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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



4926-58

Regional Inspector General for Audit
MANILA

PD-ABC-613

**Audit of Notre Dame of Midsayap College
Community Extension Services under the
Local Resources Management
Project - Philippines**

**Audit Report No. 2-492-91-17-N
August 7, 1991**

**CONTRACTOR INFORMATION
CONTAINED IN THIS REPORT MAY BE
PRIVILEGED; THE RESTRICTIONS OF 18
USC 1905 SHOULD BE CONSIDERED
BEFORE ANY INFORMATION IS
RELEASED TO THE PUBLIC.**

**UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
RESIDENT AUDIT OFFICE
MANILA**

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MANILA, PHILIPPINES

DATE: August 7, 1991

MEMORANDUM

TO: Mr. Malcolm Butler
Director, USAID/Philippines

FROM: 
Dennis L. Smith
Resident Auditor

SUBJECT: Audit of Notre Dame of Midsayap College
Community Extension Services under the Local
Resources Management Project - Philippines
Audit Report No. 2-492-91-17-N

The accounting firm Carlos J. Valdes and Co., a member of Coopers and Lybrand, performed an audit of Notre Dame of Midsayap College Community Extension Services. Five copies of the audit report are attached for your action.

The Local Resources Management Project is an AID-financed activity with the Government of the Philippines (GOP) to improve the capability of local organizations to plan and implement activities for the rural poor. In March 1990, the GOP, through the National Economic and Development Authority, contracted with Notre Dame of Midsayap College Community Extension Services (Notre Dame) to provide technical assistance and manage the Community Projects Fund in Cotabato province. The contract cost was \$102,189, with about \$54,000 programmed for the Community Projects Fund to finance livelihood activities of poverty groups. The contract was for a period of one year, but it was subsequently extended through April 30, 1991.

The purpose of the audit was to determine whether (1) expenditures were allocable, allowable and reasonable; (2) internal controls were adequate to segregate and account for A.I.D. funds and (3) provisions of the contract and applicable laws and regulations were complied with. The amount audited was \$101,856 for the period March 19, 1990, through April 30, 1991.

The auditors determined that most of the expenditures were allocable, allowable, reasonable and in compliance with the grant agreement and applicable laws and regulations. However, they identified \$3,865 in costs that were either inadequately documented or were not in compliance with the contract as detailed in Exhibit II of the report. Also, the auditors found that \$245 in interest earned on project advances was received by Notre Dame but was not remitted to USAID/Philippines. Although the auditors did not identify any material internal control weaknesses, they found that official receipts were not maintained and all disbursements were made in cash. These weaknesses are detailed in Appendix II of the report.

Notre Dame officials generally agreed with the audit findings and their comments are included in Exhibit III of the report.

Recommendation No. 1: We recommend that USAID/Philippines require the Government of the Philippines to:

- 1.1 resolve with Notre Dame of Midsayap College Community Extension Services the \$3,865 in questioned costs and recover any costs not allowable under the terms of the contract and**
- 1.2 recover from Notre Dame of Midsayap College Community Extension Services the \$245 in interest earned from project advances.**

Recommendation No. 2: We recommend that USAID/Philippines through the Government of the Philippines require Notre Dame of Midsayap College Community Extension Services to develop and implement internal control procedures that will ensure that

- checks are used to make all but small disbursements,**

- **official receipts are maintained,**
- **reconciliations of bank statements are performed periodically,**
- **interest earned on project advances are remitted in accordance with the terms of the contract,**
- **procurements are documented and approved,**
- **disbursements are recorded in a cash disbursements book and**
- **reflows of the Community Projects Fund are administered in accordance with the terms of the contract.**

Please advise me within 30 days of any actions planned or taken to close the recommendations.

**Carlos J Valdes
& Co**

certified public accountants

CJVC Building Aguirre St.
Legaspi Village, Makati
Metro Manila, Philippines
telephones 865931/857706
telex 45590
cable Caval Manila

in association with
Coopers & Lybrand (International)
Bacolod Cebu Davao
Cagayan de Oro

July 23, 1991

Resident Audit Office
United States Agency for International
Development
4th Floor, Thomas Jefferson Cultural Center
395 Sen. Gil Puyat Avenue
Makati, Metro-Manila

Attention: Mr. Dennis L. Smith
Resident Auditor, RAO/M

Dear Mr. Smith:

This report presents the results of the Non-Federal Audit of Grant No. 492-0358 for the Local Resource Management Project in North Cotabato to the National Economic Development Authority (NEDA) and implemented by the Notre Dame of Midsayap College - Community Extension Services.

A. BACKGROUND

On August 31, 1982, the Republic of the Philippines, represented by NEDA and the United States of America through the United States Agency for International Development (USAID) entered into an agreement - Project No. 492-0358 to provide financial assistance for the Local Resource Management (LRM) Project.

The LRM Project is a ten-year multi-phased program which aims to improve the capability of local organizations to plan and implement activities that address the needs of the rural poor.

On March 19, 1990, a contract was made between NEDA Region XII and the Notre Dame of Midsayap College - Community Extension Services (NDMC-CES) to launch the LRM Project in North Cotabato. This contract provides that NDMC-CES will be responsible for the administration of the conduct of the technical assistance component of the LRM and the management of the Community Projects Fund (CPF). Contract cost amounts to ₱2,700,000, (\$102,189) where ₱1,500,000 (\$53,957) is set for the CPF. The CPF will be used to finance livelihood activities of the poverty groups organized in the course of NDMC-CES' technical assistance implementation. This project was for a period of one year, to end in March 19, 1991, but was subsequently amended to extend up to April 30, 1991.

B. OBJECTIVES AND SCOPE OF WORK

As stated in the Delivery Order, the objectives of this non-federal audit are to determine whether:

- o expenditures made under the grant were in fact allocable, allowable and reasonable.
- o internal controls were adequate to segregate and account for USAID funds.
- o agreements/contracts, applicable laws and regulations were complied with.

The scope of our audit covers the period March 19, 1990 to April 30, 1991. Total USAID advances and NDMC-CES expenditures as of April 30, 1991 amounted to ₱2,432,911 (\$91,456) and ₱2,691,737 (\$101,856), respectively. (See Exhibit I - Expenditure Report)

During the audit process, we were alert to transactions or events that could be indicative of fraud, waste or abuse of U.S. Government Funds.

C. RESULTS OF EXAMINATION

The following are the results of our examination:

1. Financial Review

Expenditures amounting to ₱96,170 (\$3,865) are being questioned by the Auditors because they were not allowable, allocable and reasonable as defined in the agreements/contracts, applicable laws and regulations for reimbursible costs. (See Exhibit II)

2. Compliance Review

Certain provisions of the agreements/contracts, applicable laws and regulations were not complied by NDMC-CES. (See Appendix I)

3. Review of Internal Control System

Certain weaknesses in the internal control structure particularly in handling cash receipts and disbursements were identified which need to be improved. (See Appendix II)

D. RECOMMENDATIONS

Based on the results of our examination, we recommend that USAID should require NDMC-CES to:

1. Resolve questioned expenditures amounting to ₱96,170 (\$3,865).
2. Strengthen internal control system on cash receipts and disbursements.
3. Remit interest income from cash advances.
4. Improve its recordkeeping procedures.

For the purpose of quantifying Philippine Pesos into U.S. Dollars, we used the exchange rate of ₱24.88 to US\$1.00 which represents the average exchange rate of the total cumulative advances in pesos to the total cumulative advances in dollars from March 1, 1990 through April 30, 1991. For Community Projects Fund, however, the exchange rate used was ₱27.80 to US\$1.00 which represents the exchange rate at the time of the transaction.

We present in the succeeding sections the details of our report.

Section I	-	Auditor's Opinion
Section II	-	Appendices
Section III	-	Exhibits

Very truly yours,

CARLOS J. VALDES & CO.

By:

Minda O. Ledesma
MINDA O. LEDESMA
Partner

SECTION I - AUDITORS' OPINION

- o **Financial Report**

- o **Compliance with Agreements/Contracts,
Applicable Laws and Regulations**

- o **Internal Control System**

FINANCIAL REPORT

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT NO. AID 492-0358
FOR THE LOCAL RESOURCE MANAGEMENT PROJECT IN NORTH COTABATO**

ADMINISTERED BY:

NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

IMPLEMENTED BY:

NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES

INDEPENDENT AUDITORS' OPINION

We have audited the Expenditure Report of NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES for the Local Resource Management Project in North Cotabato from the inception of the contract up to April 30, 1991.

This report is the responsibility of NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES' management. Our responsibility is to express an opinion on this report based on our audit.

We conducted the audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Expenditure Report is free of material misstatements. The audit includes examining, on a test basis evidence supporting the amounts, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Expenditure Report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Expenditure Report presents fairly the disbursements of NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES for the Local Resource Management Project in North Cotabato from the inception of the contract up to April 30, 1991, in conformity with generally accepted accounting principles applied on a consistent basis.

Our audit was made for the purpose of forming an opinion on the Expenditure Report included in the first paragraph. The supplemental information appended to this report is presented for purposes of analysis and is not required as part of the Expenditure Report and, in our opinion, is fairly stated in all material respects in relation to the Expenditure Report taken as a whole.

Carlo J. Valdes y Co.

Metro-Manila, Philippines
July 5, 1991

**REPORT ON COMPLIANCE WITH AGREEMENTS/CONTRACTS, APPLICABLE LAWS
AND REGULATIONS**

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT NO. AID 492-0358
FOR THE LOCAL RESOURCE MANAGEMENT PROJECT IN NORTH COTABATO**

ADMINISTERED BY:

NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

IMPLEMENTED BY:

NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES

INDEPENDENT AUDITORS' OPINION

We have audited the Expenditure Report of NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES for the Local Resource Management Project in North Cotabato from the inception of the contract up to April 30, 1991 and have issued our report thereon dated July 5, 1991. We conducted the audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Expenditure Report is free of material misstatements.

Compliance with agreements/contracts, applicable laws and regulations is the responsibility of NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES management. As part of our audit, we performed tests of compliance with the provisions of agreements/contracts, applicable laws and regulations. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Expenditure Report is free of material misstatement; our objective was not to provide an opinion on the compliance with such provisions.

Our testing of transactions and records disclosed instances of non-compliance with those provisions. All instances of non-compliance that we found are identified in Appendix I (List of Provisions of the Agreements/Contracts, Applicable Laws and Regulations Which Were Not Complied by NDMC-CES) and Exhibit II (Summary of Expenditures Questioned by the Auditors).

Except as described above, the results of our tests of compliance indicated that with respect to items tested, NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES complied, in all material respects, with the provisions referred to in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES had not complied in all material respects with those provisions.

This report is intended solely for the use of the United States Agency for International Development - Resident Audit Office. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Carlos J. Valdez & Co.

Metro-Manila, Philippines
July 5, 1991

REPORT ON INTERNAL CONTROL SYSTEM

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT NO. AID 492-0358
FOR THE LOCAL RESOURCE MANAGEMENT PROJECT IN NORTH COTABATO**

ADMINISTERED BY:

NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

IMPLEMENTED BY:

NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES

INDEPENDENT AUDITORS' OPINION

We have audited the Expenditure Report of NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES for the Local Resource Management Project in North Cotabato from the inception of the contract up to April 30, 1991 and have issued our report thereon dated July 5, 1991.

We conducted the audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

In planning and performing our audit of NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Expenditure Report and not to provide assurance on the internal control structure.

The management of NOTRE DAME OF MIDSAYAP COLLEGE - COMMUNITY EXTENSION SERVICES is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure, policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of Expenditure Report in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

For the purpose of this report, we have classified payroll, procurement and disbursement procedures to be a significant internal control structure.

For these control categories, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under this standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial reports. These are summarized in Appendix II.

A material weakness is a condition in which the design or operation of the specific internal control structure 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 Expenditure Report 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 the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable condition and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are material weaknesses.

This report is intended solely for the use of the United States Agency for International Development - Resident Audit Office. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Harbor J. Valdez & Co.

Metro-Manila, Philippines
July 5, 1991

SECTION II - APPENDICES

**Appendix I - List of Provisions of the Agreements/Contracts, Applicable
Laws Not Complied by NDMC-CES**

**Appendix II - List of Observations, Recommendations and NDMC-CES'
Comments**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 PROJECT NO. AID 492-0358
 FOR THE
 LOCAL RESOURCE MANAGEMENT PROJECT IN NORTH COTABATO
 ADMINISTERED BY
 NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
 IMPLEMENTED BY
 NOTRE DAME OF MIDSAYAP COLLEGE-COMMUNITY EXTENSION SERVICES (NDMC-CES)
 LIST OF PROVISIONS OF THE AGREEMENTS/CONTRACTS, APPLICABLE LAWS
 AND REGULATIONS NOT COMPLIED BY NDMC-CES

Reference	Provisions	Findings	Auditee's Comments
A. FUND ADMINISTRATION			
1. Section 10.1 of the Contract for Technical Assistance	The Contractor shall maintain books, records, documents and other data or information, and shall apply consistent accounting procedures and practices sufficient to reflect properly all transactions under or in connection with the Contract.	NDMC-CES does not have prenumbered official receipts to document cash received. Except for the USAID funds, all other receipts were not deposited in the bank upon collection. As a result, cash received from other funds of NDMC-CES, amounting to P516,473 (\$19,416) cannot be verified by the Auditors. Advances from NDMC-CES General Fund amounting to P53,514 was still made even though there are available funds. As of April 30, 1991, P403,845 (\$15,182) was disbursed to partially settle these advances. Payment is supported only by an acknowledgement receipt, signed by the secretary/cashier of NDMC-CES.	<p>We are sorry that prenumbered receipts were not used. We thought that the USAID vouchers were sufficient and substantial documents to certify that the office received such amounts.</p> <p>While it is true that there was sufficient LRM funds in the Bank, the Cashier could not withdraw the said amount intended for the activities because of the absence of the signatories. Thus, the Project Holder decided to borrow money from the CES General Fund to keep the activities going. The money borrowed by the LRM was taken from the CES General Fund. These funds were on Time Deposit. However, one deposit fell due when it was needed by LRM. Because it is on time deposit, there are no other documents to justify or validate the withdrawals and deposits on the CES General Fund, or transactions between LRM and CES except the Time Deposit Certificate itself.</p>

Reference	Provisions	Findings	Auditor's Comments
2. Section 5.04d of the Contract for Technical Assistance	Funds advanced under this contract may not be commingled with any other funds owned or controlled by the Contractor.	On November 9, 1990, funds amounting to ₱62,475 (\$2,349) was borrowed from LRM funds and was utilized for the conduct of the Barangay Development Council (BDC) Training, an expenditure not provided in the contract. The amount was subsequently returned on December 20, 1990.	Though the BDC is not part of the contract, HDSC-CES consider it a much needed part of the training for the effective implementation of the Program. The ultimate design of the LRM Project is to enable BDC's to equip themselves with the necessary knowledge and skills to perform their duties and functions as community leaders after the PFOs/WGOs shall have withdrawn. Proposal was presented to NEDA XII for possible funding. Unfortunately, the release of funds, though approved, was delayed. Thus, NEDA XII, particularly Mr. Mangas P. Mossid, NEDA-LRM Coordinator gave permission to HDSC-CES to draw the cash advance from the Technical Assistance (TA) funds so as not to delay the flow of the implementation of the project. HDSC-CES and NEDA XII were very conscious of the time constraints of the LRM program in Mindanao. It did not have the luxury of time which other implementors had.
3. Section 6.02 of the Contract for Technical Assistance	No amendments, modifications, or alterations to this Contract shall be valid or binding on either party unless expressed in writing and executed with the same formality as this Contract.	All individual loans released from the Community Projects Fund (CPF) exceeded the loan ceiling of ₱5,000 per borrower as provided in the contract. There is no available document to support that modification of the loan ceiling has been made and approved by NEDA.	The CPF loan amount stipulated in the contract was ₱5,000. But when the CPF Manual was formulated by NEDA XII, PFO, LGUs, LAs and beneficiaries, the amount was raised to ₱10,000 for loaning to beneficiaries to finance livelihood projects. It was also pointed out by the beneficiaries that ₱5,000 was not enough especially since our recipients do not have working animals. Lending only ₱5,000 is not enough for 140 beneficiaries. The project envisions to help the most depressed families in the barangay who really lack farm working animals, farm tools and equipment including agricultural inputs. Because of these reasons, those involved in formulating the CPF Manual decided to increase the amount to ₱10,000 with NEDA's confirmation. The CPF Manual serve as the document to support the loan ceiling modifications. In passing, we wish to mention here that one carabao cost ₱8,000 - ₱10,000 at that time the recipients bought their animals.

Reference

Provisions

Findings

Auditee's Comments

4. Section 5.04d of the Contract for Technical Assistance

USAID advances shall be deposited by the contractor in a separate bank account. Any interest income earned on said separate account shall be remitted to USAID on a quarterly basis, preferably together with liquidation documents and by check payable to the "Treasurer of the United States".

Although interest income earned on LEM funds aggregating to P12,998 (\$489) was reported by the grantee on its quarterly liquidation report, such was not remitted to USAID on a quarterly basis. As of April 30, 1991, unremitted interest amounts to P6,516 (\$245). (The interest earned in the amount of P6,462 (\$243) was deducted by USAID from the fourth quarter liquidation voucher. This move was recommended by USAID financial analyst, Ms. Sunette Francisco who visited HDNC-CES in March 1991).

Interest earned in the bank was reported in our financial report for fund reconciliation. But, this was not remitted and was used for other LEM needs thinking that this could be reconciled every quarter when requests for new fund advances will be made and interest due USAID could automatically be deducted. This only happened, however, during the last quarter where the accumulated interest was deducted from the remaining fund balance.

B. PROCUREMENT

Standard Cost Principles for Borrower/Grantee Contracts

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.

There were no solicitations obtained from suppliers for training venues, catering services, office/training supplies and materials, printing and bookbinding services.

In general, there was no information regarding Procurement Procedures. In the absence of clear procurement guidelines, HDNC-CES encountered many problems such as limited number of suppliers, uncertain training venues, constraints in canvassing prices of printing presses outside of Hidayap and other similar difficulties.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT NO. AID 492-0358
FOR THE
LOCAL RESOURCE MANAGEMENT PROJECT IN NORTH COTABATO
ADMINISTERED BY THE
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
IMPLEMENTED BY
NOTRE DAME OF MIDGAYAP COLLEGE - COMMUNITY EXTENSION SERVICES
LIST OF OBSERVATIONS, RECOMMENDATIONS AND NDMC- CES' COMMENTS

I. FUND ADMINISTRATION

OBSERVATION

1. Disbursements for the LRM Project were all made in cash (NDMC-CES has no current account). As a result, a large amount of cash is maintained by the cashier. During the third quarter, the cashier has an average of P40,000 per day.

RECOMMENDATION

NDMC-CES should discontinue this practice because the funds here are susceptible to theft or malversation. It encourages dishonesty and misuse of funds. The petty cash fund, which should be maintained on an imprest basis, should handle minor operating expenses. All other disbursements should be made in check.

NDMC-CES' COMMENT

NDMC-CES will include the Auditor's recommendation in the Procedural Manual on Accounting System and Fund Administration for future use.

OBSERVATION

2. NDMC-CES does not use printed, prenumbered official receipts to document cash received.

RECOMMENDATION

We recommend that cash received from all sources -- advances, refunds from employees should be receipted. All cash received should be deposited intact in the bank immediately upon receipt.

NDMC-CES' COMMENT

NDMC-CES is grateful for the recommendation given. It will try its best to apply them in its future transactions.

OBSERVATION

3. We noted that every time training is conducted, the cashier advances in full the amount budgeted for the training as provided in the contract. Such is made although some trainings were scheduled in dates much beyond the date the advances were made. Moreover, the cash advances which ranges from ₱10,000(\$376) to ₱64,600 (\$2,429) were allowed although such were not supported by an estimate of expenses for food and training materials that will be incurred, for an expected number of participants and for an estimated number of days.

RECOMMENDATION

We recommend that cash advances should be allowed only for immediate cash requirements. The personnel making the cash advance should be required to prepare a detailed estimate of expenses that will be incurred for food and training materials, based on the expected number of participants and the estimated number of days that training will be conducted. Such estimate should be properly reviewed and approved for reasonableness and propriety by a responsible officer.

NDMC-CES' COMMENT

Observation and recommendation are well appreciated. However, these are ideal for in-house training where the depository bank is accessible. But in the case of the training handled by NDMC-CES, these were conducted far from the NDMC-CES home base. Daily withdrawal of fund was neither convenient nor practical.

Nevertheless, recommendations will be considered in the future to systematize and control fund administration.

OBSERVATION

4. During the latter part of the project period, NDMC-CES released the Community Projects Fund amounting to ₱1,500,000 (\$53,957) to 153 loan beneficiaries. These beneficiaries were members of fourteen barangay group associations (BGA) which were organized in the course of the technical assistance implementation. The individual loans average to ₱10,000 per individual and have terms ranging from one to two years. The loans were amortized on a regular basis, according to the income cycle of the project.

NDMC - CES released the loans through the BGAs. The loans of the beneficiaries were deposited in the savings account opened by the BGAs for this purpose. The BGA bank signatories which includes the President, Treasurer and an NDMC-CES staff (community organizer) released the loans to the beneficiaries.

As of April 30, 1991, ₱128,000 of the principal amount is due from the borrowers. As of the same period only ₱5,700 in principal amount was collected. Subsequent collection was also minimal, only ₱3,000. Apparently, the long drought that plagued the Mindanao Region has greatly affected the borrowers' farms. These collections were deposited in the BGA's bank account. Until now, the funds cannot be transferred to the bank account designated for the CPF because one of the BGA's bank signatories, the NDMC-CES community organizer is already in Manila and is no longer connected with NDMC-CES. At present, NDMC-CES has not clearly established who will perform the collecting function, where collections will be deposited and who will administer the funds after the project period. The borrowers interviewed during the audit have also expressed their concerns regarding this matter.

RECOMMENDATION

We recommend that NDMC- CES should establish how the CPF collections will be administered now that the project period has ended.

NDMC-CES' COMMENT

CPF loan collection system was already establish during the latter part of the implementation. It was agreed that the loan borrower will pay their loan amortization to their BGA Treasurer according to loan amortization schedule. The BGA Treasurer will issue prenumbered receipt to signify receipt of loan payments.

On the mode/system of collection, the BGA Treasurer will notify individual borrower one week before the repayment amortization schedule falls due. If the borrowers fail to respond, the BGA treasurer will visit the individual borrower and collect the loan amortization. A grace period of 30 days will be given to individual borrowers who fail to pay the amortization as scheduled. Upon failure to pay on or before the grace period, a penalty of 2% per month will be imposed on the individual borrower, as agreed in the CPF Manual of operations.

Collections from the BGA Treasurer will follow the same system by sending Notice of Collection one week before the repayment amortization schedule. In case the BGA Treasurer fails to respond, the CES staff assigned in CPF loan collection will personally visit (this does not fall under his monitoring visit) the BGA Treasurer for collection. A grace period of 30 days will be given to the BGA Treasurer who fails to pay the amortization due. Upon failure to pay on or before the grace period, a penalty of 2% per month will be imposed on the individual borrower as agreed in the CPF Manual of Operation.

Other provisions stated in the CPF Manual of Operations are also applicable.

OBSERVATION

5. Bank reconciliation statements were not prepared since the start of the project.

RECOMMENDATION

Bank reconciliation constitutes a partial audit of cash receipts and disbursements and therefore should be made regularly by a person other than those involved in the treasury function.

NDMC-CES' COMMENT

For future operations, the observation and recommendation of the Auditors will be taken.

II. PROCUREMENT

OBSERVATION

The following deficiencies were noted in NDMC-CES' procurement procedures:

- a) Purchase orders are not prepared to evidence that the procurement have been authorized.
- b) There are no formal levels of approval for purchases to assure that larger purchases come to the attention of higher levels of management before commitments are made.
- c) Payment is solely based on invoice presented by supplier because there is no purchase order or receiving report to match it with.
- d) Obtaining solicitations from supplier is generally not practiced. Procurement of training venues and catering services were negotiated. Procurement of training materials and supplies is left to the discretion of the cashier or the personnel making the purchase.

RECOMMENDATION

NDMC-CES' procurement procedure can be strengthened by:

- a) Preparing purchase orders for commitments for x pesos and above;
- b) Adapting a formal policy of purchasing authority specifying peso amounts;

- c) Matching-up purchase order, receiving report and supplier's invoice by the accountant prior to payment; and,
- d) Obtaining solicitations from suppliers for x peso amounts and above.

NDMC-CES COMMENT

- a) Preparation of Purchase Order was generally not practiced by NDMC-CES. But recommendations will be considered for future operations.
- b) Requisitions are made before purchases are done. Large and small purchases are made only after the requisition has been duly approved by the CES Director.
- c) Preparation of the Purchase Order and Receiving Report was not the standard operating procedure of the NDMC-CES. The recommendation is well taken and will be practiced immediately.
- d) We realize the advantage of conducting canvassing and bidding (solicitation from suppliers). This will be given due attention in future operations of NDMC-CES.

III. RECORDKEEPING

OBSERVATION

- 1. The following deficiencies were noted in recording of transactions:
 - a. Disbursements were not recorded in a proper cash disbursement book but were recorded in a logbook, where the daily expenses are listed.
 - b. Disbursement vouchers were still prepared for transactions that did not require cash outlays.

RECOMMENDATION

- 1. Day-to-day transactions requiring cash outlays should be documented in a disbursement voucher and should be posted in the cash disbursement book. The cash disbursement book should indicate the following:
 - a) date of transaction;
 - b) payee;
 - c) particulars of the payment;
 - d) disbursement voucher #;
 - e) amount;
 - f) account distribution (i.e. personnel cost, training, etc.)

The cash disbursement book should be summarized monthly and posted to the general ledger.

2. Transactions not requiring cash outlay, like interest income earned on savings account, adjusting and correcting entries should be recorded through a journal voucher and not in a disbursement voucher.

NDMC-CES' COMMENT

The Grantee realize its weakness in its Accounting System and Procedures. Recommendation will be applied to establish an effective accounting system for NDMC-CES.

IV. OTHERS

OBSERVATION

Our review of the loan documents of the individual borrowers revealed the following:

- a) 83% of the loan applications examined were not signed by the Project Holder to document review and recommendation of the same to the CPF Project Screening Committee. On the other hand, 71% of the individual project proposals examined were not signed by the CPF Project Screening Committee to evidence their approval of the borrowers' loan proposals.
- b) Some loan documents-- loan contracts, trust receipts, promissory notes and loan applications, maintained by the grantee were zeroxed copies.

RECOMMENDATION

For the interest of all parties concerned, we recommend that loan documents should be properly accomplished and signed. NDMC-CES should maintain the original copies of the loan documents to authenticate loan releases.

NDMC-CES' COMMENT

The Project Holder gave primary attention to the CPF Documents sent out from the CES office (RPMO, Province, Municipal). The CPF screening committee of the Municipalities of Carmen and Pikit decided to sign as evidence of their approval the original copy of the CPF Documents which were submitted to RPMO.

The NDMC-CES Office will try its best to get the original copies of the CPF Documents from RPMO's file and have these properly signed.

SECTION III - EXHIBITS

EXHIBIT I - Expenditure Report

EXHIBIT II - Summary of Expenditures Questioned by the Auditors

EXHIBIT III - NDMC-CES' General Comments

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT NO. AID 492-0358
FOR THE
LOCAL RESOURCE MANAGEMENT PROJECT IN NORTH COTABATO
ADMINISTERED BY: NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
IMPLEMENTED BY: ROTER BANK OF MIDSAYAP COLLEGE-COMMUNITY EXTENSION SERVICES

EXPENDITURE REPORT
For the Period March 19, 1990 to April 30, 1991

	BUDGET		CUMULATIVE ADVANCES		AMOUNT STILL OBLIGATED		CUMULATIVE DISBURSEMENTS		UNEXPENDED BALANCE	
	Philippine Peso	U. S. Dollar	Philippine Peso	U. S. Dollar	Philippine Peso	U. S. Dollar	Philippine Peso	U. S. Dollar	Philippine Peso	U. S. Dollar
Personnel Services	674,188	27,098	463,675	18,637	210,513	8,461	674,188	27,098	(210,513)	(8,461)
Training and Education	313,335	12,594	313,500	12,601	(165)	(7)	293,105	11,781	20,395	820
Transportation Cost	69,740	2,803	63,953	2,571	5,787	232	60,424	2,429	3,529	142
Supplies/Materials	33,025	1,327	20,728	834	12,297	493	35,354	1,421	(14,626)	(587)
Overhead	53,819	2,163	41,055	1,650	12,764	513	62,231	2,501	(21,176)	(851)
Documentation/Communication	39,331	1,581	30,000	1,206	9,331	375	44,455	1,786	(14,455)	(580)
Contingency	16,562	666	-	-	16,562	666	21,980	883	(21,980)	(883)
Sub-total	1,200,000	48,232	932,911	37,499	267,089	10,733	1,191,737	47,899	(258,826)	(10,400)
Community Projects Fund	1,500,000	53,957	1,500,000	53,957	-	-	1,500,000	53,957	-	-
GRAND TOTAL	2,700,000	102,189	2,432,911	91,456	267,089	10,733	2,691,737	101,856	(258,826)	(10,400)

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 IMPLEMENTED BY
 NOTRE DAME OF MDSATAP COLLEGE-COMMUNITY EXTENSION SERVICES

SUMMARY OF EXPENDITURES QUESTIONED BY THE AUDITORS

For the Period March 19, 1990 to April 30, 1991

(In Philippine Pesos)

Date	Reference	PARTICULARS	RECOMMENDED ACTION			REMARKS
			TOTAL	Allowable Subject to Additional Documentation	Not Allowable	
12-14-90	BV 1290651	Salvador Garbanzos - consultancy fee	6,000	6,000	-	There were no documents to support the consultant's attendance. Consultant should provide plane ticket for the duration of the trip to support the claim.
3-18-91	DV 0391961	Salvador Garbanzos - consultancy fee	6,000	6,000	-	- Same -
4-30-91	DV 4911139	Salvador Garbanzos - consultancy fee	18,000	18,000	-	- Same -
4-24-91	DV 04911078	Salvador Garbanzos - consultancy fee during the Terminal Review Workshop	2,000	-	2,000	For the Workshop, Mr. Garbanzos was paid a total of P24,000 (12 days @P2,000). However, based on the date of arrival and departure indicated in his plane ticket, he only stayed for 11 days(4/15-25/91).
4-06-90/ 6-14-90	DV 490006/ DV 690122	Shinette Garbanzos - payment to assistant consultant	20,000	-	20,000	Payment for consultancy services which were not provided for in the contract. NEMC has no commitment for this expenditure.
SUB-TOTAL			52,000	30,000	22,000	

I. PERSONNEL SERVICES

	Date	Reference	PARTICULARS	RECOMMENDED ACTION		REMARKS	
				TOTAL	Allowable Subject to Additional Documentation		Not Allowable
II. TRAINING AND EDUCATION							
	3-14-91	DY-0391940	Salvador Garbanzos	4,000	-	4,000	Double compensation. Mr. Garbanzos already claimed P2,000/day as consultants fee. Being a resource speaker is part of his job as described in the contract.
	various	various	Liquor, cigarettes, vitamins	655	-	655	These are personal expenses.
			SUB-TOTAL	4,655	-	4,655	
III. TRANSPORTATION COSTS							
	3-14-91	DY 391943	One-way air fare of consultant	1,998	-	1,998	The total amount paid was P 3,995 - for round-trip air fare to Cotabato. However, one of the supporting tickets is not in the name of the consultant.
	various	various	Bus fares	300	-	300	The dates of the bus fare tickets do not match with travel dates.
			SUB-TOTAL	2,298	-	2,298	
IV. SUPPLIES/MATERIALS							
	7-9-90	DV 0790178 OR 12646	De Rose of Manila - 15 yellow pads	428	-	428	Overcharging. Previous purchases of yellow pad showed that one yellow pad costs a maximum of P14.50. Fifteen yellow pads would cost at a maximum P217.50. The amount charged was P645.
	7-9-90	DV 0790178	Midsayap Quality Emporium - office supplies	520	520	-	Description of item purchased is not indicated.
			SUB-TOTAL	848	520	428	

			RECOMMENDED ACTION			
Date	Reference	PARTICULARS	TOTAL	Allowable Subject to Additional Documentation	Not Allowable	REMARKS
V. OVERHEAD						
various	various	Depreciation charges of the following equipment:				
		- one unit motorcycle (P1,750 per quarter)	7,000	-	7,000	No motorcycle was used for this project.
		- 5 units radio transceivers with accessories (P1,500 per quarter)	6,000	-	6,000	No radio transceivers were used for this project.
		- 1 unit electric typewriter (P1,250 per quarter @ 3 quarters)	3,750	-	3,750	The electric typewriter used has been with the NDSC Property Custodian for repair since June 13, 1990 or after the first quarter, hence, was not used for this project.
		SUB-TOTAL	16,750	-	16,750	
VI. DOCUMENTATION/COMMUNICATION						
7-14-90	DV 790200	Budget for documentation/communication	218	218	-	This is a cash advance not supported by a liquidation report.
8-4-90	-	-	312	312	-	This expense is not supported by any disbursement voucher, official receipt or supplier's invoice.
various	various	Cost of 15 rolls of films	1,055	-	1,055	This pertains to the cost of films charged to the project in excess of the number of rolls printed.
4-30-91	DV 4911148	St. Peter's Graphics and Press - bookbinding and printing services	15,000	15,000	-	This represents advance payment for services. NDSC should submit documents regarding completion of the service in order to be reimbursed.
		SUB-TOTAL	16,585	15,530	1,055	

Date	Reference	PARTICULARS	RECOMMENDED ACTION			REMARKS
			TOTAL	Allowable Subject to Additional Documentation	Not Allowable	
	Expenditure Report	Excess disbursements (above 15% USAID ceiling) over budgeted amount	2,934	-	2,934	Expenditure Report Budget Additional 15% P21,980 (16,562) (2,484) ----- Excess P 2,934 =====
		SUB-TOTAL	<u>2,934</u>	<u>-</u>	<u>2,934</u>	
		GRAND TOTAL	<u>96,170</u>	<u>46,050</u>	<u>50,120</u>	
		In U.S. Dollars	<u>3,865</u>	<u>1,851</u>	<u>2,014</u>	

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NDMC-CES' GENERAL COMMENTS**

NDMC-CES regrets that it made certain mistakes in its administration of the USAID Funds. It respectfully forwards the following reasons, among others:

1. Very limited guidelines were given by NEDA XII in line with Fund Administration especially on Procurement Procedure. USAID policies were not clearly disseminated to us, resulting in the weaknesses that were observed.
2. Because of time constraint (only one year to implement) NDMC-CES exerted much effort on the project implementation proper which was the organizing and training of the beneficiaries. As a result, the financial operations was not given sufficient attention. Focus was given on the development of the recipients.
3. The Accounting System of NDMC-CES has not yet been fully set up. The recommendations of the Valdes Auditing Team are well appreciated and will be taken into consideration when the accounting guidelines will be set up. The procedural manual will be prepared as soon as possible.

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