 for technical assistance and \$125,000 for a program manager. The Mission has detailed support for the program manager position. However, neither the Mission nor PLANTE has any detail for the \$375,000 for technical assistance. PLANTE has some plans for procuring a computer system, but this lacked any quantification of costs. Similarly, PLANTE does not have specific plans for fulfilling its \$500,000 cost sharing requirement.

Recommendation No 2 We recommend that USAID/Colombia, in conjunction with the Government of Colombia Office for National Alternative Development (PLANTE), develop more detailed cost estimates for both the USAID grant and its cost sharing portion.

Management and Financial Capability

Because no funds have yet been disbursed, PLANTE has not hired staff for this project. Even so, PLANTE does not anticipate significant changes to its organizational structure other than hiring the requisite staff. PLANTE has initially estimated that staffing requirements will be similar to the large-scale program for its current loan (expected to total \$90 million) from the Inter-American Development Bank. For technical staff assigned to the Inter-American Development Bank program, PLANTE has prepared specific terms of reference for personnel contracts as well as detailed job descriptions. Given the very early stages of the USAID program, we can not yet conclude if future staffing levels will be sufficient in terms of numbers, experience, responsibilities, workload, and/or expertise. Based on current reporting for the Inter-American Development Bank, PLANTE does have the capacity to prepare financial and performance reports.

Compliance With Laws, Regulations, and Agreement Terms

The current \$500,000 and the expected \$5 million grant agreements include numerous standard provisions. Our analysis of these provisions noted three aspects that needed correction. First, the current limited scope grant agreement includes a provision for audits. This provision allows PLANTE the option of having the Supreme Audit Institution of Colombia perform the annual financial audit. However, the Supreme Audit Institution of Colombia has not been certified by the

Regional Inspector General Office to audit USAID funds and, thus, is ineligible. Second, the current limited scope grant agreement for \$500,000 has no provisions delineating PLANTE's specific requirements for either financial or performance reporting. Third, although the Mission intends to use advances to fund this grant, there is no provision in the limited scope grant agreement allowing for it nor explaining PLANTE's responsibilities under a system of advances.

Recommendation No. 3 We recommend that USAID/Colombia (a) amend its current limited scope grant agreement to delete the Supreme Audit Institution of Colombia as an acceptable entity for auditing USAID funds, (b) add specific financial and reporting requirements, and (c) incorporate provisions for managing advances which also explain Government of Colombia Office for National Alternative Development (PLANTE's) responsibilities.

Prior Audit Recommendations

PLANTE has had a prior financial audit which was an audit for 1997 prepared by the Supreme Audit Institution of the Government of Colombia on behalf of the Inter-American Development Bank. The audit report did not have audit recommendations.

Other Issues

In addition to the above issues, we identified other findings which were not significant to the audit objectives and, thus, are not reported in this audit report. These findings were communicated to USAID/Colombia by a separate memorandum dated March 26, 1999.

Management Comments and Our Evaluation

USAID/Colombia agreed with the three audit recommendations, has taken initial steps to implement the recommendations, does not foresee any problems in fully implementing the recommendations, and expects to complete final actions for all the recommendations within three to six months. Based on USAID/Colombia's response, a management decision has been reached for all three recommendations.

SCOPE AND METHODOLOGY

Scope

The Office of the Regional Inspector General/San Salvador conducted a preaward audit of the Government of Colombia Office for National Alternative Development (PLANTE) at the request of the USAID/Colombia mission in accordance with generally accepted government auditing standards. The audit was conducted at both USAID/Colombia and PLANTE from March 2, 1999 through March 12, 1999. The fieldwork included visits to the PLANTE headquarters in Bogota, but not to any of its regional offices.

This preaward audit did not assess the accuracy or usefulness of performance reports previously issued by PLANTE to other donors. Nor did we assess PLANTE's past performance for other donors such as the attainment of program goals. However, we did assess whether PLANTE has the capacity to produce performance reports and financial reports. In addition, given the very early stages of the USAID program, we could not yet conclude if future staffing levels will be sufficient in terms of numbers, experience, responsibilities, workload, and/or expertise. Similarly, we could not determine if financing sources were going to be sufficient to ensure a proper implementation of the project. Consequently, this audit report can not be used as a basis to give assurance that PLANTE has the capacity from a performance perspective to attain project goals.

Methodology

The purpose of this preaward audit was to determine if PLANTE had the capacity to manage the award in accordance with U S government and USAID requirements. Our audit entailed the review of seven areas—accounting system, internal controls, proposed project costs, management capability, financial capability, compliance with applicable laws, regulations and agreement terms, and prior audit recommendations. Specifically, the audit objective was to determine if PLANTE had sufficient institutional capacity to manage projects in accordance with U S government and USAID requirements.

In answering this audit objective, we interviewed officials as well as reviewed and tested documentation at both USAID/Colombia and PLANTE. Such documentation included organization charts, staffing patterns, accounting records, financial statements, current and proposed grant agreements and their standard provisions, and administrative manuals for functions including accounting, personnel, purchasing, technical assistance, and travel. In regard to the current and proposed future grant agreements, we analyzed the standard provisions to determine which of these could have a material effect on PLANTE's ability to manage the project. We also assessed the applicable internal control systems of PLANTE in several functions, particularly its accounting system. Because PLANTE has not prepared any financial or performance reports for USAID, we reviewed financial and performance reporting that PLANTE submitted to the Inter-American Development Bank as well as a prior audit report for the Inter-American Development Bank.

In regard to internal controls, we reviewed and obtained an understanding of PLANTE's internal controls. Given the absence of actual USAID-funded transactions and events, our assessment was limited to reviewing current controls and assessing their applicability to the proposed USAID-funded project. The management of PLANTE is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are recorded properly. In addition, management implements controls to reasonably ensure that a program can meet its objectives, valid and reasonable data are obtained, maintained, and fairly disclosed in reports, and resource use is consistent with laws and regulations. Because of inherent limitations in any internal control structure, noncompliance or abuse may nevertheless occur and not be detected. Also, projections of any review of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.



MEMORANDUM

March 23, 1999

TO Timothy E Cox, RIG/A/San Salvador

FROM  Carl A. Cira, Jr, Mission Director,
USAID/Colombia

SUBJECT Pre-award Audit of Government of Colombia
Office of National Alternative Development
(PLANTE) – USAID/Colombia Response to Draft
Report

USAID/Colombia greatly appreciates the assistance of RIG San Salvador in performing a pre award audit of Plante. The purpose of the pre award audit was to determine if PLANTE has the capacity to manage an award in accordance with U S government and USAID requirements.

The draft report of the audit makes three recommendations:

- 1) that USAID/Colombia require the Government of Colombia Office for National Alternative Development (PLANTE) to establish a distinct bank account for USAID grant funds.
- 2) that USAID/Colombia, in conjunction with the Government of Colombia Office for National Alternative Development (PLANTE), develop more detailed cost estimates for both the USAID grant and its cost-sharing portion.
- 3) that USAID/Colombia amend its current limited scope grant agreement to delete the Supreme Audit Institution of Colombia as an acceptable entity for auditing USAID funds, add specific financial and reporting requirements, and incorporate provisions for managing advances.

As discussed with RIG auditor, Lloyd Miller, USAID/Colombia agrees with these recommendations and has taken initial steps to implement the recommendations by sending a letter to the PLANTE Director outlining these requirements. USAID/Colombia does not foresee any problems in implementing to full completion these recommendations and will provide substantive proof to the Office of Management Planning and Innovation (M/MPI/MIC) within three months, and no later than six months, that these recommendations have been implemented and planned corrective actions are completed. If there are any problems in the implementation of these recommendations USAID/Colombia will notify RIG San Salvador immediately.

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Steps Taken to Date

With respect to the first recommendation, PLANTE is aware that it must establish a separate and distinct bank account for USAID grant funds. Once the account is established, USAID/Colombia will include a copy of the account in its final report.

Regarding the second recommendation, USAID/Colombia and Plante are currently developing more detailed cost estimates for the USAID grant and the cost-sharing portion of the grant. Again, once we have these details written and approved, we will include this in the final report.

Finally, once we have amended the limited scope grant agreement to delete the Supreme Audit Institution of Colombia, we will include the amendment in our final report.

Again, USAID/Colombia appreciates the RIG's assistance and time in performing this pre-award audit.