



## MEMORANDUM

**DATE:** September 27, 2018

**TO:** USAID/Colombia Mission Director, Lawrence Sacks

**FROM:** Regional Inspector General/San Salvador, Assistant Director, Brad Moore /s/

**SUBJECT:** Audit of the Civil Society Participation With Conflict Victims Project Managed by Consultoría Para los Derechos Humanos y el Desplazamiento in Colombia, Cooperative Agreement AID-514-A-14-00006, January 1 to December 31, 2016 (I-514-18-038-R)

This memorandum transmits the final audit report on the Civil Society Participation with Conflict Victims Project. The Consultoría Para los Derechos Humanos y el Desplazamiento (CODHES) contracted with the independent certified public accounting firm BDO Audit S.A. to conduct the audit. The audit firm stated that the contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

The audit firm states that it performed the audit in accordance with generally accepted government auditing standards. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on CODHES's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate the CODHES's internal controls; (3) determine whether CODHES complied with award terms and

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, follows the Guidelines.

<sup>2</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

applicable laws and regulations; (4) determine if cost-sharing contributions were made and accounted for by CODHES in accordance with the agreement terms; and (5) determine if CODHES has taken adequate corrective action on prior audit recommendations. To answer the audit objectives, the audit firm reported that they assessed and tested the internal controls related to the project, compliance with applicable laws, regulations, the agreement's provisions, and reviewed project expenditures. The audit covered \$2,404,246 in USAID funds for the period ended December 31, 2016.

The audit firm concluded the fund accountability statement (FAS) presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for \$12,663 in ineligible questioned costs. The questioned costs were related to higher indirect costs charged in the fund accountability statement totaling \$12,663 which exceeded the indirect costs approved by USAID.

The audit firm did not identify any material internal control weaknesses. BDO Audit S.A. included an instance of noncompliance with applicable laws, regulations, and agreement terms related to the questioned costs detailed above. Additionally, the audit included an instance of noncompliance in the management letter related to a contract signed between CODHES and a subcontractor, stating that the subcontractor did not follow compliance policies for salaries, social benefits and indemnities.

Additionally, during our review of the separate letter to management, we noted the following issues that the audit firm should have identified as internal control significant deficiencies: (1) differences between the fund accountability statement and the accounting records; as a result the net expenses reported to USAID were greater by \$29,376; (2) the information reported to USAID is not consistent with what was reported in the accounting records; (3) unreconciled difference noted in the cash reconciliation; and (4) the project balance is not consistent with accounting reports. Additionally, we noted the following issues that the audit firm should have identified as ineligible questioned costs totaling \$7,401 on the fund accountability statement: (1) income tax paid with project's funds totaling \$5,144 (notes to the FAS) and (2) taxes deducted from the project's bank account totaling \$2,257 (letter to management).

The audit firm determined that cost sharing contributions were made and accounted for by CODHES in accordance with the agreement terms. Additionally, the audit firm determined that CODHES has taken adequate corrective actions on three prior audit report recommendations, but has not taken corrective action on two other prior recommendations.

To address the issues identified in the report, we recommend that USAID/Colombia:

**Recommendation 1.** Determine the allowability of \$12,663 in ineligible questioned costs on page 20 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that CODHES corrects the two instances of material noncompliance detailed on pages 36 and 37 of the audit report and pages 17-18 of the management letter.

**Recommendation 3.** Verify that CODHES corrects the four significant deficiencies in internal control detailed on pages 3-17 of the management letter.

**Recommendation 4.** Determine the allowability of \$7,401 in ineligible questioned costs on page 26 of the audit report and on pages 8 and 9 of the management letter and recover any amount that is unallowable.

**Recommendation 5.** Verify that CODHES takes corrective action on the two prior year recommendations reported on pages 41-42 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").