



Chiquita Brands International

MEMORANDUM

HIGHLY CONFIDENTIAL - PRIVILEGED CLIENT-ATTORNEY INFORMATION

TO: [Redacted] Esquire

DATE: January 4, 1994

FROM: [Redacted]

PHONE: [Redacted]

SUBJECT: Reportable Payments in Colombia and Manager's Expense Payments

This memo documents my understanding of the Turbo and Santa Marta Divisions' transactions that are reportable on the Statement of Policies and Procedures and Manager's Expense summaries. Also, I will include my understanding of the Divisions' handling and reporting of payments for security purposes and payments to the respective trade association. This information is based on inquiries of local Management and through my observation of documents that were made available to me. This memo with attachments will constitute our working papers related to this area. ~~Our professional standards require that we document the work that we perform.~~ ^{AND THE}

We limited the scope of our testing and the related procedures performed to disbursements and certain corporate compliance areas. ~~This was the first internal audit review at the location in approximately ten years.~~ Our work primarily consisted of a disbursement sample, review of policies and procedures, and discussions with management, since this engagement constitutes a disbursement review. We did not perform detailed substantive testing of balance sheet values and compliance testing beyond the disbursement-related systems. Had we performed additional procedures or had we performed a complete audit of each of the aforementioned entities, other matters may have come to our attention that would have been reported in this memorandum and detailed in the related working papers.

Statement of Policies and Procedures Disclosures

Based on discussions I had with each of the General Managers at both of the Divisions, the only reportable transactions to governments, governmental agencies, governmental employees, political parties, or political candidates that they were aware of are the donations totalling \$1,441 at Turbo and \$444 at Santa Marta for the period January 1, 1993 through October 25, 1993, as outlined in Exhibit I. I noted no other reportable transactions from my review of the entity. I discussed the nature of reportable payments with them. They seem to better understand and committed to properly report the payments that constitute a reportable transaction. ~~These items were reported separately in our internal audit reports of CIB's disbursements. Issued in early 1994.~~ ^{Manager's Expense}

I understand, based on my discussions with Management and based on my review of documents

move to end

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Management made available to me, that the Manager's Expense Account at both Divisions largely consists of guerilla extortion payments made by the Security Department through our intermediary or Security Consultant, Rene Osorio. I understand that the Security Consultant is our contact with the various guerrilla groups in both Divisions. Management in Santa Marta advised me that all extortion payments, referred to as "citizen security" by Management, are currently handled through the Security Department, either [redacted] in Medellin, and recorded in the respective Division's accounting records in an account named "Gastos de Seguridad Ciudadana". I understand that these payments are not supported by any receipt by any outside recipient and are being expensed as a Company expense. Totals of such payments were \$110M at Turbo and \$3M at Santa Marta for the period January 1, 1993 through October 25, 1993. These amounts have been expensed via the Manager's Expense Account in 1993.

The Turbo General Manager told me that the Guerilla Groups are used to supply security personnel at the various farms. This is not practiced at the Santa Marta Division.

? [redacted] I was told by a member of management that such payments to guerilla groups are considered illegal by the Colombian government, and that penalties include 70 year jail terms for individuals found guilty in a court of law.

Through October 1993, the Divisions are in a loss position for financial and tax purposes of \$2.3 million for Turbo and \$6.1 million for Santa Marta. Therefore, local Management is not very concerned that they are expensing these payments without supporting documentation. Management believes that the loss situation the divisions are experiencing would mitigate the lack of documentation for the payments, in the event that the Divisions are audited by local tax authorities. Nevertheless, I believe that Management should explore other means in order to record these payments outside the Colombian entities' books due to the extremely high personal risk this presents to local Management.

I have included schedules (Exhibits II through IV) of the manager's expense accounts for both divisions for the period January through October 1993. I have agreed these to the general ledger activity and noted only two differences with a zero net effect. Both of the differences were at the Turbo Division, which I have documented on Exhibit II.

INVESTIGATIVE REPORT ON PROSECUTING TRADE ASSOCIATIONS

[redacted] He says all we as reflects new done NH

② Both Division belong to trade associations that represent the respective areas in promoting the region's bananas, in improving the general infrastructure, and coordinating the facilitation of government services, and promoting overall safety in the region. The involvement in and

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influence over the association varies by Division. The Turbo Division appears to have some influence over their respective trade association, AUGURA. Management receives a budget and certain transaction details, such as information relating to facilitating payments and donations to the various entities. Whereas, the Santa Marta Division receives no such transaction information or budgets from its regional trade association, FUNDEBAN. Due to the influence and knowledge factors, the Turbo Division reports the governmental-related AUGURA payments made by the trade association on its quarterly Statement of Policy and Procedure disclosure (these started third quarter 1993); while the Santa Marta Division does not report governmental-related FUNDEBAN payments on its quarterly disclosure. The trade associations assess the Divisions \$0.02 per box of exported fruit. The Divisions pay for both produced and associate producer-purchased fruit. Amounts assessed by such associations for the period January 1, 1993 through October 25, 1993 were approximately \$106M at Turbo and \$133M at Santa Marta.

~~STATEMENT OF POLICY AND PROCEDURE~~
In the event that you should have questions or comments regarding the aforementioned areas, please feel free to contact me.

attachments



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