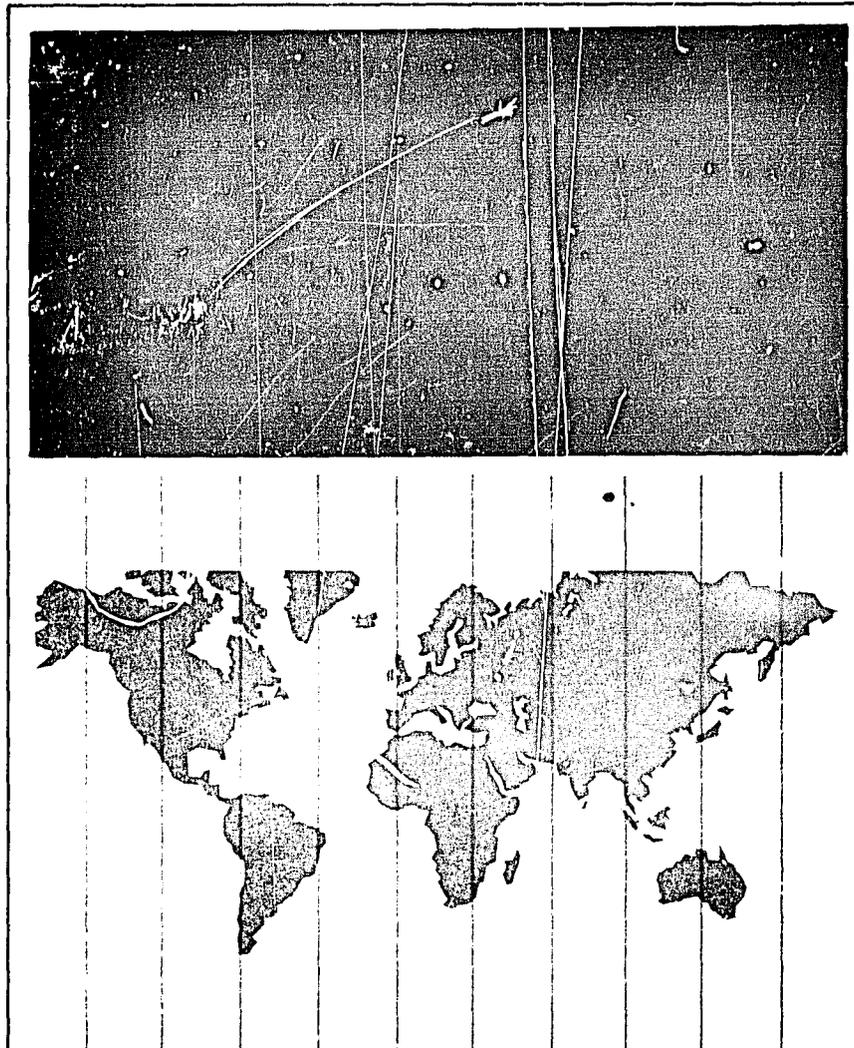


UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
MANILA

NONCONVENTIONAL ENERGY DEVELOPMENT PROJECT  
PROJECT (492-0294)

USAID/PHILIPPINES

Audit Report No. 2-492-82-14  
August 31, 1982

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## EXECUTIVE SUMMARY

### BACKGROUND AND AUDIT SCOPE

The Nonconventional Energy Development Project started in May 1978 with USAID/Philippines and the Government of the Philippines (GOP) signing a loan and grant agreement totaling \$8,650,000. The project's purpose was to test the economic and technical feasibility of using nonconventional energy sources in the Philippines, such as direct solar conversion, small-scale hydro plants, windmills, wind generators, and biomass conversion.

The Philippine Government's Ministry of Energy was responsible for overall management and implementation of the project.

We audited the project, covering the period May 3, 1978 through May 1982, to determine if:

- stated objectives and goals were being achieved on target,
- The USAID and GOP were adhering to terms and conditions of the project agreement, and
- Costs incurred under the project were acceptable.

### CONCLUSIONS AND RECOMMENDATIONS

This five year project is severely behind schedule. With about one year remaining in the original project life, just over 5 percent of the loan and 54 percent of the grant had been expended as of March 31, 1982 compared with projections of about 95 and 78 percent respectively.

Project implementation has been delayed mainly because several planned subprojects had been reassigned to other Philippine agencies causing the Ministry of Energy to identify new subprojects under the AID-financed project. Also the Ministry of Energy's capabilities to adequately implement the project did not meet original expectations. Delays in project implementation have caused the original project plan to be no longer effective or realistic in terms of accomplishing the project objectives within the original timeframe. (Page 2).

Other problems noted during the audit were:

- Some subproject windmills and wind monitoring equipment were not operating properly (page 4 );
- Some AID-financed commodities were not used for project purposes (page 6 );
- Subproject sites were not identified as AID financed assistance (page 6);

- The USAID did not properly account for some subproject advances (page 7);
- A refund of \$15,194 is due AID under a participant training contract (page 8);
- The windmill dispersal subproject has implementation problems which need to be evaluated and corrected (page 8);
- Questionable costs of \$3,157 have been paid under two grant financed contracts (page 9).

We recommend that USAID/Philippines obtain a revised implementation plan based on a realistic assessment of funds needed and deobligate funds not adequately justified as being necessary to the project (page 4). We also made ten other recommendations addressing related implementation problems.

After we submitted the draft report to the USAID for comments, they advised us that in June 1982 AID/W approved the Ministry's request to extend the project three years to April 30, 1986. The USAID also said that AID/W recommended that \$1.5 million of the AID loan be deobligated because two of the proposed subprojects were unacceptable for technical and economic reasons (page 4).

## BACKGROUND AND AUDIT SCOPE

### BACKGROUND

On May 3, 1978, USAID/Philippines (USAID) and the Government of the Philippines (GOP) signed a loan/grant agreement totaling \$8,650,000 for the Nonconventional Energy Development Project (492-0294). The purpose of the project was to test the economical and technical feasibility of nonconventional energy resources through direct solar conversion, small-scale hydro plants, windmills and wind generators, and biomass conversion.

The project loan of \$7.1 million was to finance subprojects designed to exploit nonconventional, renewable energy resources. The grant of \$1,550,000 was for technical assistance, an energy survey, solar and wind monitoring equipment, and a public information program. The project was to be completed in five years or by April 30, 1983. The Philippine Bureau of Energy Development, (BED) an agency of the Ministry of Energy (Ministry), was the implementing agency for the GOP. The loan-financed energy subprojects were to be managed by the Ministry as well as other Philippine institutions.

The project is an applied research activity. Direct beneficiaries will be limited in number, i.e., (1) staff of the BED and other implementing agencies whose capabilities are enhanced through technical assistance and participant training, and (2) the population living in those rural areas where the pilot demonstration projects are carried out. Ultimately, assuming it proves feasible to replicate the results on a broader scale, the energy made available for domestic, agricultural and industrial use should have a significant impact in remote area development and hence benefit a large segment of the rural populace.

### AUDIT SCOPE

This is our first audit of the Nonconventional Energy Development Project. It covered the period from May 3, 1978 to March 31, 1982 for project disbursements, and to May 31, 1982 for general project implementation. As of March 31, 1982, \$394,993 had been expended under the loan and \$838,000 under the grant. Audit objectives were to evaluate project accomplishments, compliance with the terms of the project agreement, and the propriety of costs incurred under the project.

Our audit was performed in accordance with standards for governmental audits, and included (1) a review of records and discussions with project officials of the Ministry of Energy, subproject implementing agencies, the USAID/Philippines, and the project coordinator; (2) field trips to inspect subprojects financed under the project; and (3) such other auditing procedures as we considered necessary.

USAID comments on our draft audit report were considered in the preparation of the final report.

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### PROJECT ACCOMPLISHMENTS

This five year project is severely behind schedule. With about one year remaining in the original project life, only 5 percent of the loan and 54 percent of the grant were expended as of March 31, 1982 compared to projections of about 95 and 78 percent respectively. In addition, only four of the ten planned subprojects had been started. Because of the delays, the original project implementation plan is no longer realistic and needs to be revised to show how and when the remaining balance of funds will be used over the life of the project.

The project is behind schedule because:

- Three planned subprojects accounting for 68 percent of the loan were transferred from the Ministry to other GOP agencies in 1979. This happened for political reasons and because grant funding was made available to these other GOP agencies from non-AID donors. This required the identification and development of substitute subprojects for the Ministry.
- The Ministry, which was established in 1977, initially lacked the institutional capability to effectively implement the project.
- An inefficient GOP subproject disbursement procedure delayed implementation of approved subprojects because after AID funds were released to the GOP they were not provided to implementing agencies on a timely basis.
- The working relationship between the original AID-financed project coordinator and Ministry officials was poor.

A recent evaluation of the project done by Development Science, Inc. highlighted essentially the same problem as noted above. USAID/Philippines and the Ministry corrected most of these deficiencies and the Ministry requested a three-year extension of the project which was being considered by AID. Actions taken included the contracting of a new project coordinator in January 1981, the establishment of an improved subproject fund disbursement procedure in January 1982,<sup>1/</sup> reorganization of the Ministry to provide a larger, better trained and more experienced staff, and the development of subproject proposals to commit part of the remaining loan and grant funds.

### Loan Activity

As of March 31, 1982, the Ministry had started four loan-financed

<sup>1/</sup> The effectiveness of this recently established procedure will be followed up in a future review.

subprojects, committing nearly \$600,000 of the AID loan. Seven subproject proposals for \$2.2 million of loan financing had been prepared and submitted by the Ministry to the USAID in early 1982. The USAID had not approved these proposals as of May 31, 1982 because they were waiting for AID/W authority to extend the project. According to the Ministry, additional subproject proposals were being prepared by the implementing agencies to commit the remaining loan funds.

The status of the four loan-financed subprojects as of May 1982 was as follows:

A Solar Refrigeration subproject was started in 1979 but was subsequently cancelled because of cost overruns and the lack of a rural focus.<sup>1/</sup> Three subprojects (Solar Grain Dryer, Solar Lumber Dryer and Windmills) were started in 1979 and 1980 but were behind schedule because the GOP did not release AID funds to subproject implementators on a timely basis. As a result, the two solar dryer subprojects had to be extended about 10 months to December 31, 1982. In addition a fifth subproject - a Waste Fired Thermal Plant subproject was recently approved in January 1982.

#### Grant Activity

The \$1,550,000 grant portion of the project has moved more smoothly than the loan portion mainly because it did not require the extensive development of subprojects.

The only activity that experienced serious difficulty was the energy survey. According to the project paper, the survey was to determine energy demand and resources of rural areas in the Philippines. This was one of the first activities to be started under the project but it was delayed because Ministry officials could not decide on the survey scope. In January 1982, the Ministry prepared a survey proposal which was submitted to the USAID and approved in May 1982.

#### Project Implementation Plan

Because of the delays in project implementation, the original project plan is no longer realistic. It needs to be updated to show how and when the balance of project funds will be used over the remaining life of the project. If it is determined that the Ministry can not effectively use all of the funds committed to the project, then the scope of the project should be reduced and excess funds deobligated. Considering the inability of the Ministry to effectively implement this project during the last four years, the revised plan should provide for the periodic deobligation of funds not used in accordance with the revised plan.

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<sup>1/</sup> We were advised that the GOP agency is continuing the subproject with its own funds and has refunded ₱352,210 (\$42,435) of unused advanced funds.

## Recommendation No. 1

USAID/Philippines and the Ministry of Energy develop a revised and realistic implementation plan for the project which includes an assessment of the implementing agencies' capabilities. Funds determined to be in excess of project needs should be deobligated when the plan is prepared and the revised plan should establish a procedure for the periodic deobligation of funds not used in accordance with the revised plan.

### Mission Comments

In response to our draft audit report, the USAID stated that in June 1982 AID/W approved the Ministry's request to extend the project three years to April 30, 1986. AID/W also recommended that \$1.5 million of the AID loan be deobligated because two of the proposed subprojects were not acceptable for economic and technical reasons.

The USAID also said they had approved four more loan-financed subprojects, thus committing \$2.1 of the AID Loan, leaving \$3.5 million available for commitment out of a reduced loan amount of \$5.6 million. The USAID estimated that the loan will be fully programmed by December 31, 1982.

The USAID also stated that the Ministry is developing a revised implementation plan which is to be completed by September 1, 1982. The plan will provide for periodic project evaluations to be used as a basis for considering the reprogramming or deobligation of funds committed to subprojects that are not being implemented in a timely manner.

### SUBPROJECT FACILITIES AND EQUIPMENT NOT OPERATING PROPERLY

Two windmills and one set of wind monitoring equipment installed in the provinces of Cebu and Negros Oriental were not operating properly because of financial, cultural and technical problems.

#### Windmill Dispersal Subproject

Under this loan-financed subproject, the Philippines Farm Systems Development Corporation (FSDC) was to install, operate and evaluate the performance of 26 windmills. AID provided \$272,000 for this subproject. In May 1982, we inspected two of the six windmills that FSDC had installed under the subproject. They were not operating properly. The windmill in Cebu province was to provide potable water to a small village. Although the windmill was reported as completed six months prior to our inspection, it was not supplying water to the village because a pipe had not yet been installed from the pump to the water tank and the tank to the village some 300 meters away. As a result, the

windmill was pumping water onto the ground and only a few houses located closeby were using the water. We could not clearly determine during our visit why the pipe had not been installed. It was a joint responsibility of the village and the FSDC.

The windmill in Negros Oriental was to be used for irrigation. It was completed in September 1981 and had reportedly been used to successfully irrigate one crop. However, at the time of our inspection in May 1982, it was not operating properly because one of the four cloth sails had been damaged by a typhoon in March 1982. The farmers had not replaced the damaged sail because, according to the farmers, they did not like the color of the replacement. While we were at the project site, the windmill operator took down the damaged orange sail and replaced it with a blue sail to show us how the windmill operated with four good sails.

#### Recommendation No. 2

USAID/Philippines obtain evidence from the Ministry of Energy that the windmills in the provinces of Cebu and Negros Oriental are operating properly and delivering water to the areas where it is needed.

#### Windmill Monitoring Equipment

Under this grant-financed activity, the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) was to procure and install 12 sets of wind monitoring equipment at its weather stations.

In May 1982, we inspected one of the seven sets of equipment reportedly installed by PAGASA. The equipment was located at PAGASA's weather station in the City of Dumaguete. The equipment was installed in January 1982 and consisted of a translator, indicator, stratavane and a recorder. All of the equipment was operating except the recorder which PAGASA has been unable to fix.

We believe the Ministry should investigate the technical problems PAGASA has with its wind monitoring equipment and, if appropriate seek the advise of a consultant or the manufacturer to resolve the problem.

#### Recommendation No. 3

USAID/Philippines obtain evidence from the Ministry of Energy that PAGASA's technical problems for operating the wind monitoring equipment have been resolved and the equipment is operating properly.

#### AID FINANCED COMMODITIES NOT USED FOR PROJECT PURPOSES

We found instances where AID-financed commodities were not used in

accordance with Section B.3 of the project agreement which require that resources provided by AID will be devoted to the project.

### Vehicles

In 1981, the Ministry received three grant-financed vehicles at a cost to AID of \$29,440 to be used in the public information component of the project. According to the Ministry's vehicle utilization records for the first four months of CY 1982, the three vehicles were mainly being used for the general business of the Ministry. This happened because the public information program has gotten off to a slow start.

### Pyronographs

In 1981, the University of the Philippines at Los Banos received four loan-financed (\$2,400) pyronographs under the Solar Grain Drying subproject to be used to measure solar energy. During our inspection of the equipment, the subproject manager told us that one of the pyronographs had been given to a graduate student located in the City of Nueva Ecija and another had been given to the PAGASA weather station on the campus of the university. PAGASA was to use the pyronograph to collect data on solar energy. When we went to PAGASA to inspect the equipment in May 1982 they advised us that the equipment had been turned over to the University's Department of Engineering. We were unable to find the equipment at the Department of Engineering during our visit to the university because the team leader in possession of the equipment was not there.

### Recommendation No. 4

USAID/Philippines establish the locations of the AID-financed equipment and establish procedures to insure that this equipment is used for the project, and take appropriate action to recover the cost of equipment that cannot be located or that is not used for the project.

### SUBPROJECT SITES AND EQUIPMENT NOT MARKED AS REQUIRED

The Ministry has not given appropriate publicity to the United States as required by Section B. 8 of the AID project agreement, and AID Handbook 11, Attachment 2S. The AID Handbook, which implements a provision of the Foreign Assistance Act, states:

"...project construction sites and other project locations are identified with display signs, suitably marked with the AID handclasp symbol, indicating participation by the United States in the project. Temporary signs must be erected at the beginning of construction and be replaced by permanent signs, plates, or plaques, suitably marked with the AID handclasp symbol, upon completion of construction."

The two AID-financed windmills in the provinces of Negros Oriental and Cebu had not been marked as required. Nor was the AID-financed wind monitoring equipment installed at the weather station in the City of Dumaguete properly marked.

USAID and Ministry officials advised us that signs/plaques have been placed at some subproject facilities which we did not inspect. They also said they intend to mark the other facilities and equipment as required.

#### Recommendation No. 5

USAID/Philippines develop procedures to ensure that AID-financed facilities and equipment are marked and publicized as required by the project agreement and AID Handbook 11.

#### USAID ACCOUNTING FOR ADVANCES NOT PROPER

USAID/Philippines liquidated advances to the Ministry of Energy for some loan-financed subproject costs based on accrued expenditures of the subproject implementing agencies rather than actual disbursements as required by Project Implementation Letter No. 5. Moreover, Chapter 5 of the AID Controllers Guidebook states that ". . . vendors will periodically submit vouchers to substantiate the use of advanced monies. . ." We do not believe accrued expenditures or accounts payable constitute "use of advanced monies" and hence they should not be used as a basis for liquidating advances.

In addition to using an incorrect basis for liquidating advances, there were USAID errors in calculating the amounts to be liquidated. The combined effects of these accounting errors has been to overstate loan disbursements and to understate accounts receivable (outstanding advances) by \$19,781 as of March 31, 1982.

During our audit we advised the USAID of these accounting problems and were told that host country records will be reviewed to ensure that funds have been disbursed for those advances already liquidated and adjustments will be made in USAID records, if necessary, to reflect actual disbursements. In addition, the USAID stated that action has been taken to ensure that future liquidations are on the basis of actual disbursements.

#### Recommendation No. 6

USAID/Philippines review the appropriate ministry records to determine and assure that funds have actually been disbursed, for approved activities for advance already liquidated and adjust its accounting records under the project to accurately record loan disbursements and accounts receivable.

Recommendation No. 7

USAID/Philippines issue written instructions to appropriate staff that advances of AID funds are to be liquidated on the basis of actual approved disbursements.

PARTICIPANT TRAINING CONTRACT NOT COMPLIED WITH

One of the 16 grant-financed participants owes AID \$15,194.47 because he did not comply with his training contract to work three years with the Ministry after the completion of training. This participant was sent to the U.S. for three months of training under PIO/P 492-0294-1-80227 in 1979. The PIO/P, which was signed by the GOP and the USAID, provided that the participant was to work with the GOP upon completion of his training. The AID/GOP-financed training contract, which was signed by the GOP and the participant, provided that if the participant did not work three years with the Ministry after his training he would be required to repay the AID and GOP financed training costs. The participant stopped working with the Ministry on September 1, 1979, two weeks after returning from the U.S. He has reportedly taken a job with a private company. We found no evidence that the participant had repaid the AID-financed training costs of \$15,194.47 or the GOP-financed costs for travel and clothing.

The USAID should ask the GOP to collect the \$15,194.47 due the USAID from the participant. If the GOP does not take effective action, then the USAID should require the GOP to refund the amount to the USAID in accordance with Section D.6(b) of the project agreement which states:

"If the failure of the Cooperating Country to comply with any of its obligations under this Agreement has the result that goods or services financed under the Assistance are not used effectively in accordance with this Agreement, A.I.D. may require the Cooperating Country to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D within sixty days after receipt of a request therefor."

Recommendation No. 8

USAID/Philippines ask the GOP to collect and refund to AID the \$15,194.47 paid for the participant. In the absence of effective action by the GOP, the USAID should obtain a refund from the GOP of \$15,194.47 in accordance with section D.6(b) of the project agreement.

THE WINDMILL DISPERSAL SUBPROJECT NEEDS EVALUATION

This subproject was started in September 1980 and was to run for 30 months or until February 1983. Its purpose was to build, install, and evaluate the performance of 26 windmills. The Ministry signed an agreement with Project Santa Barbara (PSB) and the FSDC to implement the

subproject. PSB was to provide the windmills and be the principal project implementor, and FSDC was to install and evaluate the windmills. Only six of the 26 windmills have been installed as of April 30, 1982 because:

- Subproject implementors had not received AID funds on a timely basis because of earlier GOP disbursement delays (a new GOP disbursement procedure was started in January 1982).
- Working relationships between the Ministry, PSB and FSDC have been poor. As a result, project participants did not show up for meetings to resolve problems and the Ministry has recently held up the release of funds to PSB.
- FSDC claims that the Ministry has not promptly resolved technical problems. In December 1981, FSDC reported to the Ministry that the windmills provided by PSB do not pump enough water to meet irrigation requirements. FSDC recommended that PSB improve windmill design and supply different types of windmills. Although the Ministry suggested several options to these technical problems in a letter to PSB in April 1982, a course of action to correct them has not been developed and approved.

We believe this subproject needs to be evaluated to correct problems so the objectives of the subproject can be achieved.

Recommendation No. 9

USAID/Philippines require the Ministry of Energy to evaluate the Windmill Dispersal subproject and obtain satisfactory evidence that the problems noted in this report and in the evaluation are corrected.

CONTRACT COSTS QUESTIONED

We made a selective review of the propriety of AID-financed costs paid under the project. We found no cost exceptions under the loans. However, our review of the grant disclosed \$3,157 of questionable costs paid under two technical services contracts for travel (\$2,043), post differential (\$82), salaries (\$818) and housing (\$214) (See Exhibit A).

Development Sciences, Inc. (\$610)

A review of an AID voucher for \$31,666.22 paid to Development Science, Inc. on December 3, 1981 under Work Order No. 14 of AID/SOD/PDC-C-0306 disclosed about \$610 of questionable costs. The purpose of the contract was to evaluate the Nonconventional Energy Development project. The evaluation was conducted by a three-man team that came from the U.S. to the Philippines in September 1981 for three weeks.

The contractor's books and records were maintained in the U.S. The voucher only included a list of costs claimed by budget categories. After the USAID paid the voucher, the USAID received from the contractor copies of bills paid by contractor personnel for travel costs. We questioned some travel costs based on these bills but we could not determine if all of these bills were charged to the USAID because the contractor did not reconcile the bills with the list of expenses claimed on the voucher. The USAID should ask the contractor for additional support documentation to determine the allowability of questioned costs.

#### Air Fare Costs (\$426)

The travel expense bills showed that one of the contract employees purchased a round trip ticket between Washington, D.C. and Manila for \$1,132 as well as a one-way ticket from Washington D.C. to San Diego for \$426. The itemized list of expenses attached to the AID voucher showed that the cost of both tickets were paid by the USAID.

We question whether the contractor is entitled to the cost of the one-way ticket from Washington D.C. to San Diego since he also purchased a round trip ticket from Washington, D.C. to his place of business in Manila. If the contractor cannot justify the ticket from Washington D.C. to San Diego as an authorized contract expense, then the cost of this ticket (\$426) should be refunded to the USAID.

#### Per Diem Costs in the Philippines (\$30)

The AID voucher shows that all of the per diem (excluding lodging) was charged at the Manila rate of \$32 a day while the contract team was in the Philippines. However, the travel bills submitted by the contractor to the USAID show that the 3-man-team took an overnight field trip to Bacolod City, leaving on September 15, 1981 and returning to Manila the next day. The per diem rate at Bacolod City (excluding lodging) is \$22 per day. Thus, the contractor could owe the USAID the \$10 difference between the Manila and Bacolod City per diem rates for the period of time its team was in Bacolod City.

#### Lodging Costs in the Philippines (\$122)

The travel expense bills showed that when contract personnel took overnight field trips outside of Manila, they did not check out of their hotels in Manila. Thus, lodging costs were incurred in both Manila and at other locations on the same days. We could not determine whether these duplicate lodging costs were billed and paid under the voucher because the contractor did not reconcile travel bills with the expenses claimed on the voucher. However, if the USAID finds that these duplicate lodging costs were paid by the USAID, the contractor should be required to refund to the USAID the Manila lodging costs of \$104. In addition, we question \$18 paid to the contractor for lodging expenses outside Manila on 9/19/81 which was in excess of that allowable.

<u>Contract Employee</u>	<u>Date</u>	<u>Lodging Costs</u>	
		<u>Manila</u>	<u>Other</u>
A	9/15/81	₱203.39	₱105.00
B	9/15/81	203.39	120.00
C	9/15/81	203.39	120.00
C	9/19/81	203.39	312.00 <sup>1/</sup>
	Total Pesos	<u>₱813.56</u>	<u>₱657.00</u>
	Total Dollars <sup>2/</sup>	<u>\$104.30</u>	<u>\$84.23</u>

Per Diem in Honolulu (\$32)

The AID voucher showed that lodging expense of \$32.50 was claimed for one day in Honolulu but per diem excluding lodging of \$65.00 was claimed for two days. Since Honolulu was used as a rest stop by one of the contract employees when returning to the U.S. and rest stops according to AID regulations are not to exceed 24 hours, we question whether the contractor is entitled to two days per diem. If only one day can be substantiated by the contractor, then a refund of \$32.50 is due the USAID.

During our audit we advised the USAID of these findings and they wrote a letter to the contractor on May 28, 1982 asking for additional support documentation to determine the allowability of questioned costs.

Recommendation No. 10

USAID/Philippines settle contract costs questioned under Work Order No. 14 of AID Contract AID/SOD/PDC-C-0306.

Nonconventional Energy Project Coordinator (\$2,546)

On December 18, 1980, the BED executed a \$51,815 grant funded contract with a Project Coordinator. The Coordinator was to assist BED with the management of the project and act as liaison between BED and USAID. The effective period of the contract was January 16, 1981 through January 15, 1982.

On January 11, 1982, the contractor and BED signed an amendment to extend the coordinator's services for one year. However the effective date of the extension was February 16, 1982, resulting in a one-month gap between the end of the initial contract and the beginning of the extension.

During that month USAID paid the contractor's expenses for travel, salary, post differential and housing allowance. We question whether all these payments are allowable for AID funding.

<sup>1/</sup> Only \$22 (₱171.60) would be allowable (50% of the \$44 per diem rate). The remaining \$18 (₱140.40) would not be allowable.

<sup>2/</sup> Dollars were converted to pesos at the rate of ₱7.80 to \$1.00.

The contractor reportedly had planned to use accrued vacation leave during January 5-15, 1981, just prior to the end of his contract. Due to the workload, BED asked him to delay his vacation until the second year of work. On January 11, 4 days before the initial contract expired, the amendment to extend was signed. It was to be effective on the date AID received a signed receipt from the contractor of a new letter of commitment issued to the contractor by AID. AID received the letter of commitment on February 16, 1982.

Before the initial contract expired, the question arose as to whether the contract could cover the contractor's personal travel to the U.S. and return to Manila. Under the contract, travel was to be paid "from normal place of resident in the U.S. to post of duty in the Philippines and return to U.S. . . . upon completion of the services." The USAID Contract Officer wrote on January 12, 1982 that AID funds could not cover home leave travel under this host country contract because it would conflict with AID policy on home leave for AID direct hire contracts. According to the Contract Office, home leave is granted only when a contractor is between two consecutive two-year contracts.

Expecting the second year extension but without final assurance of it, the contractor asked the USAID Legal Advisor whether the contract would cover his air fare from Manila to the U.S. and return. He was advised it would. On January 19, 1982, AID issued a GTR for \$1,432 which the contractor used to travel to the U.S. on January 20 and return to Manila before recommencing work on the project on February 11, 1982 (five days before the contract extension was actually effective). Subsequently the contractor claimed and AID paid his salary (including differential) and housing allowance for the entire month of February.

In our draft audit report we questioned the air fare payment, and the salary and housing allowance for Feb. 1-10, 1982. We requested a legal opinion. On May 19, 1982, the USAID Legal Advisor stated that the GOP has a choice of considering the one-year contract extension either as a separate procurement action or alternatively as a continuation of the original contract. He said the contractor is entitled to round trip air fare, or salary and housing for the first 10 days of February, but not both.

After reviewing the finding and the USAID's legal opinion, the BED responded but without indicating whether the extension would be considered a separate procurement. BED took the position that all the questioned costs are allowable except the post differential for Feb. 1-10. BED stated the air fare should be allowable because both the BED and contractor had understood that a contract extension would not jeopardize grant financing of his scheduled trip back to the U.S. Not having assurance of funding for the second year, the contractor had no choice but to plan his personal affairs on the basis of a one-year contract, according to BED. Salary and housing for Feb. 1-10 should be allowable, BED argued, because this period represents the contractor's accrued vacation and BED had "agreed the contractor could transfer his

accrued vacation to the second year.<sup>13</sup>

We agree that the GGP must decide if the contract extension amounts to one procurement or two. If one, then the grant cannot finance the air fare since the initial contract provided for travel only after completion of services, thus a refund of \$1,432 would be required. In this case, the salary and housing paid for Feb. 1-10 would be allowable since that period would be the contractor's vacation time earned under the initial contract which allows 15 days per year.

If treated as separate procurements, salary and housing costs of \$818 and \$214 respectively must be refunded to AID,\* since there was no contract in effect between January 15 and February 16, and vacation days are not transferable from one contract to another. Moreover, the initial contract states "unused vacation leave shall not be compensable."

On the matter of air fare, we cannot agree with the Legal Advisor that the contractor's entire round trip can be paid by AID even if the extension is considered a separate procurement. If treated as such, it means the contractor's services under the first contract were completed Jan. 15, and AID is bound to pay only his one-way travel costs to the U.S. The contract does not authorize payment for the contractor's return to Manila. Yet his entire round trip air fare was paid and charged to the contract. The return to Manila cannot be charged instead to the "second" procurement since neither the contract amendment nor the letter of commitment authorizes such payment for personal travel, although each contains a budget line item for unspecified international travel. In any case, it is contrary to AID policy to pay home leave expenses to contractors working less than four consecutive years.

Following is a summary of questioned costs under the contract with the Project Coordinator:

Questioned if Considered 1 Contract

Air fare Manila to U.S. and return	\$1,432.00
Post Differential-February 1-10, 1982	<u>81.85**</u>
Total	<u>\$1,513.85</u>

Questioned if Considered 2 Contracts

Air fare U.S. to Manila	\$ 716.00
Housing allowance-Feb. 1-10	214.20
Salary-Feb. 1-10	818.12
Post Differential-Feb. 1-10	<u>81.85</u>
Total	<u>\$1,830.17</u>

Total questioned costs: \$2,546.17

\* Salary for February 1-10, 1982 computed as 10/28 of \$2291.67 paid for month of February, or \$818.12. Housing allowance for February 1-10 was 10/28 of \$600.000, or \$214.20.

\*\*Computed as 10/28 of \$229.17 post differential paid for month of February 1982.

Recommendation No. 11

USAID/Philippines resolve and settle costs questioned under the host country contract with the Project Coordinator.

EXHIBIT A

SUMMARY OF QUESTIONED COSTS

	<u>Development Sciences</u>	<u>Project Coordinator PSC</u>	<u>Total</u>
<u>Travel</u>			
Airfare	\$426.00	\$1,432.00	\$1,858.00
Per Diem			
Philippines	30.00		30.00
Honolulu	32.50		32.50
Lodging	<u>122.00</u>	<u>                    </u>	<u>122.00</u>
Total Travel	\$610.50	\$1,432.00	\$2,042.50
Post Differential	-	81.85	81.85
Salary	-	818.12	818.12
Housing	<u>-</u>	<u>214.20</u>	<u>214.20</u>
Total Questioned Costs	<u>\$610.50</u>	<u>\$2,546.17</u> <sup>1/</sup>	<u>\$3,156.67</u>

<sup>1/</sup> Total amount in question. Amount actually recommended for recovery would depend on decision to consider contracts as one procurement or two (pg. 13).

## LIST OF RECOMMENDATIONS

### Recommendation No. 1

USAID/Philippines and the Ministry of Energy develop a revised and realistic implementation plan for the project which includes an assessment of the implementing agencies' capabilities. Funds determined to be in excess of project needs should be deobligated when the plan is prepared and the revised plan should establish a procedure for the periodic deobligation of funds not used in accordance with the revised plan.

### Recommendation No. 2

USAID/Philippines obtain evidence from the Ministry of Energy that the windmills in the provinces of Cebu and Negros Oriental are operating properly and delivering water to the areas where it is needed.

### Recommendation No. 3

USAID/Philippines obtain evidence from the Ministry of Energy that PAGASA's technical problems for operating the wind monitoring equipment have been resolved and the equipment is operating properly.

### Recommendation No. 4

USAID/Philippines establish the locations of the AID-financed equipment and establish procedures to ensure that this equipment is used for the project, and take appropriate action to recover the cost of equipment that cannot be located or that is not used for the project.

### Recommendation No. 5

USAID/Philippines develop procedures to ensure that AID-financed facilities and equipment are marked and publicized as required by the project agreement and AID Handbook 11.

### Recommendation No. 6

USAID/Philippines review the appropriate ministry records to determine and assure that funds have actually been disbursed, for approved activities, for advances already unliquidated and adjust its accounting records under the project to accurately record loan disbursements and accounts receivable.

### Recommendation No. 7

USAID/Philippines issue written instructions to appropriate staff that advances of AID funds are to be liquidated on the basis of actual approved disbursements.

Recommendation No. 8

USAID/Philippines ask the GOP to collect and refund to AID the \$15,194.47 paid for the participant. In the absence of effective action by the GOP, the USAID should obtain a refund from the GOP of \$15,194.47 in accordance with section D.6(b) of the project agreement.

Recommendation No. 9

USAID/Philippines require the Ministry of Energy to evaluate the Windmill Dispersal subproject and obtain satisfactory evidence that the problems noted in this report and in the evaluation are corrected.

Recommendation No. 10

USAID/Philippines settle contract costs questioned under Work Order No. 14 of AID Contract AID/SOD/PDC-C-0306.

Recommendation No. 11

USAID/Philippines resolve and settle costs questioned under the host country contract with the Project Coordinator.

## List of Report Recipients

### USAID/Philippines

Director 5

### AID/W

Deputy Administrator 1

#### Bureau for Asia:

Assistant Administrator 1

Deputy Assistant Administrator (Audit  
Liaison Officer) 1

Office of the Philippines, Thailand &  
Burma Affairs (ASIA/PTB) 1

#### Bureau for Science & Technology:

Office for Development Information &  
Utilization (S&T/Mgt) 4

#### Directorate for Program & Management Services:

Office of Contract Management (SER/CM) 3

#### Office of the Inspector General:

Inspector General (IG) 1

Executive Management Staff (IG/EMS) 12

Policy, Plans & Programs (IG/PPP) 1

Office of Legislative Affairs (LEG) 1

Office of Financial Management (OFM) 1

Office of the General Counsel 1

### OTHERS

#### Inspector Generals:

RIG/A/Washington 1

RIG/A/Nairobi (Africa East) 1

RIG/A/Cairo (EGYPT) 1

RIG/A/Karachi (Near East) 1

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RIG/A/Latin America 1

RIG/II/Manila 1