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PRE-AWARD SURVEY OF
THE CENTER FOR RESEARCH AND COMMUNICATION
USAID/PHILIPPINES

AUDIT REPORT NO. 2-492-86-06
June 26, 1986

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Robert Doucette, Chief
Contract Services Division
USAID/Philippines

DATE: June 26, 1986

RIG/EA-86-241

FROM : Leo U. LaMotte
RIG/A/Manila

SUBJECT: Audit Report No. 2-492-86-06
Pre-Award Survey of the Center for Research and Communication

As you requested, we have performed a pre-award survey of the Center for Research and Communication (CRC) and its parent agency, the Southeast Asian Science Foundation, Incorporated (SEASFI).

BACKGROUND

SEASFI was incorporated in the Philippines in 1969 and received its current certification as a private voluntary organization in 1984 from the National Science and Technology Authority. CRC was established in 1967 as a private voluntary organization and became a part of the SEASFI organization in 1969. CRC carries out various programs in research, communications and training. Together these programs seek to help private enterprise, introduce more social responsiveness into business and economic thinking, help stimulate development at the grassroots level, and contribute to socio-economic institution building in the country.

In March 1986, the Government of the Philippines requested USAID/Philippines to provide technical assistance for helping newly selected ministers in the management of their respective ministries. USAID responded, proposing a grant of \$200,000 to CRC for such technical assistance. An additional \$100,000 was to be retained by USAID to provide funds for per diem and transportation costs in the event U.S. consultants were requested by the ministers.

SCOPE OF AUDIT AND OBJECTIVES

In April 1986, USAID/Philippines requested our office to perform a pre-award survey of CRC's capacity to carry out the proposed grant. More specifically, the USAID asked us to review: (1) the financial viability and management capability of CRC to undertake the tasks covered by the grant; and (2) the adequacy of the CRC accounting, internal control and procurement systems.

The pre-award survey was conducted in compliance with the guidance set forth in AID Handbook 13, Chapter 4F.5c. We reviewed applicable accounting and internal control procedures, financial records, operational reports and held discussions with officials of SEASFI, CRC and USAID/Philippines.

The survey was conducted from April to June 1986 and was performed in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

The pre-award survey showed that: (1) the proposed organization selected by the USAID was not the appropriate entity to receive the grant; (2) CRC's management capabilities were adequate except for a lack of knowledge of AID documentation and reporting requirements; (3) the grantee's accounting and recordkeeping were adequate; (4) the grantee's internal controls were well defined in procedural manuals and consistently applied by the CRC staff; and (5) the grantee's procurement system was adequate, however, assistance is required from the USAID on Agency contracting requirements for personal services contracts. These observations are discussed in more detail below.

Organizational Structure

Grants should be provided to the principal entity of an organization rather than a sub-entity. In this instance, the intended grantee, CRC, is not the principal entity, but a project institution of SEASFI. Because of this relationship, CRC is not the appropriate organization to receive the AID grant.

Our review of the incorporation documents of the CRC disclosed that this institution was not a separate organization but a project entity of the SEASFI. SEASFI is a registered private, nonprofit, non-stock corporation and CRC operates primarily on funds provided by SEASFI. Other funds are received from research endowments and grants, as well as contributions from the friends of CRC. The by-laws of SEASFI require that all contracts, including those of CRC, unless as otherwise provided, be reviewed and signed by the president of SEASFI.

Financial Viability and Management Capability

The income of SEASFI has been sufficient to meet its operating expenses and to some extent, reduce long-term liabilities. Additionally, SEASFI and CRC management appear capable to implement the proposed grant, although some assistance from the USAID will be needed in the preparation of AID required documents and reports.

Our review of SEASFI operating statements and other financial documents show that SEASFI has generated adequate income from operations and other sources over the past three years to meet its operating and other expenses. In addition, the balance

sheets for the years 1984 and 1985 show a reduction in long-term liabilities of about \$50,000 for each year. Also, since the USAID will provide the grantee with cash advances to meet project costs as they are incurred, we foresee no financial problems in CRC carrying out grant activities.

We discussed CRC management capabilities with officials of SEASFI and CRC and specifically discussed the proposed grant with the CRC officer assigned to the USAID project. In addition, we were provided with various reports and records of CRC activities. Our review of these documents indicates that CRC should be fully capable of carrying out the grant activities. Furthermore, the proposed CRC project officer had been assigned as Chief-in-Charge of numerous other CRC projects. Our discussions with this official and examination of other project documents indicate that he is well-qualified to undertake the tasks outlined in the grant project agreement. However, this official was not familiar with USAID documentation and reporting requirements and will need assistance from the USAID on these matters.

Accounting And Internal Control Systems

Our review of the accounting systems of SEASFI and CRC indicates that they are satisfactory to account for and segregate all revenues and costs by project. In addition, SEASFI and CRC appear to have the necessary internal controls to effectively safeguard and manage the use of AID grant funds.

The Office of Management and Budget Circular A-110 prescribes standards for financial management systems of grant recipients and states that the financial management systems of organizations that receive federal funds shall be able to develop accrual data for its reports on the basis of an analysis of the documentation maintained. The Circular also states that the recipient's records shall adequately identify the source and application of fund outlays, and have an effective control over and accountability for all funds, property and assets. The Circular further states that adequate safeguards shall exist for all such assets which will ensure that they are used solely for authorized purposes.

The accounting systems of SEASFI and CRC are documented in their procedure and accounting manuals. Additionally, a computerized system is in effect to record and report project income and expenses and their allocation to the various projects and programs. Also, from the data provided, we are of the opinion that accumulated costs are accurate and detailed enough to establish a provisional overhead rate for the contract and that final overhead rates can be established for each accounting period during the grant.

The internal controls of SEASFI and CRC are well-defined and are set forth in a set of manuals. The internal controls are

specific for each operation of management which ensures that SEASFI, CRC and other donor assets are safeguarded and properly accounted for.

Procurement System

SEASFI has a well-established internal procurement system which appears to function efficiently. However, this organization is not familiar with AID procurement requirements. For instance, information supplied by the proposed project officer indicated that neither personnel of the SEASFI nor the CRC had any knowledge of AID requirements under personal services contracts. USAID officials should inform CRC officials of these requirements.

Cost Proposal From Grantee

Because USAID/Philippines wanted the grant executed in a minimum account of time, a cost proposal was not requested from the proposed grantee. In any event, USAID prepared the grant and negotiated with the SEASFI and CRC officials on the various aspects of the project and prospective overhead rates.

Recommendation

We recommend that USAID/Philippines:

- a. initiate changes to the proposed Grant Agreement by designating the Southeast Asian Science Foundation, Incorporated as the recipient of the grant; and
- b. assist the Center for Research and Communication project officials by providing the necessary detailed instruction on contract preparation that would meet AID approval, including the allowable benefits for proposed consultants. Also, assist the Center for Research and Communication project officials on the proper preparation of management and financial reports required by USAID.

Management Action

These proposed actions were discussed with USAID officials and the auditor was subsequently provided with the revised Grant Agreement that included the revisions discussed in part a. of the recommendation. Also, other USAID documentation was provided that indicated that USAID would assist the grantee as discussed in part b. of this recommendation. Because of these and other actions taken by the USAID to assist the grantee in AID operating procedures, the recommendation will be considered closed as of the issuance date of this report.

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