

TO : See Distribution November 30, 1972

FROM : Area Auditor General - Latin America

SUBJECT: Letter Report of Audit No. 1-514-73-65
Special Development Activities
Project No. 514-15-998-092
USAID/Colombia

I. SCOPE AND PURPOSE

The Area Auditor General - Latin America, under the authority of AID Manual Order 203.5, has made a regularly scheduled interim examination of USAID/Colombia's Special Development Activities Project. Operations were reviewed for FY's 1971 and 1972 with emphasis on current transactions. During the period under review project expenditures were \$99,697. The scope of audit included the review and testing of the USAID's management procedures and controls established for the project, testing of fiscal documentation in support of project activity and field review of ten of thirty-nine projects approved during FY's 1971 and 1972. The audit was made in accordance with generally accepted auditing standards giving due consideration to AID regulations.

II. BACKGROUND

The objective of the grant funded Special Development Activity is to permit AID to respond immediately, and without reference to goal plans, sectors of concentration, or other elements of country assistance strategy, to requests for assistance to small, constructive activities which will have immediate impact in the cooperating country. Although AID/W has not established a funding maximum for individual activities it is contemplated the average activity cost will not exceed \$5,000. The maximum funding provided for this project in any one fiscal year is \$50,000 and AID/W approval is required for funding in excess of \$50,000 in any one fiscal year.

Special Development Activity authority was approved for USAID/Colombia beginning in FY 1964. As of June 30, 1972, \$473,000 had been obligated since inception of the project of which \$464,000 had been expended. The activity is an open-end project with no scheduled termination date.

III. STATEMENT OF AUDIT FINDINGS

A. For the Director, USAID/Colombia

1. Audit Findings

a. Background

During the fiscal years under review the method of approving, monitoring and evaluating Special Development Activity (SDA) funded projects by USAID/Colombia has evolved from a centralized USAID management approach to decentralized USAID management through the use of Colombian intermediary agencies. The decentralized management approach places prime responsibility for screening and recommending potential projects on intermediary agencies. The USAID has established standard criteria for project approval, execution, accountability and follow-up for use by intermediary agencies and by USAID personnel delegated operational responsibility. The effect of the revised management approach reduces the USAID's project overhead burden by reducing USAID staff time involved in controlling projects without any apparent reduction in management effectiveness.

b. Condition

Activities approved during the period under review appear to meet project criteria of providing assistance to small, constructive activities. During FY's 71 and 72, thirty-nine projects were approved with an average USAID contribution of \$2,560 per project. See Exhibit A.

We tested USAID management accounting and project data in support of project activities and verified project data through field observation at ten of thirty-nine approved projects, or 26% of the universe. Two projects in the Cali Consular district, completed in FY 1970, were also observed: the Cooperativa de Confecciones (UTRAVAL) and the Barrio Calima public park project for which the USAID contributed 7,000 and 5,000 pesos respectively. USAID project data indicates the

aggregate value of SDA supported projects in FY's 1971 and 1972 totaled \$425,718 of which communities provided \$225,406, the Colombian Government \$100,615 and USAID \$99,697. While the scope of our review did not include verification of the monetary value provided by other than AID donors, on-site observation indicated project values were considerably greater than AID's contribution.

Activities physically observed appeared to meet the objectives for which projects were approved with the exception of one project, Cooperativa de Confecciones (UTRAVAL). UTRAVAL was a clothing factory cooperative which sought SDA assistance for the purchase of sewing machines. The USAID authorized 7,000 pesos (\$373.00) for the machine purchase in FY 1970. At the time of our field visit in September 1972, UTRAVAL had been liquidated for about one year for lack of working capital and its assets, including the AID financed sewing machines, had been sold. UTRAVAL reportedly sold the AID financed machines to the Instituto Mayor de Ciencias Sociales - Buga, Valle, for an undisclosed sum of money. The purchasing entity has also received SDA assistance. Inasmuch as the Cooperative's sale of AID funded equipment, without prior AID approval, appears to violate the "Standard Special Project Agreement Section 4-Disposition of the Property", USAID management should determine the course of management action warranted in the circumstance.

The following possible alternatives are offered for USAID management consideration:

- 1) USAID management may seek restitution of AID funds. This alternative seems remote as the Cooperative has lost its legal identity through liquidation.
- 2) USAID management may authorize and document the write-off of a claim against UTRAVAL in view of the non-physical existence of the claimant entity.

- 3) USAID management should determine whether the reported purchase of the AID equipment by the Instituto Mayor de Ciencias Sociales--Buga, Valle, is acceptable under the circumstances.

Recommendation No. 1

USAID management should review the UTRAVAL project and resolve the reported condition in accordance with applicable AID regulatory criteria.

The USAID reports the management overhead burden of the SDA activity has been substantially reduced during the period under audit. The SDA overhead burden has reportedly been reduced from one full-time AID direct-hire U.S. employee, and related indirect costs, to an estimated ten percent of the time of one U.S. direct-hire employee and related indirect costs. While tangible data to support this assertion is not maintained, our review would indicate the USAID's current overhead estimate appears reasonable

2. General Comments

a. Follow-up on Prior Audits

Report of Audit No. 67-23, dated May 19, 1967, included a review of the Special Development Activity Project for the periods FY 1964 through the first half of 1967 during which time \$192,000 had been expended for ninety different activities.

The current review included FY's 1971 and 1972. The results of audit for the current period did not warrant expanding the scope of our review to include the unaudited period.

3. Management Comments

USAID/Colombia concurred with the condition and stated:

We believe that during the audit period there was a considerable tightening of control and improvement of procedures. For example to assure project completion according to agreed upon objectives the Mission increasingly turned to a procedure of paying bills for work done instead of making advances to community organizations. When advances were made, more often this was a partial advance with the total contribution only upon indication of project progress. The 50,000 peso advances to the consulates for their more or less independent use to project development was also discontinued and procedures were set up for mission director approval of each project recommended by the consulates. Also the SDA formalized its procedures for project follow up with report forms for communities, follow up letters and regularly scheduled visits to project sites for evaluation of progress. The evaluation completed August 1971, and subsequent follow up evaluation gave the chief of the division and the mission director a much more up-to-date picture of project progress, accomplishment and problems. Some of these procedures will of course be modified as more responsibility is given to intermediary institutions.

As the Special Development Activity (SDA) is handled in Colombia there are three major aspects of the objectives. One obviously is to help complete a particular activity or project or make it operational. Another important aspect of the objective is to stimulate community interest and participation in the development process and assist communities in making appropriate relationships with other sources of private or governmental assistance. A third element is the effect this will have on personal, community or government attitudes toward the U.S. presence in Colombia and its contribution to the development process. A major concern of our community visits is to evaluate whether the specific project to

be accomplished was well conceived and carried out in an efficient manner to accomplish its purpose.

In our discussions with community leaders we have found that the program has been successful in accomplishing its second objective--that of stimulating community participation and helping the community to make appropriate relationships with other agencies. We have seen examples where forty or fifty men and women have participated in the construction of a school or water system and twice that many involved in the raising of money through bazars, dances, etc., to pay the communities part of a project. Certainly a school is considered more a part of the community and is better cared for as a result of this sense of participation. There is evidence of closer involvement of the communities with government institutions as a result of these activities.

SPECIAL DEVELOPMENTProject No. 514-15-993-092Period FY 1971 and FY 1972

(Colombian Pesos)

Sub- Project No.	Entity Signing (SDA Agreement Signed)	Project	Contributions		
			USAID	Community	Government
10041/1	*Instituto Mayor de Ciencias Sociales - Buga, Valle	Construction of a Coffee Shop	79,135	-	265,800
10041/2	Hospital de Apartado - Apartado, Antioquia	Construction of two small houses for the Medical Director and Surgical Director of the Hospital	92,000	92,000	64,400
10041/3	Vereda La Hermosura - Bolivar, Santander	Rural Aqueduct	50,000	75,000	15,000
10041/4	*Richard Nixon School - Bogota, D. E.	To improve ornament and implement the play ground of 4 schools	132,000	-	144,000
10041/5	Vereda Novillero - Fosca, Cundinamarca	Construction of a rural school	38,500	-	-
10041/6	Vereda Punta de Piedra - Magdalena	Rural electrification	70,000	223,964	-
10041/7	*Vereda Icacal - Melgar, Tolima	School restaurant	40,000	-	69,380
10041/8	Vereda Ojo de Agua - Santander	Rural aqueduct	40,000	-	268,800
10041/9	Centro Piloto de Educacion Simon Bolivar - Tolima	To finish school construction	50,000	-	-
10041/10	Agricultural Cooperative - Gama, Cundinamarca	To import from Excess Property Program a five-ton stake truck	US\$1,850	US\$1,850	-
10041/11	*Fundacion Colombiana de Desarrollo (FUNCOLDE)	FUNCOLDE will give the money to IDEAL as a loan to acquire some machinery (Rotating Fund)	50,000	-	-

Sub- Project No.	Entity Signing (SDA Agreement Signed)	Project	Contributions		
			USAID	Community	Government
10041/12	Vereda La Cabrera - Pacho, Cundinamarca	Rural electrification	14,900	92,150	25,000
10041/13	Vereda El Congreso - La Plata, Huila	To complete a bridge over the river "La Plata"	20,400	39,777	12,324
10041/14	* Vereda Ricaurte - Soacha, Cundinamarca	Rural electricity system and rural aqueduct	50,000	88,920	73,800
10041/15	Empresa Picumita - Guadalupe, Huila	Repair and reconstruct a 5 Km. road	10,950	31,500	-
10041/16	Vereda Panama - Silvania, Cundinamarca	Construction of a school restaurant	35,000	-	50,000
10041/17	Colonia Alberto Nieto - Pacho, Cundinamarca	Dressmaking workshop	47,000	-	-
10041/18	* Instituto Colombiano de Administración (INCOLDA) - Medellin, Antioquia	Simultaneous translation system equipment	US\$4,949	-	-
10041/19	Vereda La Union - Fomeque, Cundinamarca	Rural aqueduct	15,250	-	-
20050/1	Artesanias de Colombia	Community Cooperative Chiannel. Loan to construction a Handicraft Workshop at Chia, Cundinamarca. Loan repayments to be used assisting similar coops by Arte- sanias	42,000	55,000	3,000
20050/2	* Instituto Colombiano de Administración (INCOLDA) - Bogota, D. E.	Television Camera System. Recorder equipment to be used in training business & community leadership.	126,000	-	-

Sub- Project No.	Entity Signing (SDA Agreement Signed)	Project	Contributions		
			USAID	Community	Government
20050/3	CARE (Cooperative for American Relief Everywhere)	17 Nutrition Centers located in various Colombian Municipalities are being provided with kitchen equipment for prepared food distribution	140,500	1,144,500	863,200
20050/4	Barrio Cerro Norte - Usaquen, Bogota, D. E.	Semi-urban aqueduct, funds to be used for purchase of pipe to provide Barrio with water	90,000	254,750	-
20050/5	Damas Voluntarias Colombianas- Bogota, D. E.	Ocean transportation of drugs from U.S. Direct Relief Foundation for several hospitals in the country	102,650	-	-
20050/6	Asociacion de Usuarios Campesinos - Saravena, Arauca	Cattle auction corral to be constructed by the Community for monthly sales	15,000	17,540	13,000
20050/7	* Barrio La Iguana - Medellin, Antioquia	Construction of urban school	10,000	7,000	-
20050/8	Vereda La Florida - La Plata, Huila	Penetration road and bridge to connect 2,000 persons to town of Belen and main La Plata-Popayan road	17,000	160,422	-
20050/9	ACOVCL (Colombian Association of Volunteer Ladies) - Bogota, D. E.	Printing of 5,000 copies of Human Relations Manual for training of Volunteers	26,000	-	-
20050/10	AIFLD/Union de Trabajadores de Cundinamarca - Bogota, D. E.	Loan to construct a Labor Education Institute. Loan repayments to be used by AIFLD for similar Union Projects	100,000	825,646	-
20050/11	Instituto Linguistico de Verano (Wycliff Society)- Bonaire, Puerto Lleras, Meta	Swine reproduction center construction	59,334	90,800	-

Sub- Project No.	Entity Signing (SDA Agreement Signing)	Project	Contributions		
			USAID	Community	Government
20050/12	Empresa Comunitaria de Piravante, Real, Huila	Funds to purchase materials for construction of rural aqueduct	20,466	62,201	-
20050/13	CARE Mission of Colombia. Sub- contract with TEXAS Petroleum Co. CARE Purchase kitchen equipment - Tumaco, Nariño	Construction of school restaurant next to school donated by TEXACO	100,000	905,000	20,000
20050/14	* Comprehensive Kennedy High School - Bogota, D. E.	Provision of kitchen and sewing equipment	45,000	-	-
20050/15	Corporacion Minuto de Dios - Bogota, D. E.	Mimeograph for administration of Coop. housing project	12,000	-	-
20050/16	Liceo Comunidad Educativa "La Esperanza" - Medellin, Antioquia	Purchase of school desks	10,000	42,150	2,850
20050/17	Vereda La Linda - San Roque, Antioquia	Cement pipeline for an aqueduct	6,300	3,200	-
20050/18	Vereda Los Planes - Granada, Antioquia	Purchase of furniture for school	6,000	-	-
20050/19	* Social Center "San Francisco de Asis" Barrio Aguas Frias - Medellin, Antioquia	Purchase of an industrial sewing machine for ladies sewing Coop.	10,000	23,850	-
20050/20	Colombian Society of Planning	Printing 15,000 copies of proceedings of the 9th Inter- american Planning Congress to be held in Bogota, September 17-22, 1972	100,000	-	-
Totals			Ps. 1,873,385	4,235,370	1,890,554
			23.4%	52.9%	23.7%
			Equivalent U.S. \$ 99,697	225,406	100,615

* Projects physically observed.

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EXHIBIT B

SPECIAL DEVELOPMENT ACTIVITY

DISTRIBUTION OF REPORT

Number of
Copies

6	Mission Director
1	Colombia Desk, AID/W
2	OPNS/LA, AID/W
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1	AG/IIS, Panama
1	IGA, Washington
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