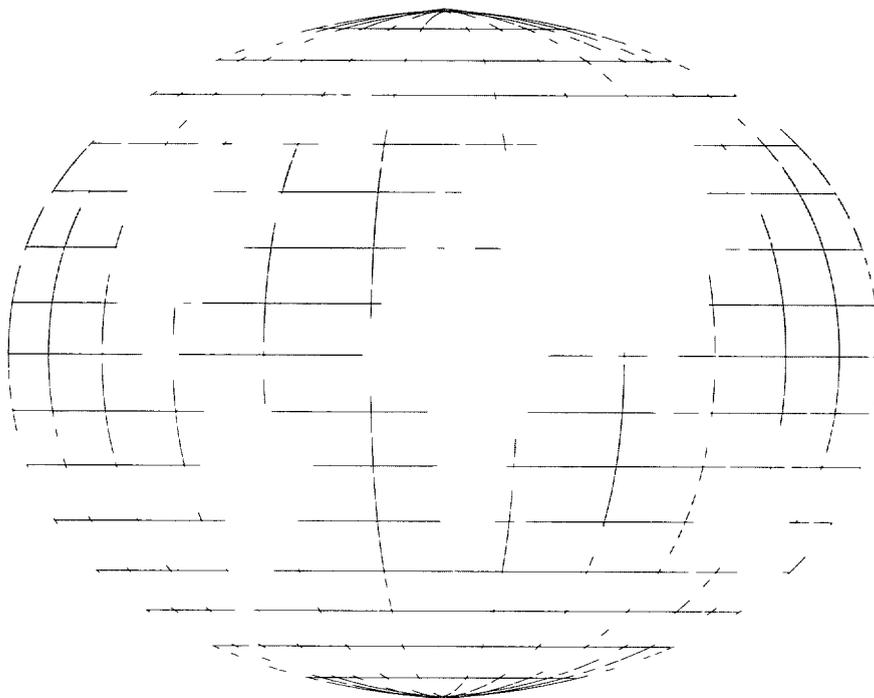


Report of Audit

Preaward Audit of the Colombian Agency for International Cooperation (ACCI)

Audit Report No 1-514-00-001-F
October 25, 1999



Regional Inspector General
San Salvador

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

PD ABR-782

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Cooperation (ACCI)**

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U S AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

October 25, 1999

MEMORANDUM

FOR USAID/Colombia Director, George Wachtenheim
FROM RIG/A/San Salvador, Timothy E Cox *Timothy E Cox*
SUBJECT Preaward Audit of Colombian Agency for International Cooperation (ACCI) (Report No 1-514-00-001-F)

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. The report contains no recommendations, and no additional action is required.

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

Background

USAID/Colombia on August 31, 1999 signed a strategic objective grant agreement with the Colombian Agency for International Cooperation (ACCI) which will provide \$15 million to reduce illicit crop production in selected areas of Colombia. Under the agreement, USAID/Colombia will work with ACCI to implement a series of activities aimed at achieving an increased commitment to voluntarily reduce poppy and coca production through sustained, broad-based economic and social development in the program's targeted areas. The agreement establishes that the National Alternative Development Plan (PLANTE) will be the technical implementer responsible for programming, implementation, coordination and monitoring of the program. ACCI will be responsible for accounting and control of the transfer of funds to communities with appropriate participation of PLANTE and USAID to ensure the control and responsibility of funds.

As a condition precedent to disbursement of funds to ACCI, the agreement requires an audit to ensure that ACCI has the administrative, financial, and contracting capability to manage USAID resources. In order to meet this requirement,

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 ACCI has the capacity to manage the USAID funds in accordance with U S government and USAID requirements Specifically, this preaward audit is intended to answer the following audit objective

Does the Colombian Agency for International Cooperation (ACCI) have sufficient financial management capacity to manage USAID funds in accordance with U S government and USAID requirements?

Our audit entailed the review of six areas accounting system, internal controls, proposed project costs, financial management 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 Colombian Agency for International Cooperation (ACCI) have sufficient financial management capacity to manage USAID funds in accordance with U S government and USAID requirements?

The Colombian Agency for International Cooperation (ACCI) does have sufficient financial management capacity to manage USAID funds in accordance with U S government and USAID requirements The six areas reviewed in our audit are discussed in detail in the following sections of the report

Accounting System and Internal Controls

ACCI 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 statements are reconciled timely with the accounting records ACCI also has controls for signature use on bank accounts In addition, ACCI has developed plans to establish a distinct bank account for the USAID funds once the disbursement of funds is approved Although ACCI does not currently use a project accounting system, plans have been developed to implement such procedures once the USAID funds are disbursed

Internal controls are acceptable for procurement, budgeting, accounting, and property management ACCI has written procedures for the budgeting, purchasing, treasurer, and project management functions ACCI is in the process of completing procedures manuals for accounting, travel, and property management functions To the extent

possible with the current staffing levels, ACCI's financial management systems provide for appropriate segregation of duties among the accounting and finance staff

Proposed Project Costs

At the time of our audit, sufficiently detailed cost estimates for the current \$15 million strategic objective grant agreement are not available. The agreement establishes in general terms the amount to be spent for each of four components:

Strengthening of National and Local Institutions	\$ 1,750,000
Licit Productive Activities	10,250,000
Environmental Management	1,000,000
Monitoring and Technical Support	<u>2,000,000</u>
	\$15,000,000

Similarly, a detailed plan for fulfilling the \$5,000,000 cost sharing requirement has not been elaborated. However, the agreement establishes that PLANTE will be the technical implementer responsible for programming, implementation, coordination and monitoring of the program. Since the responsibility lies with PLANTE and USAID/Colombia to develop a detailed project budget and cost sharing plan, we are not including any recommendations in this area in this report.

Financial Management Capability

ACCI does not anticipate significant changes to its organizational structure to manage the USAID agreement. Given the very early stages of the program, we can not yet conclude if current staffing levels will be sufficient in terms of numbers, experience, responsibilities, workload, and/or expertise. However, our review of the qualifications of current financial management staff indicates that they have the technical expertise to manage current ACCI operations and the capacity to prepare financial statements. In addition, we discussed the financial statement requirements for USAID programs with ACCI personnel who adequately demonstrated their understanding of these requirements.

Compliance with Laws, Regulations, and Agreement Terms

We reviewed ACCI's ability to comply with certain terms of the agreement, such as the provisions for (1) Utilization of Goods and Services, (2) Taxation, and (3) Reports and Information, Agreement Books and Records, Audits and Inspections. Our review did not indicate any provisions with which ACCI would not be able to comply.

Prior Audit Recommendations

Since ACCI did not begin operations until December 1997, the first audit of the organization (for the period January 1, 1998 to June 30, 1999) is currently in process. Therefore, there are no prior audit recommendations related to ACCI.

Other 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 October 25, 1999.

**Management
Comments and
Our Evaluation**

USAID/Colombia agreed with the audit report.

Scope and Methodology

Scope

The Office of the Regional Inspector General/San Salvador conducted a preaward audit of the Colombian Agency for International Cooperation (ACCI), 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 ACCI from October 4, 1999 through October 8, 1999.

This preaward audit was limited to tests of ACCI's financial management capabilities. We did not review ACCI's capacity to produce performance reports or to develop reliable and measurable performance indicators. 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 ACCI has the capacity from a performance perspective to attain project goals.

Methodology

The objective of this preaward audit was to determine if ACCI had the financial management capacity to manage USAID funds in accordance with U.S. government and USAID requirements. Our audit entailed the review of six areas: accounting system, internal controls, proposed project costs, financial management capability, compliance with applicable laws, regulations and agreement terms, and prior audit recommendations.

In answering this audit objective, we interviewed officials as well as reviewed and tested documentation at both USAID/Colombia and ACCI. Such documentation included organization charts, accounting records, financial statements, the strategic objective grant agreement, and ACCI's procedures manuals for various functional areas including budgeting, purchasing, and treasury. We reviewed the agreement provisions to determine which of these could have a material effect on ACCI's project financial management capability if not observed. We also assessed the applicable internal control systems of several functions, particularly its accounting system. Because ACCI has not prepared any financial reports for USAID, we instead reviewed ACCI's financial statements which are currently being audited by the Controller General of the Republic of Colombia.

In regard to internal controls, we reviewed and obtained an understanding of ACCI'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 ACCI 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.

**MANAGEMENT
COMMENTS**

To Tim Cox@RIG
From Scott Taylor@USAID@BOGOTA
Cc hew@USAID@BOGOTA
Bcc
Subject re fwd Draft Pre-Award Audit on ACCI
Attachment BEYOND RTF
Date 10/22/99 4 20 PM

Tim Mission has reviewed subject and concurs Please proceed with final
draft Mission would like to congratulate and thank Matthew and your office
for the excellent and timely work Scott
-- -- - Original Text - -- --

From George Wachtenheim@DIR@BOGOTA, on 10/20/99 7 53 AM

pls coordinate response, and keep me briefed on progress regularly