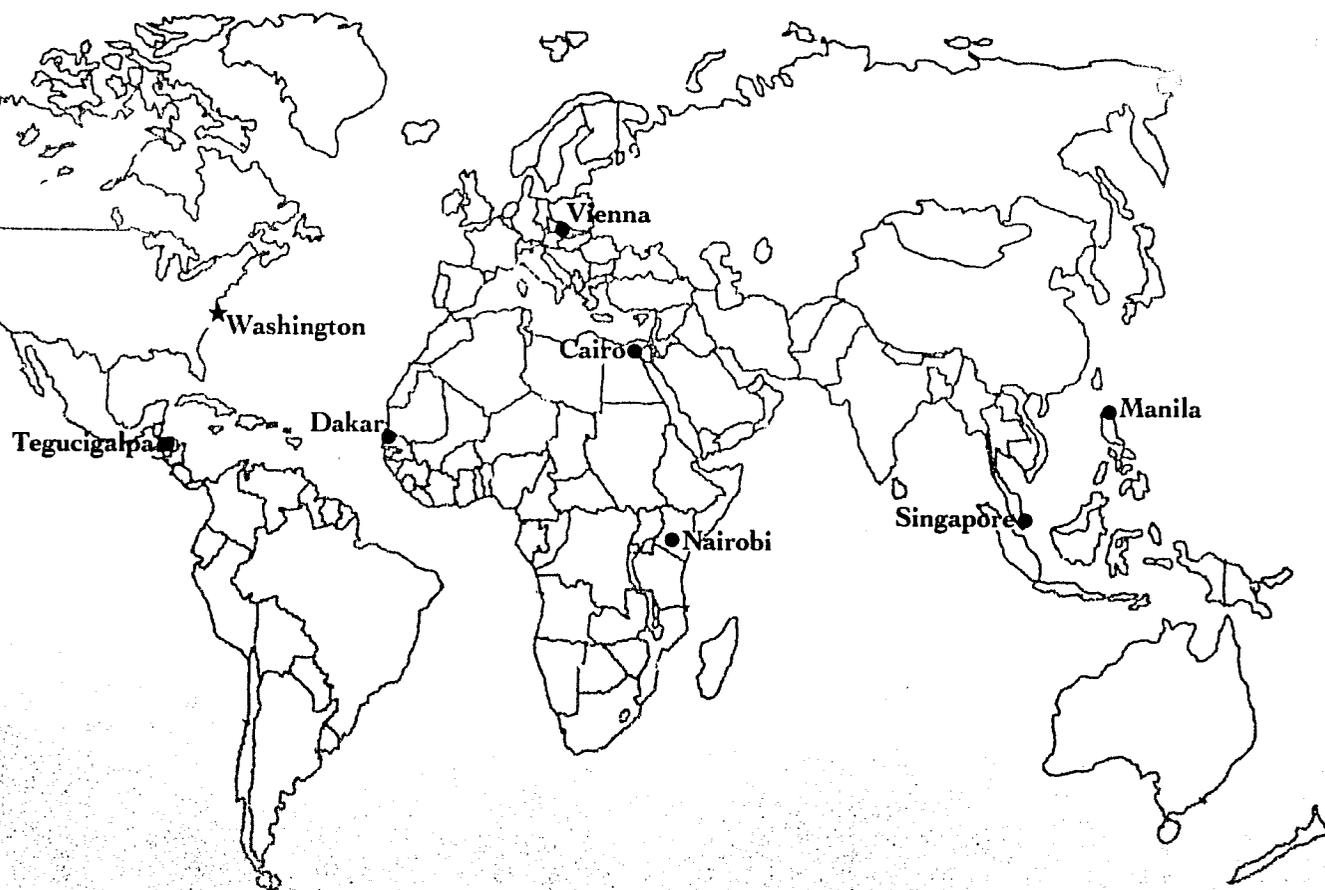


**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of the USAID Office/Colombia's
Narcotics Public Awareness Project
Managed by the Solidarity Action Foundation
for the Period August 27, 1987 to September 30, 1991 and
Pre-Award Survey of the Solidarity Action Foundation's
Capability To Manage Future A.I.D. Activities**

**Audit Report No. 1-514-92-53-N
September 16, 1992**



**Contractor information contained in
this report may be privileged. The
restrictions of 18 USC 1905 should
be considered before any information
is released to the public.**



**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of the USAID Office/Colombia's
Narcotics Public Awareness Project
Managed by the Solidarity Action Foundation
for the Period August 27, 1987 to September 30, 1991 and
Pre-Award Survey of the Solidarity Action Foundation's
Capability To Manage Future A.I.D. Activities**

**Audit Report No. 1-514-92-53-N
September 16, 1992**

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 - 32-3120
FAX No. (504) 31-4465

September 16, 1992

MEMORANDUM

TO: USAID Representative/Colombia, Edward Kadunc

FROM: RIG/A/T, Lou Mundy 

SUBJECT: Audit of the USAID Office/Colombia's Narcotics Public Awareness Project, Managed by the Solidarity Action Foundation, August 27, 1987 to September 30, 1991, and Pre-Award Survey of the Solidarity Action Foundation's Capability To Manage Future A.I.D. Activities

This report presents the results of a financial audit of the Narcotics Public Awareness Project (LAC Bureau Project No. 598-0616), managed by the Solidarity Action Foundation (Foundation), for the period August 27, 1987 to September 30, 1991, and a pre-award survey of the Foundation's capability to manage future Project activities. The audit firm of KPMG-Peat Marwick prepared the report dated July 17, 1992.

The purpose of the Project was to assist the Foundation in carrying out a program of drug prevention and education in Colombia. The Project budget was \$520,000, provided through a USAID Office/Colombia grant. The audit coverage included A.I.D. funds of \$398,252 provided to the Foundation during the audit period.

The objectives of the audit were to determine whether: (1) the Foundation's fund accountability statement presents fairly, in all material respects, the financial activities of the Project for the period audited, (2) the Foundation's internal control structure was adequate to manage Project operations, (3) the Foundation had complied with Project Agreement terms and applicable laws and regulations, and (4) the Foundation had sufficient management and financial capability to administer future Project activities. The scope of the audit included an examination of Foundation activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

KPMG-Peat Marwick concluded that, except for questionable costs amounting to \$96,371, the fund accountability statement presents fairly, in all material respects, the Foundation's financial activities for the period audited. The auditors also determined that \$7,893 of unexpended A.I.D. funds remained in the Foundation's bank account although Project activities had been terminated.

The auditors identified one material weakness regarding the Foundation's internal control structure for Project activities which concerned the lack of reconciliations of accounting records with the amounts disbursed by A.I.D.

With respect to the Foundation's compliance with agreement terms and applicable laws and regulations, KPMG-Peat Marwick identified four material instances of noncompliance. The auditors reported that the Foundation: (1) did not have an adequate budgetary control system, (2) claimed expenses not related to the Project, (3) did not maintain adequate documentation to support Project disbursements, and (4) made advances to employees from Project funds.

With respect to the pre-award survey, the auditors concluded that the Foundation did not have the management and financial capability to manage future Project activities. The auditors identified four material weaknesses concerning these capabilities. The auditors reported that the Foundation: (1) had an adequate organization chart but the main positions were vacant and the current level of operations could not be adequately supported; (2) did not have the financial capability to adequately administer future Projects or sufficient liquidity to cover its current operational expenses; (3) was unable to effectively manage its activities due to the high turnover of key personnel; and (4) lacked the administrative controls needed to comply with the terms of agreements made with the various entities providing funding.

The Foundation's management was not available to discuss the draft audit report. Therefore, this report was issued without the benefit of management comments.

Since the Project has ended we are not including the auditors' recommendations related to needed improvements concerning internal controls and compliance with Agreement terms and applicable laws and regulations. However, in considering future projects with the Foundation, we strongly suggest that the USAID Office/Colombia management obtain assurance, as a part of the evaluation process, that these problems have been corrected prior to the release of A.I.D. funds to the organization.

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 the USAID Office/Colombia resolve the questionable costs of \$96,371 (questioned \$92,772 and unsupported \$3,599) identified in the KPMG-Peat Marwick audit report dated July 17, 1992, and recover from the Solidarity Action Foundation all amounts determined unallowable.

Recommendation No. 2

We recommend that the USAID Office/Colombia recover all unexpended Project funds from the Solidarity Action Foundation.

Recommendation Nos. 1 and 2 will be considered resolved upon the Mission's determination of the amount of recovery, and will be considered closed upon the recovery of funds, offset of funds or issuance of a Bill for Collection.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.



Peat Marwick

**AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
PUBLIC AWARENESS PROJECT No.598-0616 MANAGED
BY FUNDACION ACCION SOLIDARIA AUGUST 27, 1987
TO SEPTEMBER 30, 1991 AND PRE-AWARD SURVEY OF
FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES**

.c.

**AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
PUBLIC AWARENESS PROJECT No.598-0616 MANAGED
BY FUNDACION ACCION SOLIDARIA AUGUST 27, 1987
TO SEPTEMBER 30, 1991 AND PRE-AWARD SURVEY OF
FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES**

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KPMG Peat Marwick Ltda.

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July 17, 1992

Mr. Reginald Howard
Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa, Honduras C. A.

Dear Mr. Howard:

In this report we present the results of our pre-award survey and financial close-out audit of Grant Agreement No. 598-0616-G-00-7005-00 managed by Fundación Acción Solidaria for the period August 27, 1987 to September 30, 1991.

BACKGROUND

On August 27, 1987 The U.S. Government through its Agency for International Development Mission in Colombia and Fundación Acción Solidaria, signed The Grant Agreement No. 598-0616-G-00-7005-00 for the Colombia Narcotics Public Awareness Project No.598-0616, which after amendments provided assistance in the amount of US\$520,000. The period of the grant is August 27, 1987 through September 30, 1991.

The purpose of this grant is to assist Fundación Acción Solidaria (FAS) in carrying out a program of drug prevention and education in Colombia. FAS is a non-profit foundation aimed to finance drug prevention and education projects, particularly in the private sector. The Foundation's drug awareness campaigns include the publication of a monthly bulletin which is sent to the principal prevention groups, and the production of television commercials warning against drug abuse. The Foundation intends to offer financial support to a number of private - sector initiatives, and it will support specific local institutions in the research and identification of drug - related problems, design and implementation of programs to help resolve them. The Foundation also intends to provide complementary support to other organizations involved in this struggle.



Miembro de la Organización
Klynveld Peat Marwick Goerdeler

KPMG Peat Marwick Ltda.
NIT. 960.000.846-4

AUDIT OBJECTIVES AND SCOPE

Objectives

The objective of this engagement is to conduct a pre-award survey of FAS for managing narcotics-related-economic assistance (ESF Fund) as of September 30, 1991 and a financial audit of the Colombia Narcotics Public Awareness Project managed by FAS from August 27, 1987 to September 30, 1991.

The audit and the pre-award survey was performed in accordance with Generally Accepted Auditing Standards and the U.S. Comptroller General's "Government Audit Standards" (1988 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. FAS had sufficient management and financial capability and span of control to administer the program, considering its current workload.
2. The fund accountability statement presents fairly, in all material respects, the financial situation of the project's activities managed by FAS from August 27, 1987 to September 30, 1991 and costs reported as incurred and reimbursed by USAID Office/Colombia during the period are allowable, allocable, and reasonable in accordance with the terms of the agreement, and applicable laws and regulations.
3. The internal control structure of FAS is adequate to manage the project's operations.
4. FAS complied with the terms of the agreement, and applicable laws and regulations which may affect the project's goals and incurrent costs.

Scope

We studied and evaluated FAS internal control structure relating to the activities under Grant Agreement No. 598-0616-G-00-7005-00 Project No. 598-0616. We conducted compliance and substantive tests to determine the extent to which the established procedures and internal controls established are working as it was intended.

Also, we obtained sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of the tests to be performed.

We followed the guidance contained in the AICPA standards Nos. 55 and 63 entitled "Consideration of The Internal Control Structure in a Financial Statement Audit" and "Compliance Auditing Applicable to Governmental Entities and other Recipients of Governmental Financial Assistance".

Also, we gained a through understanding of the financial conditions of FAS. We reviewed the financial reports of projects performed and critically evaluated the cash flows, variations with budgets, and the financial results in terms of accomplishments of project's purposes.

We were alert during our work to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts.

RESULTS OF THE AUDIT

Management and Financial Capabilities

The results of our tests disclosed that in regard to the items tested, FAS did not have adequate financial and management capabilities. The expertise of the personnel in the handling of AID projects seems not to be adequate. This is a result of a high turnover rate of key personnel in the development of the Foundation's general policies.

Fund Accountability Statement

In our opinion, except for the effects of certain questionable costs amounting to US\$96,371 (questionable costs US\$92,772, unsupported costs US\$3,599) the fund accountability statement presents fairly, in all material respects, the revenues collected and expenses paid under the project activities managed by FAS during the period August 27, 1987 to September 30, 1991 in accordance with agreements terms and applicable laws and regulations.

Internal Control Structure

Our study and evaluation of FAS' Internal Control Structure related to project activities disclosed a reportable condition in regard to lack of reconciliation between AID and FAS of approved expenditures, which we do not consider to be a material weakness.

Compliance with the Terms of the Agreement and Applicable Laws and Regulations

The results of our tests of compliance disclosed the following instances of non compliance.

- . We found expenses that do not relate to the project's purpose.
- . Advances to employees with project funds.
- . Expenditures in excess of 15% of the original budget.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, FAS complied, in all material respects with the provisions referred to in the third paragraph of the Independent Auditors' Report in section Compliance with Agreement Terms and Applicable Laws and Regulations, and with respect to items not tested, nothing came to our attention that caused us to believe that FAS had not complied, in all material respects, with those provisions.

Management Comments

It was impossible to obtain FAS's management comments about our audit report. We sent a copy of the report to Mrs. Gloria Echeverry, who is the latest legal representative. Thus, this report was issued without the benefit of management's comments.

KPMG Peat Marwick



Peat Marwick Ltda.

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**AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
PUBLIC AWARENESS PROJECT No.598-0616 MANAGED
BY FUNDACION ACCION SOLIDARIA AUGUST 27, 1987
TO SEPTEMBER 30, 1991 AND PRE-AWARD SURVEY OF
FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES**

Fund Accountability Statement

Independent Auditors' Report

We have audited the accompanying fund accountability statement of the Narcotics Public Awareness Project USAID Office/Colombia Project No. 598-0616 under Grant Agreement 598-0616-G-00-7005-00 managed by Fundación Acción Solidaria, for the period August 27, 1987 to September 30, 1991. The fund accountability statement is the responsibility of the management of the Foundation. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Colombia. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the KPMG Peat Marwick Worldwide International Quality Control Program which requires the KPMG Peat Marwick Colombia offices to be subjected, every three years, to an extensive quality control review by partners and managers from other KPMG Peat Marwick offices.



As described in note 1 (b), the fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As explained in note 2 to the Fund Accountability Statement, our audit disclosed questionable costs amounting to US\$96,371 (US\$92,772 questioned and US\$3,599 unsupported).

In our opinion, except for the questionable costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, the project's revenues collected and expenses paid for the period August 27, 1987 to September 30, 1991 in accordance with the basis of accounting described in note 1 (b).

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

January 12, 1992

12PM6 Peat Marwick

**AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
PUBLIC AWARENESS PROJECT No. 598-0616 MANAGED
BY FUNDACION ACCION SOLIDARIA AUGUST 27, 1987
TO SEPTEMBER 30, 1991 AND PRE-AWARD SURVEY OF
FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
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Fund Accountability Statement
(Expressed in U. S. Dollars)**

	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Available</u>	<u>Questionable costs</u>	
				<u>Ques- tioned</u>	<u>Unsup- ported</u>
Revenues:					
Funds received from AID/Colombia	US\$ 520,000	398,252	121,748		
Disbursements:					
Administrative Expenses:					
A. Salaries	75,591	73,792	1,799	-	-
B. Training for Local Staff	6,047	5,178	869	-	2,602
C. Office Expenses	35,606	34,489	1,117	2,202	-
D. Travel and Transportation	10,660	7,231	3,429	-	-
E. Advisors	10,149	8,136	2,013	-	-
Sub-total	<u>138,053</u>	<u>128,826</u>	<u>9,227</u>	<u>2,202</u>	<u>2,602</u>
Training:					
A. Latin American seminar	2,080	2,001	79	-	-
B. Conferences, workshops	47,715	33,313	2,509	-	997
Sub-total	<u>49,795</u>	<u>35,314</u>	<u>2,588</u>	-	<u>997</u>
Specific project cost:					
A. Bulletin & Melos letters	21,440	13,227	8,213	-	-
B. Anti-drugs T. V. spots	3,176	10,735	(7,559)	7,199	-
C. Support to local groups	246,062	71,812	174,250	41,628	-
D. FAS execution programs	4,762	46,505	(41,743)	41,743	-
E. Co-execution programs	11,429	64,118	(52,689)	-	-
Sub-total	<u>286,869</u>	<u>206,397</u>	<u>80,473</u>	<u>90,570</u>	-
Equipment	19,819	16,581	3,238	-	-
Miscellaneous	5,464	3,096	2,222	-	-
Audit/Evaluation	20,000	-	20,000	-	-
Total	US\$ <u>520,000</u>	<u>390,359</u>	<u>117,748</u>	<u>92,772</u>	<u>3,599</u> (note 2)
Cash balance		<u>7,893</u> (note 3)			

See accompanying notes to the fund accountability statement.

**AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
PUBLIC AWARENESS PROJECT No.598-0616 MANAGED
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FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES**

Notes to the Fund Accountability Statement

1. Nature of Operations and Summary of Significant Accounting Policies

- a. Fundación Acción Solidaria was incorporated in 1986 as a private non-profit organization aimed to set initiatives and efforts to prevent drug abuse in Colombia.

FAS is a result of an initiative of people associated with the "National Plan for Drug Abuse Prevention."

One of the purposes of FAS is to provide financial and logistic support to private-initiative projects related to this field.

On August 27, 1987 the U. S. Government through its Agency for International Development Mission to Colombia and The Fundación Acción Solidaria signed the grant agreement 598-0616-G-00-7005-00 for the Colombia Narcotics Public Awareness, which after amendments provided an amount of US\$520,000. The project assistance completion date is estimated to be September 30, 1991.

- b. The fund accountability statement has been prepared on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, income is recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligations are incurred.
- c. The fund accountability statement is prepared in US dollars. The transactions in local currency were translated to US dollars at the rate used by USAID/Peru.

2. Questionable Costs

According to AID applicable regulations, costs charged to a project must meet the following general criteria:

- a. Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.
- b. Be allocable to the project. A cost is allocable in accordance with the relative benefits received.
- c. Conform to any limitations or exclusions set forth in the agreement in which the project is based.
- d. Be adequately documented.

Questioned costs are all those costs unallocable and or unallowable in accordance with laws, regulations and agreements terms. Unsupported costs are all those costs not properly supported by the recipient, costs in excess of the budgeted amount per line item and costs considered unreasonable under the circumstances.

The following costs incurred by FAS are considered questionable because they did not conform with one or more of the above mentioned criteria:

a. Questioned Costs

1. Costs not accepted by AID "Programa Presidencia de la República":

<u>Check number</u>	<u>Date</u>	<u>Local currency</u>	<u>Dollars</u>
50201 to 50225	June/90	4,000,000	8,062
50226 to 50300 and	July/90		
78601 to 78612	August/90	<u>21,000,000</u>	<u>42,323</u>
		<u>25,000,000</u>	50,385
(-) funds reimbursed to AID			<u>(8,757)</u>
			<u>41,628</u>

2. Overdrafts on budgets:

	<u>Actual</u>	<u>Original budget</u>	<u>Final budget</u>	<u>Excess over budget</u>
TV spots	US\$ 10,375	10,000	3,176	(<u>7,199</u>)
Support to university research	46,505	15,000	4,762	(<u>41,743</u>)

3. Office expenses supported by photocopy or that do not relate to the project's purpose:

<u>Date</u>	<u>Local currency</u>	<u>Dollars</u>
January/87 to July/90	\$ <u>813,427</u>	<u>2,202</u>

b. Unsupported Costs

Costs considered unreasonable under the circumstances:

<u>Disbursement voucher</u>	<u>Local currency</u>	<u>Dollars</u>
471	155,980	313
479	15,000	30
-	<u>325,283</u>	<u>654</u>
	<u>496,263</u>	<u>997</u>
Travel expenses Carlos Jaramillo and Diana Díaz (conference PRIDE)	<u>993,588</u>	<u>2,602</u>

3. Cash balance

As of January, 1992 this amount remains in the bank account of FAS.



Peat Marwick Ltda.

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PUBLIC AWARENESS PROJECT No.598-0616 MANAGED
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TO SEPTEMBER 30, 1991 AND PRE-AWARD SURVEY OF
FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES**

Internal Control Structure

Independent Auditors' Report

We have audited the fund accountability statement of Grant Agreement No. 598-0616-G-00-7005-00 managed by Fundación Acción Solidaria for the period August 27, 1987 to September 30, 1991, and have issued our report thereon dated January 12, 1992 in which we expressed a qualified opinion.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in the opinion of the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" (1988 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of Grant Agreement No. 598-0616-G-00-7005-00, managed by Fundación Acción Solidaria for the period August 27, 1987 to September 30, 1991 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of Acción Solidaria is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments 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 executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in note 1 b. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to 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.



Miembro de la Organización
Klynveld Peat Marwick Goerdeler

KPMG Peat Marwick Ltda.
Nii. 860.000.846-4

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- . Accounting process
- . Procurement system
- . Payroll procedures
- . Receipts and disbursements
- . Travel and transport procedures

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, and whether they have been placed in operation, and we assessed control risk.

We noted certain matters described in finding 1 in the following page involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Fund Accountability Statement.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to The Fund Accountability Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the reportable conditions described in finding 1 in the following page is a material weakness.

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

K P MG Peat Marwick

January 12, 1992

AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
PUBLIC AWARENESS PROJECT No.598-0616 MANAGED
BY FUNDACION ACCION SOLIDARIA AUGUST 27, 1987
TO SEPTEMBER 30, 1991 AND PRE-AWARD SURVEY OF
FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES

Internal Control Structure

Findings

1. There is no Expense Reconciliation with AID for 1990 and 1991 of Expenditures Approved by AID

Condition

FAS has not been able to prepare expenses reconciliations with AID for 1990 and 1991.

Criteria

FAS should have approved expenditures reconciled with AID for 1990 and 1991.

Cause

FAS lacks procedures to ensure that the amounts recorded are adequate.

Effect

If there is not an adequate follow-up, errors may result in the amounts recorded.

Recommendation

We recommend that FAS, in future USAID Office/Colombia projects, design and implement procedures to ensure that AID provides expense reports of approved expenditures and perform the necessary reconciliations and changes to FAS records.



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FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES**

**Compliance with Agreement Terms and Applicable
Laws and Regulations**

Independent Auditors' Report

We have audited the Fund Accountability Statement of Grant Agreement No. 598-016-G-00-7005-00 managed by Fundación Acción Solidaria (FAS) for the period August 27, 1987 to September 30, 1991, and have issued our report thereon dated January 12, 1992 in which we expressed a qualified opinion.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in the opinion of the Fund Accountability Statement, we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with laws, regulations, contracts and agreements applicable to the agreement is the responsibility of the FAS management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the FAS' compliance with laws, regulations, contracts and agreement terms. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in the fund accountability statement for the period August 27, 1987 to September 30, 1991. We found expenses not related to the project's purpose, advances to employees made with project funds, there was not an adequate budget control system and there were internal control weaknesses in accounting documents.



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We considered these material instances of noncompliance in forming our opinion on whether FAS fund accountability statement is presented fairly, in all material respects, in conformity with the basis of accounting described in note 1.b to the fund accountability statement, and this report does not affect our report dated January 12, 1992 on that statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, FAS complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that FAS had not complied, in all material respects, with those provisions.

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

KPMG Peat Marwick

January 12, 1992

AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
PUBLIC AWARENESS PROJECT No.598-0616 MANAGED
BY FUNDACION ACCION SOLIDARIA AUGUST 27, 1987
TO SEPTEMBER 30, 1991 AND PRE-AWARD SURVEY OF
FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES

Compliance with Agreement Terms
and Applicable Laws and Regulations

Findings

1. Lack of Adequate Administrative Controls

Condition

During the course of our audit we found the following conditions:

- . The Foundation's organization chart was adequate; however, during the course of our audit, the main positions were vacant and the current level of operations could not be adequately supported.
- . The Foundation did not have the financial capability to manage USAID projects. FAS lacked sufficient liquidity to cover its operating expenses.
- . There was a high rotation of personnel.
- . Due to the lack of administrative controls the Foundation did not comply with the terms of agreements made with other entities subsequent to the USAID agreements.

Criteria

Sound management practices require the establishment of written procedures for adequate administrative controls.

Effect

The Foundation does not have the management and financial capability to manage AID projects.

Recommendation

We recommend FAS, in future USAID Office/Colombia projects, design and implement procedures that will ensure that: an organization chart is updated and functional, sufficient liquidity to cover operating expenses is available, rotation of personnel is kept to a minimum, the terms of agreements made with other entities subsequent to the USAID agreements are complied with.

2. There was not an Adequate Budget Control System

Condition

FAS did not maintain an adequate budgetary control system.

Examples:

	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Excess over Budget</u>
T. V. spots	10,375	10,000	3,176	(7,199)
Support to university research	46,505	15,000	4,762	(41,643)

Criteria

An adequate budgetary control system allow for the control of the project implementation according to the plans and provide for possibility of comparison of actual expenditures with the budgetary assignments.

Cause

FAS did not establish an adequate procedure to prepare budgets.

Effect

There was a lack of control on allocations and actual expenditures, consequently these amounts were questioned in the Fund Accountability Statement.

Recommendation

We recommend, in future AID projects, FAS establish adequate procedures to ensure that expenditures comply with budget provisions.

3. Necessary Expenses for the Project:

Condition

We found expenses that do not relate to the project's purpose.

Example:

<u>Date</u>	<u>Name</u>	<u>Amount</u>	
		<u>Col.\$</u>	<u>US\$</u>
October 30, 1990	Corporación de Turismo de Risaralda	3,000,000	5,751*
November 29, 1990	Luis Javier González	1,000,000	1,917*
January/87 - July/90	Office expenses	813,427	2,202
June, July, 1990	Support to local group	20,654,981	41,628

* These expenditures were reimbursed to AID in 1991

Criteria

FAS should have registered expenses related to the project's purpose.

Cause

FAS lacks control procedures allowing for follow-up of such weaknesses.

Effect

Unauthorized expenses result in misstatements on the Fund Accountability Statement and in deviations from the original budget.

Recommendation

We recommend that FAS provide adequate and sufficient documentation to support costs related to goods and services totaling \$43,830 (questioned costs), as indicated in this finding.

4. Internal Control Weaknesses in Accounting Documents

Condition

Income and disbursement vouchers are not pre-numbered. Also, the disbursement supporting documents were found not to be the originals but photocopies.

Example:

<u>Date</u>	<u>Name</u>	<u>Amount</u>	
		<u>Col.\$</u>	<u>US\$</u>
September 87	Papelería Dinamarca	9,691	39
February 91	Hotel Bogotá Royal	31,104	60

Criteria

FAS should establish controls to prenumber disbursement vouchers and to ensure that documentation supporting expenditures is original.

Cause

FAS lacks procedures to ensure compliance with this basic accounting safeguard.

Effect

Due to loss of documentation or lack of original supporting documentation the related transactions may be misstated.

Recommendation

We recommend FAS, in future AID project activities, in order to comply with agreed upon budget provisions, design and implement procedures to ensure that the original supporting documentation for all project expenditures be maintained and that accounting documents be prenumbered.

5. Advances to EmployeesCondition

We found that two advances to employees were made with the funds of the project.

Example:

<u>Date</u>	<u>Name</u>	<u>Amount</u>	
		<u>Col.\$</u>	<u>US\$</u>
January 1991	Mayra Bula	400,000	767*
December 1990	Flor Cárdenas	140,000	268*

* These amounts were reimbursed to AID in 1991

Criteria

Under the terms of the Agreement, attachment 2 project purpose and description, advances to employees are not allowed.

Cause

FAS does not have the handbooks providing for the prohibition of advances to employees and is unaware of the mentioned regulation.

Effect

The expenses recorded with no authorization from AID may result in errors in the amounts recorded and deviations from the original budget.

Recommendation

We recommend FAS, in future AID projects, design and implement procedures to ensure that project disbursements, specifically disbursements to FAS employees, are in compliance with the agreement.



Peat Marwick Ltda.

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**AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
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FUNDACION ACCION SOLIDARIA'S MANAGEMENT AND FINANCIAL
CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES**

Management and Financial Capabilities

Independent Auditors' Report

We have evaluated the organization of Fundación Acción Solidaria (FAS) in order to express an opinion on whether FAS has sufficient management and financial capability to manage appropriately the project activities. Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the Fund Accountability Statement, our work was performed in accordance with the Government Auditing Standards of the Comptroller General of the United States.

In conducting our evaluation we have performed the procedures established by AID/Colombia in the statement of work for this evaluation including the following procedures:

1. Evaluation of the actual organization chart to determine the proposed allocation of responsibilities for program activities.
2. Evaluation of the staffing levels in terms of expertise and experience managing similar AID/Colombia projects.
3. Review of the actual and proposed workload of key personnel to be in charge of program activities.
4. Evaluation of FAS' policies regarding administration of personnel, including prompt payments of funds and assets, and other related policies such as segregation of duties, conflict of interests, etc.
5. Review if FAS has realistically projected expenses in respect to its planned staffing levels and present and planned activities, and whether the funds programmed for program activities were sufficient to meet its operating costs.

As a result of the foregoing, we conclude:

- . The Foundation's organization chart was adequate; however, the main positions were vacant and the current level of operations cannot be adequately supported.
- . The Foundation did not have the financial capability to manage the AID projects. FAS lacked sufficient liquidity to cover its operating expenses.



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- . One of the problems in the Foundation has been what we consider the high rotation of personnel. This meant that permanent administration policies and operating control were not developed to improve the efficiency of the Foundation to help it comply with its proposed objectives.
- . The lack of administrative controls meant that the Foundation did not follow agreements made with other entities subsequent to the AID agreement (Javeriana University and Andes University), creating bad feelings and a poor image with them, and making it difficult to measure the effect this might have if the Foundation received additional funds in the future and had to reactivate operations.

Based on our evaluation as described above, we believe that FAS did not have the management and financial capability to manage the above mentioned project.

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

KPMG Peat Marwick

January 12, 1992

**AUDIT OF USAID OFFICE/COLOMBIA'S NARCOTICS
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CAPABILITY TO MANAGE THE PROGRAMS ACTIVITIES**

List of Recommendations

1. We recommend FAS, in future USAID Office/Colombia projects, design and implement procedures that will ensure that: an organization chart is updated and functional, sufficient liquidity to cover operating expenses is available, rotation of personnel is kept to a minimum, the terms of agreements made with other entities subsequent to the USAID agreements are complied with.
2. We recommend in future AID projects, FAS establish adequate procedures to ensure that expenditures comply with budget provisions.
3. We recommend FAS, in future AID project activities, in order to comply with agreed upon budget provisions, design and implement procedures to ensure that the original supporting documentation for all project expenditures be maintained and that accounting documents be prenumbered.
4. We recommend FAS design and implement procedures to ensure that AID provides expense reports of approved expenditures and perform the necessary reconciliations and changes to FAS' records.
5. We recommend FAS, in future AID project activities, design and implement procedures to ensure that all expenditures are allowable under the terms of the agreement.
6. We recommend FAS, in future AID projects, design and implement procedures to ensure that project disbursements, specifically disbursements to FAS employees, are in compliance with the agreement.

APPENDIX I

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