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**Audit of Disaster Assistance  
to the Philippines**

**Audit Report No. 2-492-90-11  
September 7, 1990**

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**Disaster assistance funding was used to improve the  
stricken communities beyond their pre-disaster state.**

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UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
REGIONAL INSPECTOR GENERAL/AUDIT  
MANILA

UNITED STATES POSTAL ADDRESS  
USAID/RIG/A/M  
APO SAN FRANCISCO 96528

INTERNATIONAL POSTAL ADDRESS  
c/o AMERICAN EMBASSY  
MANILA, PHILIPPINES

DATE: September 7, 1990

MEMORANDUM

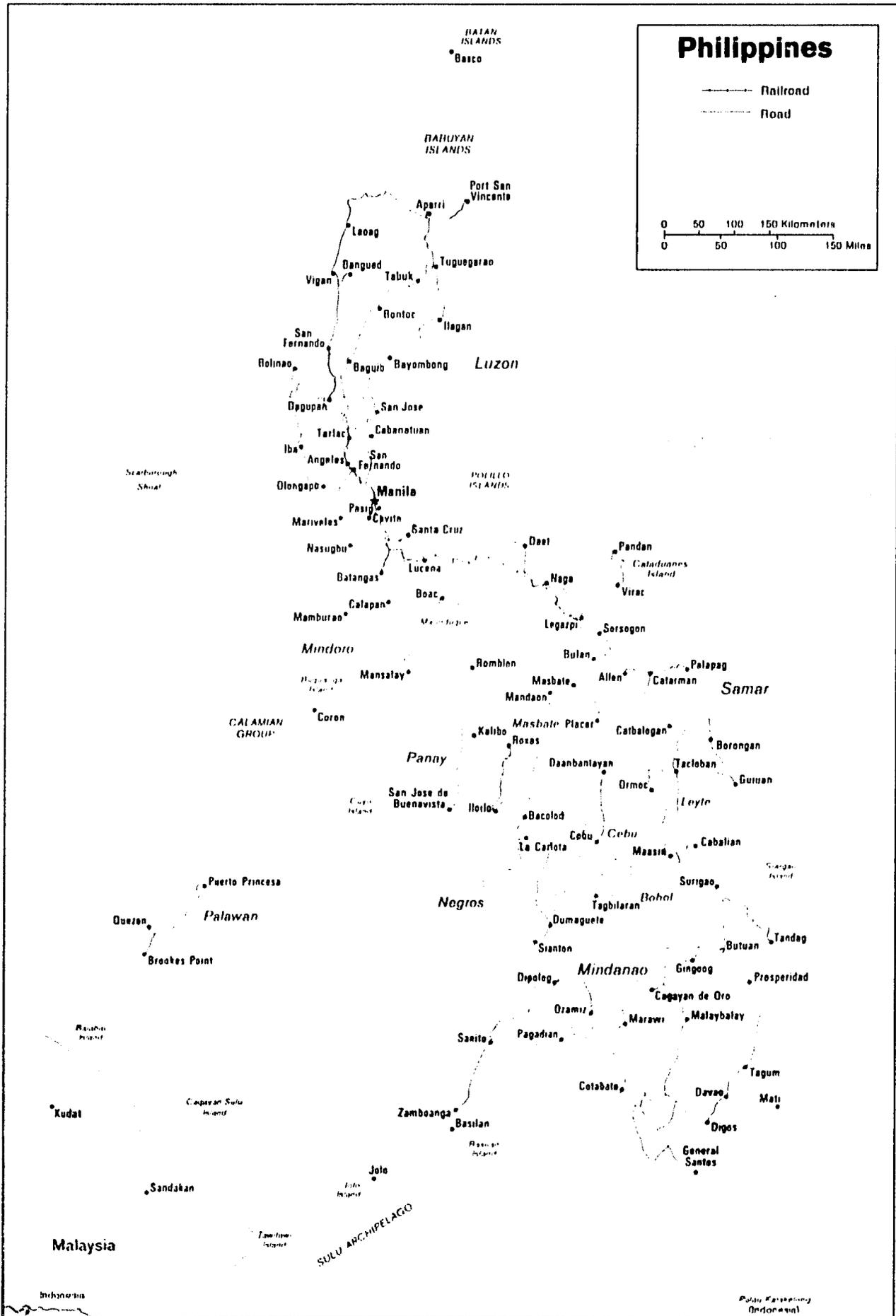
TO: Mr. Andrew S. Natsios  
Director, OFDA

FROM:   
William C. Montoney  
Regional Inspector General

SUBJECT: Audit of Disaster Assistance to the Philippines  
Audit Report No. 2-492-90-11

The Office of the Regional Inspector General for Audit/Manila completed its Audit of Disaster Assistance to the Philippines. Five copies of the audit report are provided for your action.

Audit Report No. 2-492-90-10 was issued to USAID/Philippines for appropriate action. That report contained one finding applicable to the Office of U.S. Foreign Disaster Assistance (OFDA). That finding was submitted to you for comment and your comments are attached to this report. This report contains one recommendation, which is unresolved.



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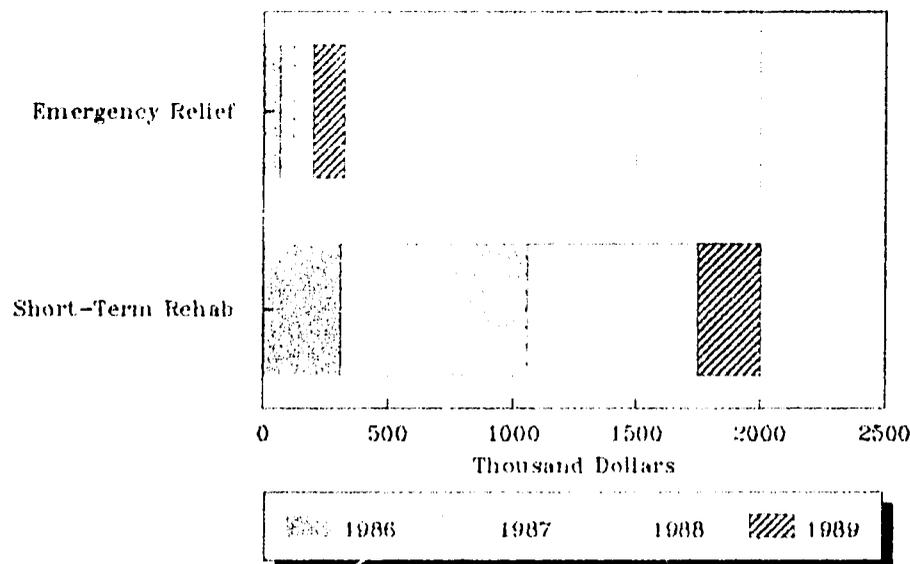
## Background

Since 1986, the Philippines has been damaged by seven typhoons, two floods and two major fires. The United States responded by providing disaster assistance as an expression of humanitarian concern. In providing immediate assistance, A.I.D.'s primary disaster assistance objective--alleviation of suffering and reaching beneficiaries least able to survive without outside assistance--was achieved.

When a disaster occurs, the U.S. Ambassador is responsible for declaring that a disaster exists and for determining the type of disaster assistance needed. The A.I.D. Office of U.S. Foreign Disaster Assistance (OFDA) is the focal point for disaster relief activities and the primary funding source for relief assistance. Funding provided by OFDA can be for emergency disaster relief (60 days duration) or short-term rehabilitation assistance (90 days duration).

A.I.D. provided the Philippines with approximately \$4.1 million in disaster assistance grants during the four years ending September 30, 1989. About \$2.3 million was for emergency disaster relief and short-term rehabilitation assistance and \$1.8 million was P.L. 480 Title II food assistance. The non-food assistance included 14 emergency disaster relief grants and ten short-term rehabilitation assistance grants.

### USAID/Philippines Disaster Relief Program



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## **Audit Objective**

This report addresses the following audit objective:

- **Was the disaster assistance used for authorized purposes in accordance with A.I.D. policies and procedures?**

To answer the audit objective, we tested whether USAID/Philippines (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, and grant agreements. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objective. Because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Philippines followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. When we found problem areas, we performed additional work

- to conclusively determine that USAID/Philippines was not following a procedure or not complying with a legal requirement,
- to identify the cause and effect of the problems and
- to make recommendations to correct the condition and cause of the problems.

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## **Audit Finding**

**Was the disaster assistance used for authorized purposes in accordance with A.I.D. policies and procedures?**

For the items tested, USAID/Philippines generally followed A.I.D. policies and procedures, but OFDA approved funding for items not normally provided

with disaster assistance funds. Emergency relief and short-term rehabilitation assistance was used to restore disaster victims to self-sufficiency. Such assistance included seeds, agricultural and construction hand tools, housing materials and food assistance. However, some assistance went beyond restoration of self-sufficiency and actually improved the stricken community from its pre-disaster state. Normally, such assistance is considered long-term rehabilitation and should be provided from bilateral funding sources. However, OFDA approved the funds for health and safety reasons, indicating that all items were legitimate rehabilitation expenses necessary to restore disaster victims to self-sufficiency.

**Recommendation No. 1: We recommend that the Office of U.S. Foreign Disaster Assistance review its criteria for approving short-term rehabilitation assistance to ensure that this criteria is consistent with A.I.D. policy and to revise this criteria, if necessary, to preclude the approval of future requests for long-term rehabilitation assistance.**

Of the \$491,461 in short-term rehabilitation assistance tested during the audit, about \$170,000 appeared to be long-term rehabilitation assistance which was used to train participants, purchase equipment and construct buildings, pathways and flood canals. For example, the following short-term disaster relief activities were completed by USAID/Philippines and seem to parallel assistance normally provided under long-term development projects:

- Constructing five evacuation centers at a cost of \$58,000. The centers were built in an area that previously contained residential homes. They are permanent multi-purpose structures and are being used by residents for meetings and other activities.
- Completing 4.3 kilometers of interconnecting pathways at a cost of \$69,000. The pathways are elevated and made of concrete. Previously, there were only dirt footpaths.
- Building 670 meters of concrete canals at a cost of \$28,000. The canals were constructed to prevent the accumulation of flood water within the community. Previously, water drainage was achieved

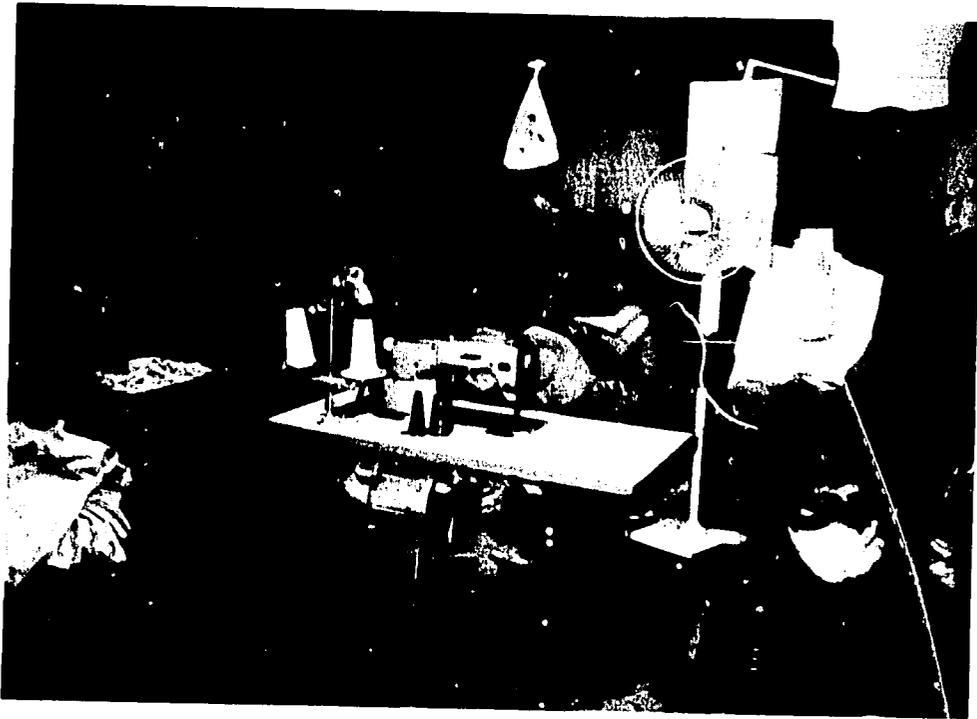
through natural runoff.

- Providing carpentry, marketing and sewing training for 71 participants at a cost of about \$9,500. None of the recipients had previous training in these skill areas.
- Purchasing about \$9,000 in office equipment. Items purchased include manual typewriters, calculators, electric fans, wall clocks, and sewing machines. Previously, none of these items were available to beneficiaries.

### Evacuation Center Constructed



## Sewing Machines Provided



Chapter 1 of A.I.D. Handbook 8 requires that particular attention be paid to the concepts of emergency disaster relief, short-term rehabilitation assistance, and long-term rehabilitation because the funding authorities differ. Emergency disaster relief and short-term rehabilitation assistance are provided by OFDA and are not intended to supplement long-term development or technical assistance projects. On the other hand, long-term rehabilitation is subject to normal A.I.D. programming requirements and cannot be funded from the OFDA account. The Handbook also makes a clear distinction between short-term and long-term rehabilitation assistance. Short-term rehabilitation is limited assistance needed to restore disaster victims to self-sufficiency; long-term rehabilitation is assistance which aims to bring the stricken community to a state beyond self-sufficiency.

In September 1989, USAID/Philippines requested OFDA funding for the immediate and urgent needs of flood victims in Metro Manila. Assistance was to be used for the rehabilitation of community infrastructure and personal properties damaged by the flood. The request contained sufficient detail to

show that evacuation centers, pathways and canals were to be constructed using OFDA funds. OFDA authorized relief assistance as requested.

Because some of these activities did more than restore recipients to a level of self-sufficiency, it would have been more appropriate if this assistance had been provided from long-term rehabilitation or technical assistance sources. Accordingly, in March 1990, we asked OFDA to address the appropriateness of authorizing short-term funds for long-term rehabilitation activities.

OFDA responded that it was aware that the five evacuation centers and the cemented pathways and canals were to be constructed. Funding was approved for health and safety reasons and because the people would not move away from the disaster setting. OFDA was not aware of the carpentry training and the purchases of sewing machines, typewriters, fans, calculators and cabinets, but it concluded that these items were legitimate rehabilitation expenses. In its opinion, such activities are necessary to restore disaster victims to self-sufficiency. OFDA had hoped its efforts would encourage USAID/Philippines to pursue additional development activities in the disaster areas.

### **Management Comments and Our Evaluation**

USAID/Philippines agreed that some of the disaster assistance activities did more than restore self-sufficiency. However, this information was revealed to OFDA in USAID's request for assistance. The decision to authorize the assistance was made by OFDA. In its response, OFDA indicated that it was either aware of the nature of the disaster assistance provided or would have approved the items it was not aware of on the basis that they were legitimate rehabilitation expenses.

Some of the assistance provided was long-term in nature and should not have been funded as short-term rehabilitation. A.I.D. policy is specific in defining the use of short-term rehabilitation assistance and limiting it to restoring self-sufficiency to disaster victims. It is also clear in defining that any assistance that goes beyond restoring self-sufficiency should be subject to

normal A.I.D. programing procedures. In our opinion, constructing new buildings where none had previously existed; paving pathways and canals, providing training and purchasing office equipment goes beyond the scope of restoring self-sufficiency. The use of OFDA funds for these activities should not have been authorized. Accordingly, Recommendation No. 1 is unresolved pending agreement on an appropriate plan of action.

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# SCOPE AND METHODOLOGY

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## Scope

We audited the disaster assistance provided to the Philippines in accordance with generally accepted government auditing standards. Audit field work was conducted from January through March 1990.

We tested \$491,461, or about 21 percent, of the \$2.3 million in grant funds provided by A.I.D. from fiscal year 1986 through fiscal year 1989. This included one emergency relief grant of \$25,000 and two short-term rehabilitation grants totaling \$466,461.

## Methodology

At USAID/Philippines' Food for Peace and Voluntary Cooperation Office and the Controller's Office we reviewed records to verify that the assistance was used for authorized purposes and that proper monitoring procedures had been implemented. Visits were made to the Smokey Mountain and Marikina Heights disaster sites, located in Metro Manila, to observe the buildings, canals and pathways constructed and to verify the existence of the commodities provided.

We interviewed officials from USAID/Philippines, and the following Philippine implementing agencies: Tulay Sa Pag-unlad, Inc.; XVD Foundation, Inc.; Morning Star Ministries, Inc.; Philippine Business for Social Progress; and

selected recipients who received assistance.

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## REPORT ON INTERNAL CONTROLS

We have audited the disaster assistance to the Philippines and have issued our report dated September 7, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy that audit objective and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer the audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/Philippines, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be

used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government". According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified significant internal control policies and procedures applicable to the audit objective. We obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation--and we assessed control risk. In doing this work, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Philippines' ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

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### **Audit Objective**

This objective relates to whether the disaster assistance provided to the

Philippines was utilized in accordance with A.I.D. policies and procedures. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 1 and 8. We noted the following reportable condition:

- Some assistance went beyond restoration of self-sufficiency and actually improved the stricken community from its pre-disaster state.

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A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on projects funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described under the audit objective is a material weakness.

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## REPORT ON COMPLIANCE

We have audited the disaster assistance to the Philippines and have issued our report dated September 7, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws

and regulations.

Compliance with laws, regulations, contracts, and grants applicable to the project is the overall responsibility of USAID/Philippines and the Office of U.S. Foreign Disaster Assistance. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Philippines, and certain provisions of Federal laws, regulations and grants. However, our objective was not to provide an opinion on overall compliance with such provision.

Our tests did not reveal any significant instances of noncompliance. However, OFDA approved disaster assistance for activities that went beyond restoration of self-sufficiency and actually improved the stricken community from its pre-disaster state.

Except as described the results of our tests of compliance indicate that, with respect to the items tested, OFDA complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that OFDA had not complied, in all significant respects, with those provisions.

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Agency for International Development  
Washington, D.C. 20523

March 9, 1990

TO : William C. Montoney  
Regional Inspector General

FROM : OFDA/Director, Andrew S. Natsios *Barry L. Hegman for*

SUBJECT: Disaster Relief Grant to Tulay SA PAG-UNLAD in the  
Philippines

This is in reply to your FAXed memo of March 1, 1990. OFDA responded to an 11 August 1989 flood disaster declaration in Manila (Manila 25860 and State 257990). A series of situation reports followed from the Mission which reported primarily on the flood impact in the Smokey Mountain and Marikina areas of Metro-Manila. This reporting prepared us for a much more detailed request for assistance from the Mission (Manila 28511) on 1 September 1989. Among many other assistance contributions discussed in that cable were the need for five evacuation centers as shelter against flood and typhoons, as well as five kilometers of interconnecting cement pathways.

Our funding cable (State 284418) specifically authorized relief and rehabilitation activities as discussed in Manila 28511. We had no question about the need for the shelters, given the detail provided by the Mission reporting. Regarding the walkways, we had received both photographs and a video tape on the extent of flooding and stagnant water on the muddy route which passed for foot paths. The Mission also discussed the health hazard in its reporting (Manila 28295). Considering the fact that the people could not be moved away from this terrible setting, the cement foot paths and evacuation centers appeared to be genuine health and safety benefits and we approved of them.

We also approved cottage level income generation projects in this urban setting as the rough equivalent of livelihood rehabilitation projects (pigs, seeds, farm implements) which have, on occasion, been provided in the wake of typhoon disasters in predominately rural areas. It is true that we did not specifically approve carpentry training, materials for embroidery, sewing machines, an electric generator, typewriters, fans, calculators and cabinets, but we believe that they may

well have been used for legitimate rehabilitation purposes. We assume that these inputs provided the most feasible means of rebuilding basic housing, electric and other necessary facilities while providing temporary employment to residents assisting in these tasks. They also could have served to reestablish means of subsistence for the affected populations, including the sewing activities previously engaged in by many of the women and destroyed by the floods. It is also true that in previous disasters we have not routinely approved expenditures for either livelihood or cottage level projects. However, disaster assistance policy guidance provides for such activities when necessary to restore disaster victims to self-sufficiency, and the reporting cables described such conditions of hardship and hopelessness that rehabilitation of physical structures alone did not seem adequate. We had hoped to encourage significant development contributions by the Mission for these unfortunate people (Manila 282654). At this time, we are not aware of the extent to which the Mission has developed such follow-on activities.

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