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GSA GEN. REG. NO. 27
5010-108

UNITED STATES GOVERNMENT

Memorandum

TO : Bureau for Development Support:
Office of Development Information &
Utilization (DS/DIU)

DATE: October 17, 1979

FROM : Fred C. Shaver, AAG/EA

SUBJECT: Memorandum Audit Report No. 2-492-80-1
Rural Roads Program /Philippines
Loan Nos. 492-T-035 and 492-T-050

8p.

Enclosed for your information are four copies of subject audit report. The report contains four recommendations for USAID/Philippines and none for AID.W.

Encls.: a/s

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MAY 1962 EDITION
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5010-106

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Anthony M. Schwarzwalder
Director, USAID/Philippines

DATE: October 15, 1979

FROM : Fred C. Shaver, AAG/EA

SUBJECT: Memorandum Audit Report No. 2-492-80-1
Rural Roads Program/Philippines
Loan Nos. 492-T-035 and 492-T-050

I. INTRODUCTION AND SCOPE

AID's participation in the Rural Roads Program (RRP) in the Philippines began with a $15 million loan to the Government of the Philippines (GOP). AID Loan No. 492-T-035 was authorized December 13, 1974 and signed March 24, 1975. The purpose of the loan was to stimulate rural area development through institutionalizing a) the participating provinces' capabilities in identifying, planning, implementing, and evaluating the construction or improvements in rural road and bridge subprojects, and b) the government's capability to coordinate and implement the project. To accomplish this purpose, loan funds were to be used to reimburse the GOP for 75 percent of the cost of 750 kilometers of roads and 2,400 linear meters of bridges in the rural areas. On May 3, 1978 a follow on loan agreement, No. 492-T-050, was signed for the initial $7 million of a planned $24 million continuation of the rural roads program. A third loan is currently being considered although formal loan procedures have not begun.

The full $15 million available under loan No. 492-T-035 (RRP I) has been fully expended, while only $113,344 of the $7 million to be available from loan No. 492-T-050 (RRP II) had been expended as of August 10, 1979. However, USAID/P estimates that GOP accrued expenditures for the planned $24 million continuation now totals about $10 million.

The Auditor General's Office completed the first audit of the Rural Roads Program/Philippines in August of 1976. This is the second audit of the program by the Auditor General's Office.

The purpose of our audit was to determine whether the RRP I and RRP II projects were being administered in accordance with the loan agreements and AID regulations. We examined USAID/P and GOP management of the projects to determine whether objectives were being met and whether loan funds were expended in an efficient and economical manner. Our examination was made in accordance with standards for government audits and generally accepted accounting and auditing procedures. We examined loan disbursements, project documents, and performed analysis of selected project performance indicators. Our examination included visits to three of the provinces participating in the project.

II. RESULTS OF AUDIT

A. Primary Purpose

The primary purpose of the Rural Roads Program is to institutionalize the capability of the government and participating provinces to plan, implement and maintain rural roads projects for the benefit of the rural poor. To achieve this purpose loan funds were channeled through the Ministry of Local Government and Community Development (MLGCD) to provincial engineering offices (PEO's) in 28 provinces under RRP I, and 55 provinces and 7 cities under RRP II. The funds were used for reimbursements to the PEO's for construction of approved road and bridge projects. The planning and implementation procedures used in the construction of projects were to be closely monitored by USAID/P and the GOP to help institutionalize the capability of provinces to plan and implement their own projects.

Because the Capital Assistance Paper for Rural Roads did not consider the need for a continued funding plan, the stated purpose of the program, even if fully achieved, could be in our opinion, of little or no lasting value. There is no approved plan which will ensure that the provinces or GOP will continue funding the new construction activities after USAID/P ends its participation. The lack of an explicit commitment by GOP to continue funding of RRP, as well as comments by host country officials, indicates that once USAID completes the RRP loans, there is no assurance the GOP will continue funding the provinces for the program and much or all of the capability created could be lost. Because of the high turnover rate in PEO staffs, continuation of capability is somewhat dependent upon a continuing program of new construction and improved maintenance.

USAID/P is involved in the Real Property Tax Administration (RPTA) project which has as a project purpose the increased collection by provinces of real property tax. This revenue could conceivably be used to finance the RRP program. However, we were informed by USAID/P that if the purpose of the RPTA project was fully accomplished, the resulting increase in provincial revenues would not be sufficient to carry on the construction activities at anything near the current level, even assuming the total increase was used for road construction. Also, at present there is no GOP approved plan committing increased revenues to specific purposes, so there is no assurance that any of the targeted increase in real property tax revenues would be used for road construction. USAID/P notes that road construction does have a high priority in the provinces although that priority is not formally stated.

While there are other international donors sponsoring road development projects in the Philippines, the GOP implementing agency for these projects is currently the Ministry of Public Highways (MPH) rather than MLGCD. These donors are helping the provinces with maintenance projects but there are no approved construction projects for the provinces from other donors. The International Reconstruction and Development Bank (IBRD) is considering a construction loan to MLGCD in the near future, but the IBRD proposal also does not require assurances of future funding.

Because USAID has not required assurances that GOP will phase in GOP allocations to provinces or otherwise assure funding of the PEO's construction activities, the major long term result of the RRP program may be the construction of 448 km of roads and 4,270 meters of bridges.

<u>Recommendation No. 1</u>

We recommend that USAID/P reevaluate whether the RRP purpose is appropriate or whether the purpose should be redefined in any future AID loans.

B. Incomplete Record Files

Project files for RRP I have not been maintained by provinces in accordance with AID's administrative procedures. We also found that USAID/P did not have other records such as contracts with architectural and engineering firms, annual progress reports and the original estimates used in planning the number of roads and bridges to be built. Many of these records are essential in performing required evaluations to determine whether objectives are being reached. USAID/P has recently assigned a USAID employee to maintain an on-going inspection of provincial record keeping, with a formal inspection report on the status of records and appropriate recommendations. Since records are currently being properly maintained at USAID, and action has been initiated to improve record keeping by the provinces, we make no recommendations on record keeping.

C. Special Development Fund for Maintenance

MLGCD has established a special development account fund (SDA) for the provinces to use for road maintenance. Each province contributes to the fund. The programs and the total withheld from each are:

Flood Rehabilitation	₱ 6,966,951
Special Infrastructure	3,324,237
Rural Roads	12,384,447
Barangay Water	161,000
Equipment Deposit Special Development Account	2,541,482
	₱25,378,117

Of the total amount withheld there remained, as of July 15, 1979, a balance of ₱13,410,169 ($1,829,490) which had not been used.

The 3 provinces we visited, and MLGCD, all stated that one of their main problems was a lack of maintenance equipment. USAID concurred and said that maintenance management of equipment was a contributing factor. The special trust fund set up to provide a pool for maintenance needs not only has a large unused balance, but the amount of buying power provided by the pool is being steadily diminished by inflation. The average balance during the period July 1978 through July 1979 was ₱12,303,978 ($1,678,578). The SDA fund lost ₱1,845,597 ($251,787) of purchasing power during this period using an "inflation" rate of 15 percent. If the trust fund had been deposited to an interest bearing account at eight percent, the earned interest of ₱984,318 ($134,286) would have at least partially offset the lost purchasing power. The loan agreement requires GOP to use "sound-financial, administrative and management practices." In our opinion, sound financial and management practices are not being followed in the financial management of the SDA trust fund.

Recommendation No. 2

We recommend that USAID/P encourage the GOP to deposit the special development account trust fund in an interest bearing account.

Recommendation No. 3

We recommend that USAID/P analyze the use of the SDA fund and determine whether a more effective use would reduce the maintenance problems in the provinces.

D. Provincial Development Assistance Training

The basic intention of the Rural Roads Program II is to continue to build an institutional capability of the government and provinces to plan and implement development projects, in this instance rural roads and bridges. The project paper states that as a means of achieving this result, Provincial Development Assistance Project (PDAP, an organizational unit within MLGCD) principles will be disseminated to local government units throughout the Philippines. In the project paper implementation plan, the methodology for dissemination of PDAP principles relies heavily upon a training program by PDAP to instruct local governments in all facets of provincial engineering and equipment pool operations. Instruction was to include both formal and informal training courses and programs.

We found that PDAP training personnel had not provided the agreed Road Network Development Plan (RNDP) training and had not visited the Provincial Engineering Office's (PEO's) in over a year. When USAID objected to the lack of training they were advised that travel funds were not available. The RRP loan agreement states that the GOP will provide all funds or resources necessary to carry out the project effectively and in a timely manner.

During our visits to the provinces we found that procedures contained in the administrative procedures published by PDAP were not being followed by PEOs. We also noted that there had been a reduction in the deadline rate* during every year of the program except the last year (CY 1978), when the rate unexplainably increased by 26 percent over the CY 1977 rate. We also noted that a critical decision concerning equipment purchases (deletion of the 50 percent matching requirement for SDA funds) was not known by 2 of the 3 PEO's we visited. These problems are the types which can best be solved through regular, systematic training. In our opinion, PDAP on-going training programs are necessary if RRP objectives are to be achieved.

Recommendation No. 4

We recommend that USAID inform the GOP of their non-compliance with the loan agreement provision for providing adequate resources and require PDAP to begin the agreed upon training programs.

* The rate measuring the amount of equipment down for repairs.

REPORT RECIPIENTS

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Assistant Administrator (AA/A)	1
Deputy Assistant Administrator (Audit Liaison Officer)	1
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Bureau of Development Support:	
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Bureau for Program and Management Services:	
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