

**Regional Inspector General for Audit
Singapore**

**AUDIT OF
MANDALA AGRICULTURAL DEVELOPMENT
CORPORATION
PHILIPPINES**

**Audit Report No. 5-492-92-24-N
September 14, 1992**



**AUDIT OF
MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
PHILIPPINES**

AUDIT REPORT NO. 5-492-92-24-N

September 14, 1992

The Fund Accountability Statement of Mandala Agricultural Development Corporation (MADECOR) presents fairly the receipts and expenditures under its host-country contract with the Government of the Philippines' National Economic and Development Authority, except for \$43,196 in questioned costs arising from noncompliance with the terms of the contract. Except for the above material instances of noncompliance, MADECOR complied, in all material respects, with applicable laws, regulations, and contract terms. In addition, certain material internal control weaknesses relating to payment, procurement, and travel procedures were noted.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

September 14, 1992

TO: Richard A. Johnson, Acting Mission Director
USAID/Philippines

FROM: 
James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of Mandala Agricultural Development Corporation - Philippines
Audit Report No. 5-492-92-24-N

The accounting firm of Carlos J. Valdes & Co., the Coopers and Lybrand International affiliate in the Philippines, performed a financial audit of the host-country contract between the Government of the Philippines' National Economic and Development Authority (NEDA) and Mandala Agricultural Development Corporation (MADECOR) under the Development Training Project in the Philippines. Five copies of the audit report are enclosed for your action.

In September 1989, USAID/Philippines initiated the Development Training Project to build a core of highly trained employees in the private and public sectors by providing academic and technical training. In line with this objective, USAID/Philippines obligated \$2.5 million for in-country, third-country, and U.S. training of public sector employees. On August 14, 1990, NEDA contracted with MADECOR to develop a training plan; promote and advertize the project to generate interest and participation; recruit, select, and determine the placement of trainees; administer the training; and design an implementation plan together with a monitoring and evaluation system for the project. This two-year contract was estimated to be completed in August 1992. The period covered by the audit was August 14, 1990 through December 31, 1991, during which MADECOR reported expenditures of \$302,222 and received reimbursements of \$137,977 for these expenditures from USAID/Philippines.

The audit objectives were to: (1) determine whether the Fund Accountability Statement of MADECOR presents fairly the receipts and expenditures under the host-country contract and whether the expenditures were allocable, allowable, and reasonable; (2) report on MADECOR's system of internal controls; and (3) report on MADECOR's compliance with applicable laws, regulations, and contract terms.

The auditors reported that the Fund Accountability Statement of MADECOR presents fairly the receipts and expenditures under its host-country contract, except for \$43,196 in questioned costs

(\$24,032 unsupported) arising from noncompliance with the terms of the contract. Except for the above material instances of noncompliance, MADECOR complied, in all material respects, with applicable laws, regulations, and contract terms. In addition, certain material internal control weaknesses relating to payment, procurement, and travel procedures were noted.

The management of MADECOR generally agreed with most of the auditors' findings and recommendations. MADECOR's comments are summarized under each finding in the report and the full text of these comments is included as Appendix I to this report.

We are making the following recommendations to be included in the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Philippines verify that Mandala Agricultural Development Corporation and the host-country contracting agency resolve the \$43,196 in questioned costs (\$24,032 unsupported), and recover any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Philippines verify that Mandala Agricultural Development Corporation establishes and implements adequate internal control procedures to ensure that: (a) checks are made payable to parties who should be paid and are marked for deposit to "payee's account only"; (b) procurement for training venues, catering services and training materials are competitively awarded; (c) the award process is adequately documented and approved by designated officials; (d) travel is appropriately authorized, and travel advances are liquidated in a timely manner through adequately supported travel vouchers; and (e) adequate supporting documentation is on file when payments are processed.

Recommendation No. 3: We recommend that USAID/Philippines resolve the conflicting contract provisions identified in the report (see pages 29 and 30) with the host-country contracting agency and Mandala Agricultural Development Corporation.

We appreciate the courtesies and cooperation the USAID/Philippines, the Government of Philippines, and MADECOR extended to the auditors and our staff during the course of this audit.

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

TABLE OF CONTENTS

	<u>PAGE NO.</u>
Transmittal Letter	
Background	1
Audit Objectives and Scope	2
Results of Audit	3
Summary of Management Comments	4
Financial Review	
Auditor's Report on Fund Accountability Statement	5 - 6
Fund Accountability Statement and Schedules I - III	7 - 10
Details of Expenditures Questioned by the Auditors - Schedule IV	11 - 15
Review of Internal Controls	
Auditors' Report on Internal Controls	16 - 17
Findings and Recommendations	18 - 26
Compliance Review	
Report on the Auditors' Test of Compliance with Agreement Terms, Applicable Laws and Regulations	27 - 28
List of Agreement Terms, Applicable Laws and Regulations Not Complied by Contractor	29 - 34
Management Comments	Appendix I
Distribution List	Appendix II

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June 5, 1992

Mr. James B. Durnil
Regional Inspector General for Audit/Singapore
United States Agency for International
Development
111 North Bridge Road
#17-03 Peninsula Plaza
Singapore 0617

Dear Mr. Durnil:

This report presents the results of the financial audit of the Host-Country Contract with Mandala Agricultural Development Corporation (MADECOR) for the Development Training Project No. 492-0439, funded by the United States Agency for International Development (USAID).

A. BACKGROUND

In September 1989, USAID initiated the Development Training Project to build a core of highly trained employees in the private and public sectors by providing academic and technical training. AID obligated U.S.\$2.5 million for in-country, third-country and U.S. technical and managerial training of public sector employees.

On August 14, 1990, a Contract for Technical Services was executed between MADECOR and Government of the Philippines' National Economic Development Authority (NEDA) for U.S.\$825,280 to:

- develop an overall training plan;
- promote and advertise the project to generate widespread interest and participation;
- recruit, select and determine the placement of trainees;
- administer the training funds; and
- design an implementation plan and monitoring and evaluation system for the project.

The contract was for a period of two years and was estimated to be completed in August 1992.

B. AUDIT OBJECTIVES AND SCOPE

As stated in Article II of the Delivery Order, the objectives of this financial audit are to:

- determine if the Fund Accountability Statement of the contractor presents fairly the receipts and expenditures under the host-country contract and whether the expenditures are allocable, allowable and reasonable;
- report on the contractor's system of internal controls; and
- report on the contractor's compliance with agreement terms, applicable laws and regulations.

The scope of our audit covers the period August 14, 1990 to December 31, 1991 which include expenditures incurred by MADECOR amounting to U.S.\$302,222 (P8,220,261), where USAID paid U.S.\$137,977 (P3,752,896) of these expenditures, and the difference of U.S.\$164,245 (P4,467,365) is still outstanding as of December 31, 1991.

In determining compliance with agreement terms, applicable laws and regulations, we designed audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have direct and material effect on the Fund Accountability Statement.

For this audit, the government auditing standard related to continuing professional education was not met. Because our continuing professional education program has not been fully implemented, we cannot ensure the assigned staff received the required level of ongoing professional education. However, the assigned staff were given sufficient supervision and direction to adequately perform the audit.

For the purpose of quantifying Philippine Peso to U.S. Dollars, we used the exchange rate of P27.1994 to U.S.\$1.00. This represents the average exchange rate of the total cumulative payments in Philippine Pesos to the cumulative payments in U.S. Dollars based on USAID's records for the period August 14, 1990 to December 31, 1991.

C. RESULTS OF AUDIT

The following are the results of this audit:

1. Opinion on the Fund Accountability Statement

Our audit disclosed that, except for questioned costs amounting to U.S.\$43,196 (P1,174,899), see page 15, out of total disbursements of U.S.\$302,222 (P8,220,261) or 14.29%, the Fund Accountability Statement presents fairly the disbursements of MADECOR for the Development Training Project No. 492-0439 for the period August 14, 1990 to December 31, 1991.

2. Review of Internal Controls

Our review of the contractor's internal controls disclosed the following reportable conditions under the standards established by the American Institute of Certified Public Accountants:

- Majority of the disbursements for non-degree local training program were paid directly to the training coordinator instead of the subcontracting entity. (See pages 20 to 22)
- Procurement for services (training institutions) were not competitively awarded. (See pages 22 to 24)
- Some travel expenses were not authorized and liquidation for expenses were not adequately supported. (See pages 24 to 26)

We identified the foregoing reportable conditions to be material weaknesses.

3. Compliance Review

As part of our objective of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed test of MADECOR's compliance with agreement terms, applicable laws and regulations. Except for the instances listed below, for the items tested, MADECOR complied in all material respects with those provisions and for the items not tested, nothing came to our attention that MADECOR did not comply, in all material respects, with those provisions.

Our audit disclosed several instances of material noncompliance which resulted in the above questioned cost of U.S.\$43,196 (P1,174,899). These are:

- The contractor claimed subcontractors fee and administrative fee amounting to U.S.\$19,616 (P533,532). This is over and above the "fixed fee" that was provided for in the contract. (See pages 29 to 30)
- The contractor claimed for expenses in excess of the budget amounting to U.S.\$11,582 (P315,040). (See pages 31 to 32)
- The contractor claimed expenses amounting to U.S.\$11,998 (P326,327) without the required documentation for payment. (See pages 32 to 33)

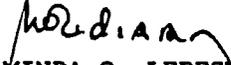
D. SUMMARY OF MANAGEMENT COMMENTS

MADECOR's officials generally agreed with the findings and recommendations and their comments are included in Appendix I of this report.

Very truly yours,

CARLOS J. VALDES & CO.

By:


MINDA O. LEDESMA
Partner

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FINANCIAL REPORT

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT WITH
MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
FOR THE DEVELOPMENT TRAINING PROJECT
NO. 492-0439

INDEPENDENT AUDITORS' OPINION

We have audited the Fund Accountability Statement of MANDALA AGRICULTURAL DEVELOPMENT CORPORATION for the Development Training Project No. 492-0439 for the period August 14, 1990 to December 31, 1991. This Fund Accountability Statement is the responsibility of MANDALA AGRICULTURAL DEVELOPMENT CORPORATION's management. Our responsibility is to express an opinion on this Fund Accountability Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Fund Accountability Statement. We believe that our audit provides a reasonable basis for our opinion.

Our audit disclosed questioned costs amounting to U.S.\$43,196 (P1,174,899) out of total disbursements of U.S.\$302,222 (P8,220,261) or 14.29%.

In our opinion, except for the questioned costs mentioned in the preceding paragraph, the Fund Accountability Statement presents fairly the accountability of MANDALA AGRICULTURAL DEVELOPMENT CORPORATION for the Development Training Project No. 492-0439 from August 14, 1990 to December 31, 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 Fund Accountability Statement included in the first paragraph. The supplemental information (Schedules I, II and III) appended to this report is presented for purposes of analysis and is not required as part of the Fund Accountability Statement and, in our opinion, is fairly stated in all material respects in relation to the Fund Accountability Statement taken as a whole.

Ranloa J. Valdez & Co.

Metro-Manila, Philippines
April 29, 1992

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT
 WITH
 MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
 FOR THE DEVELOPMENT TRAINING PROJECT
 NO. 492-0439

FUND ACCOUNTABILITY STATEMENT
 August 14, 1990 to December 31, 1991

PROJECT COST	B U D G E T		CUMULATIVE DISBURSEMENTS (SCHEDULE I)		REIMBURSEMENT BY U S A I D		OUTSTANDING BALANCE		EXCESS OF BUDGET OVER CUMULATIVE DISBURSEMENTS	
	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
BASE SALARIES	96,000	2,611,142	68,422	1,861,048	45,120	1,227,229	23,302	633,819	27,578	750,094
FRINGE BENEFITS	4,800	130,557	3,421	93,053	2,256	61,361	1,165	31,692	1,379	37,504
TRAVEL, TRANSPORTATION AND PER DIEM	8,280	225,211	10,666	290,116	6,365	173,115	4,301	117,001	(2,386)	(64,905)
OTHER DIRECT COSTS	21,800	592,947	6,028	163,945	3,499	95,162	2,529	68,783	15,772	429,002
LOCAL TRAINING COSTS	600,000	16,319,640	146,877	3,994,973	37,717	1,025,895	109,160	2,969,078	453,123	12,324,667
INDIRECT COSTS	73,920	2,010,580	52,685	1,433,007	34,742	944,967	17,943	488,040	21,235	577,573
TOTAL COST	804,800	21,890,077	288,099	7,836,142	129,699	3,527,729	158,400	4,308,413	516,701	14,053,935
FIXED FEE	20,480	557,044	14,123	384,110	8,278	225,167	5,845	158,952	6,357	172,925
TOTAL PROJECT COST	825,280	22,447,121	302,222	8,220,261	137,977	3,752,896	164,245	4,467,365	523,058	14,226,860

Lita M. Cuyno
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 FINANCIAL ASSISTANT

Dr. Felipe V. Oamar
 DR. FELIPE V. OAMAR
 TRAINING MANAGER

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT
 WITH
 MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
 FOR THE DEVELOPMENT TRAINING PROJECT
 NO. 492-0439

SCHEDULE OF ADJUSTED ACTUAL EXPENDITURES
 August 14, 1990 to December 31, 1991

	PER BOOKS (SCHEDULE II)		EXPENSES DISALLOWED BY USAID (SCHEDULE III)		ADJUSTED ACTUAL EXPENSES BY USAID	
	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
BASE SALARIES	71,089	1,933,591	2,667	72,543	68,422	1,861,048
FRINGE BENEFITS	3,554	96,680	133	3,627	3,421	93,053
TRAVEL, TRANSPORTATION AND PER DIEM	10,436	283,849	(230)	(6,267)	10,666	290,116
OTHER DIRECT COSTS	6,028	163,945	-	-	6,028	163,945
INDIRECT COSTS	54,739	1,488,865	2,054	55,858	52,685	1,433,007
LOCAL TRAINING COSTS	151,066	4,108,904	4,189	113,931	146,877	3,994,973
TOTAL COST	296,912	8,075,834	8,813	239,692	288,099	7,836,142
FIXED FEE	14,585	396,693	462	12,574	14,123	384,119
TOTAL PROJECT COST	311,497	8,472,527	9,275	252,266	302,222	8,220,261

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT
 WITH
 MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
 FOR THE DEVELOPMENT TRAINING PROJECT
 NO. 492-0439

DETAILS OF ACTUAL EXPENDITURES PER BOOKS
 August 14, 1990 to December 31, 1991
 (In Philippine Pesos)

	EXPENDITURES REIMBURSED						SUB-TOTAL	NOT YET REIMBURSED	TOTAL
	1ST	2ND	3RD	4TH	5TH	6TH			
BASE SALARIES	536,454	104,546	247,511	182,489	102,454	126,318	1,299,772	633,819	1,933,591
FRINGE BENEFITS	26,823	5,227	12,376	9,125	5,123	6,316	64,990	31,690	96,680
TRAVEL, TRANSPORTATION AND PER DIEM	36,530	15,344	69,523	12,090	17,158	16,202	166,847	117,002	283,849
OTHER DIRECT COSTS	14,366	22,194	33,442	5,795	5,890	13,474	95,161	68,784	163,945
INDIRECT COSTS	413,070	80,500	190,584	140,516	78,890	97,265	1,000,825	488,040	1,488,865
LOCAL TRAINING COSTS	-	-	259,891	-	-	879,935	1,139,826	2,969,078	4,108,904
TOTAL COST	1,027,243	227,811	813,327	350,015	209,515	1,139,510	3,767,421	4,308,413	8,075,834
FIXED FEE	102,724	22,781	55,344	35,001	20,952	25,958	262,760	133,933	396,693
TOTAL PROJECT COST	1,129,967	250,592	868,671	385,016	230,467	1,165,468	4,030,181	4,442,346	8,472,527
10% RETENTION FEE								25,019	
EXPENDITURES NOT YET REIMBURSED (PAGE 8)								4,467,365	

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT
 WITH
 MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
 FOR THE DEVELOPMENT TRAINING PROJECT
 NO. 492-0439

SCHEDULE OF EXPENDITURES DISALLOWED BY USAID
 August 14, 1990 to December 31, 1991
 (In Philippine Pesos)

	EXPENDITURES REIMBURSED						TOTAL
	1ST	2ND	3RD	4TH	5TH	6TH	
BASE SALARIES	42,634	364	2,614	26,932	-	-	72,544
FRINGE BENEFITS	2,132	18	131	1,346	-	-	3,627
TRAVEL, TRANSPORTATION AND PER DIEM	(18,997)	-	10,867	-	1,841	22	(6,267)
OTHER DIRECT COSTS	-	-	-	-	-	-	-
INDIRECT COSTS	32,828	280	2,012	20,737	-	-	55,857
LOCAL TRAINING COSTS	-	-	-	-	-	113,931	113,931
TOTAL COST	58,597	662	15,624	49,015	1,841	113,953	239,692
FIXED FEE	5,860	66	1,562	4,902	184	-	12,574
TOTAL PROJECT COST	64,457	728	17,186	53,917	2,025	113,953	252,266

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT
 WITH
 MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
 FOR THE DEVELOPMENT TRAINING PROJECT
 NO. 492-0439

SCHEDULE OF EXPENDITURES QUESTIONED BY THE AUDITORS
 August 14, 1990 to December 31, 1991
 (In Philippine Pesos)

	DATE	REFERENCE	PARTICULARS	TOTAL	INELIGIBLE	UNSUPPORTED
1. BASE SALARIES						
a) Salaries claimed in excess of prevailing exchange rate (U.S. Dollar vs. Philippine Peso). (Finding No. 2 page 31)	Various	Various	Felipe V. Oamar-Training Manager	53,122	53,122	-
			Genaro P. Revilla-Administrative Assistant	11,645	11,645	-
			Lita M. Cuyno-Financial Assistant	9,609	9,609	-
c) Salaries claimed (5 man-days) in excess of budgeted man-days (264 man-days). (Finding No. 2 page 31)	December 1991	Expenditure Report	Genaro P. Revilla	9,092	9,092	-
				83,468	83,468	-

	DATE	REFERENCE	PARTICULARS	TOTAL	INELIGIBLE	UNSUPPORTED
2. FRINGE BENEFIT						
2)		Various	Expenditure Report	-		
				74,788	74,788	-
3. TRAVEL, TRANSPORTATION AND PER DIEM						
a)		Various	Various			
			Region V	20,372	20,372	-
			Region VI	32,057	32,057	-
			Region IX	45,034	45,034	-
b)		Various	Various			
			Region V	29,267	29,267	-
			Region VI	7,977	7,977	-
			Region IX	5,757	5,757	-
				140,464	140,464	-

	DATE	REFERENCE	PARTICULARS	TOTAL	INELIGIBLE	UNSUPPORTED
4. OTHER DIRECT COSTS						
a)	Various	Various	Salvacion Reyes, etc.	44,450	44,450	
b)	Various	Various	Supplies	5,668		
			Directories, publications, catalogues and references	5,985		
			Report preparation	2,691		
				14,344	-	14,344
				58,794	44,450	14,344
5. LOCAL TRAINING COSTS						
a)	Various	Various	Region V 4/15-4/19	6,300		
			- same - 6/24-7/19	5,700		
			Region VI 9/9-10/4	19,500		
			Region XI 9/22-10/19	31,050		
			- same - 9/15-9/20	15,750		
			- same - 10/4-11/30	26,050		
				104,350	-	104,350

	DATE	REFERENCE	PARTICULARS	TOTAL	INELIGIBLE	UNSUPPORTED
b). Training supplies, handouts, reproduction and kits: (Finding No. 3 page 32)						
Bath soap and bath towel	6/24/91	181232 and 183044	Region V 6/24-7/19	264	264	-
Wooden paper cutter	9/17/91	7279	China Arts	1,019	1,019	-
Exposure Lamp	9/15/91	450336	Ubix Corporation	3,092	3,092	-
Bowling fee	10/18/91	1869	Dover Lanes	780	780	-
Telephone list finder and printer cable	Various	Various	Various	688	688	-
Resthouse and cottage rental	11/17/91	1964	Seagull Resort	2,000	2,000	-
				7,843	7,843	-
c) Subcontractors fee						
20% subcontractors fee net of USAID's disallowance amounting to 19,240. (Finding No. 1 page 29)	Various	Expenditure Report		121,382	-	121,382
d) Administrative fee						
15% administrative fee net of USAID's disallowance of 83,351. (Finding No. 1 page 29)	Various	Expenditure Report		345,790	-	345,790

	DATE	REFERENCE	PARTICULARS	TOTAL	INELIGIBLE	UNSUPPORTED
e) Expenses claimed for scholars who were not able to complete the contract. (Finding No. 3 page 32)	Various	Various	Renato Remaneses	24,231		
			Rosabelle Mabalot	25,712		
			Manuel Lucena	25,045		
			Guillermo Naze	4,130	79,118	79,118
f) Expenses claimed for administrative fee of U.S.\$360 for each academic participant. (Finding No. 1 page 29)	Various	Various	-			
				66,360	-	66,360
SUB-TOTAL				724,843	86,961	637,882
6. INDIRECT COST (Finding No. 2 page 31)	Various	Various	77% of base salaries being questioned	64,270	64,270	-
7. FIXED FEE (Finding No. 2 page 31 and Finding No. 3 page 32)	Various	Various	10% of questioned cost except local training costs	28,272	26,838	1,434
TOTAL				1,174,899	521,239	653,660
IN U.S. DOLLARS				43,196	19,164	24,032

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REPORT ON INTERNAL CONTROLS

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT WITH
MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
FOR THE DEVELOPMENT TRAINING PROJECT
NO. 492-0439

INDEPENDENT AUDITORS' OPINION

We have audited the Fund Accountability Statement of MANDALA AGRICULTURAL DEVELOPMENT CORPORATION for the Development Training Project No. 492-0439 for the period August 14, 1990 to December 31, 1991 and have issued our report thereon dated April 29, 1992.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of MANDALA AGRICULTURAL DEVELOPMENT CORPORATION we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of MANDALA AGRICULTURAL DEVELOPMENT CORPORATION is responsible for establishing and maintaining an internal control structure. 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 the Fund Accountability Statement 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 effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified payroll and procurement and disbursement procedures to be 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 reportable conditions under 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 Fund Accountability Statement.

These reportable conditions are as follows:

1. Majority of the disbursements for non-degree local training program were paid directly to the training coordinator instead of the subcontracting entity.
2. Procurement for services (training institutions) were not competitively awarded.
3. Some travel were not authorized and liquidation for expenses were not adequately supported.

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 Fund Accountability Statement 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 conditions and accordingly, would not necessarily disclose all reportable conditions that are considered material weaknesses as defined above. However, we believe that the reportable conditions described above are material weaknesses.

This report is intended solely for the information of the United States Agency for International Development, National Economic Development Authority and Mandala Agricultural Development Corporation. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Carlo J. Valdez & Co.

Metro-Manila, Philippines
April 29, 1992

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT WITH
MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
FOR THE DEVELOPMENT TRAINING PROJECT
NO. 492-0439

FINDINGS AND RECOMMENDATIONS

1. CASH DISBURSEMENTS PROCEDURES

C o n d i t i o n
- - - - -

a) The following deficiencies were noted in the review of cash disbursements' procedures:

- check vouchers were not prenumbered and in several instances were not signed by the preparer nor approved by the certifying officer.
- several checks were issued "pay to cash".
- some check vouchers and supporting documents were not stamped "paid" upon payment.

C r i t e r i a
- - - - -

Article X - Audit and Records (10.01) - "The contractor shall maintain books, records, documents and other data or information, and shall apply consistent generally accepted accounting procedures and practices sufficient to reflect properly all transactions under or in connection with the contract."

Internal accounting control standards require that:

- check vouchers should be prenumbered to provide a ready means of accounting for vouchers;
- the evidence for the preparation and approval of a transaction should be indicated in the document;
- drawing of checks to cash should be discouraged;
- check vouchers and supporting documents should be stamped "paid" by the last check signatory to avoid reuse of the documents.

C a u s e
- - - - -

There appears to be lack of supervisory review in the processing of disbursements.

E f f e c t

- - - - -

Due to lack of supervisory review in the processing of disbursements, other direct costs amounting to U.S.\$527 (P14,344) and local training costs of U.S.\$3,836 (P104,350) were paid by MADECOR without the required supporting documents (invoices, receipts, certification). These are included among the costs questioned by the auditors. (See page 13)

Recommendation

We recommend that USAID, through NEDA, require MADECOR to update its internal control procedures relating to cash disbursements which would include the procedures mentioned in the preceding page under "criteria".

Auditee's Response

Instead of check vouchers being pre-numbered, numbers are assigned only at the time of recording of transactions which is normally done weekly, a practice that is suited to our needs. For example, a check/funds withdrawal taken from account being maintained at the Hongkong and Shanghai Banking Corporation is, for instance, numbered 92-THSBC-01.

There are really some occasions wherein cash vouchers did not bear the signature of the approving officer. However, this does not mean that the expenditure is not duly approved by him. There was merely an oversight since he is also the principal check signatory, and sometimes, he fails to sign the supporting vouchers attached to the check.

We are aware that issuing checks "pay to cash" and checks not crossed for deposit to "payees" account only are clear violation of internal control. However, there are instances wherein we cannot avoid doing so, as in the following sample cases:

1. for checks "pay to cash"
 - a) where the consultant payee, who is on out-of-town assignment is in urgent need of cash for an early morning trip the following day;
 - b) where a telegraphic transfer is to be effected to a sub-contractor's account whose depository bank is different from that of MADECOR's (e.g. from BPI to PNB);

2. Checks not crossed for deposit to payee's account only - these are forms of accommodation to the individual payees whose need for cash is very urgent and his depository bank is different from that of MADECOR's; a crossed check normally requires 3 days of clearing.

Check vouchers are not stamped "paid" since we feel the safeguard against reuse of the document is sufficiently provided by numbering of vouchers upon recording of transaction, as mentioned before.

Our reaction on the above findings are based on actualities and on what we feel are most practical to our operations; however, we are reviewing certain basic procedures and are considering corrective measures to improve the Company's accounting procedures as recommended by the auditors.

C o n d i t i o n

- - - - -

- b) We noted that disbursements for non-degree local training cost were drawn from a provincial bank account opened by MADECOR under the name of the consultant or training coordinator or both instead of being paid directly to the subcontractor. The training coordinator then disburses the money to the various payees in cash, as this relates to the training costs specified in the agreed training budget.

C r i t e r i a

- - - - -

Sound internal control procedures require that payments be made directly to the creditor.

C a u s e

- - - - -

This mechanism was designed by MADECOR to facilitate the conduct of short-term courses.

E f f e c t

- - - - -

MADECOR disbursed U.S.\$57,339 (P1,559,600) to training coordinators/consultants for the non-degree local training expenses.

Recommendation

We recommend that USAID, through National Economic Development Authority, require MADECOR to ensure that payments for local training cost be made directly to the creditor.

Auditee's Response

We concur with the observation of the Auditor on cash disbursements. For clarity, however, an overview on local training implementation with implications on financial matters follows:

1. All local training (non-degree programs) which were partly the subject of audit, except one on Local Government Administration/Management (M-1 Region V), were conducted through subcontracting.
2. Each subcontract includes, among others, a specific training budget, the components of which are results of mutual discussions and agreement between MADECOR and the subcontracting institutions. More specifically, these institutions are:

Region V	Bicol University (BU) BU College of Agriculture (BUCA) Camarines Sur State Agricultural College (CSSAC)
----------	---

Region VI	Central Philippine University (CPU)
-----------	-------------------------------------

Region XI	University of Southeastern Philippine (USP) Development Academy of the Philippines (DAP)
-----------	---

3. The itemized training budget is not an outright cost that automatically accrues to the subcontracting institutions; rather this serve as a limit (guide) and therefore the subcontracting institutions, through the designated training coordinator are required to liquidate the disbursements to MADECOR.
4. MADECOR advances, as an out-of-pocket expenses, all expenditures of the non-degree courses so far conducted.
5. For each region, a temporary savings account was opened through a local bank to ensure availability of cash; this serves as a conduit for facility and is directly controlled by MADECOR.

As a matter of procedure, MADECOR Head Office (through the Project Finance Officer) periodically transmit (on-line bank transfer) to the temporary savings account the cash requirement of each training program. The Consultant, normally the Project Administrative Assistant, withdraws the deposit and transfer same to the Training Coordinator who in turn directly administers the disbursement, guided by the limitations set within the authorized training budget. Through this set up, disbursements are virtually a direct payment to the subcontracting institution and not necessarily a cash advance to the Consultant. This was done in the case of government institutions as subcontractors (BU, BUCA, CSSAC, USP, DAP) because it is extremely difficult to outrightly

remit the training budget directly to them, due to the rigidities of their accounting and auditing regulations relating to income and disbursement restrictions. In the case of CPU, a private institution, the total budget is directly remitted to CPU upon submission of the liquidation report, refunds the balance with facility, if any.

Nonetheless, the matter of payments related to catering, lodging, and the like, MADECOR directly disburses the cost to payee. The reason for this is board and lodging, as a component cost of the short-term training, is not part of the subcontract, in all cases.

2. PROCUREMENT

C o n d i t i o n

- - - - -

The following deficiencies were noted in MADECOR's procurement procedures:

- a) Purchase orders were not prepared to evidence that the procurement have been authorized.
- b) There were no formal levels of approval for purchases to assure that larger purchases come to the attention of higher levels of management before commitments were made.
- c) Obtaining solicitation from supplier is generally not practiced except for commodities. Procurement of training venues and catering services were negotiated. Procurement of training materials/supplies is left to the discretion of the training coordinator who receives a cash advance from a MADECOR project staff for this purchase.
- d) Payment is solely based on invoice presented by supplier because there is no purchase order or receiving report to match it with.

C r i t e r i a

- - - - -

Internal accounting control standards for procurement requires the following:

- a) Authorization through formal levels of approval using an accountable form - purchase order;
- b) Procurement should be conducted in a manner which will provide to a maximum extent practical, open and free competition; and
- c) Matching up of purchase order, receiving report and vendor invoices should be performed by the accounting department prior to the recognition of liability.

C a u s e

- - - - -

MADECOR finds it unnecessary to go through the standard procurement procedures for short-term training.

E f f e c t

- - - - -

MADECOR may be obligated for unauthorized purchases and may not be able to obtain the best price and terms for the purchase, as in the procurement of non-degree training services where U.S.\$126,435 (P3,438,965) was expended.

Recommendation

We recommend that USAID, through NEDA, require MADECOR to strengthen its procurement procedures through the:

- a) Preparation of purchase orders for commitments for determined amounts;
- b) Adoption of a formal policy of purchasing authority specifying peso amounts;
- c) Solicitations of bids from suppliers for certain amounts; and
- d) Matching of purchase order, receiving report and supplier's invoice by the accounting department prior to payment.

Auditee's Response

- a) MADECOR finds it necessary to omit certain standard bureaucratic procedures in the management of the short-term training. Nonetheless, the existing policies within each subcontracting government institutions, relative to procurement, were followed. For instance, the pricing index in the property unit of the institution was used (but canvass, preparation of purchase order, etc. were eliminated). The reason for this is simply to ensure prompt deliveries of training supplies within the limited time. MADECOR, through the Consultant, however, checks the system at random.
- b) The formal levels approval for purchases (especially for larger purchases) which come to the attention of higher level of management before commitments seems to be unnecessary. It must be noted that the procurement of training supplies, in particular, becomes the responsibility of the subcontracting institutions through the training coordinator. The decision and approval, in the process, therefore lies in the training coordinator who is in a more competent position to determine the supply needs of the specific training. MADECOR consultant coordinates to ensure that the training budget is adhered to.

- c) The observation that purchases were done by the training coordinator is correct simply because the activity is already a sole responsibility of the subcontractor after the subcontract is effected. What has been audited therefore is not an activity done by MADECOR but by the subcontractor delegated to the training coordinator. The activity of procurement, however, is essentially governed by the purchasing policy of the institution as in all cases, the property office of the subcontractor is consulted and MADECOR representative ensures that this is done so. In the process, however, certain bureaucratic requirements were omitted, such as preparation of canvass, requisition, purchase order, signing policy, etc. This is because a short-term training would not be able to bear such rigid requirements.
- d) The selection of subcontracting institutions was an outcome of the Training Needs Assessment (TNA) undertaken by MADECOR as a matter of priority requirement to determine potential participants and areas of specialization. This procedure eliminate duplication, otherwise repetition of similar existing programs.
- e) During the pre-implementation stage, however, the prospective institutions were requested to submit a training plan proposal (with costing) based on what they felt are their strengths in terms of relevant academic staff and available training facilities. This process was done in lieu of a strictly bidding procedure where all selected institutions are required to submit bid proposals for all programs. This cannot be done for reason that not all identified institutions are capable to quote on all specialized programs.

3. TRAVEL, TRANSPORTATION AND PER DIEM

C o n d i t i o n

- - - - -

The following were observed during the examination of expenditures relating to travel expenses:

- a) Travel advances of project staff were not authorized.
- b) Policies with regard to allowances for meals, lodging and transportation for out-of-town travels were not followed. MADECOR charged fixed, non-liquidating per diem in contrast with its policy of liquidating all cash advances including per diem, transportation, meals and accomodations.

- c) Liquidations of most travel advances did not have supporting documentation including, liquidation reports, travel authorization, airplane/bus tickets, receipts, etc.

C r i t e r i a
- - - - -

Internal control standards require transactions to be clearly documented and the documentation to be readily available for examination. (See page 31, Criteria)

C a u s e
- - - - -

MADECOR did not require strict implementation of its policies for travel and liquidation of travel advances.

E f f e c t
- - - - -

MADECOR's reimbursement claims for travel, transportation and per diem expenses exceeded by U.S.\$5,164 (F140,464). (See page 12)

Recommendation

We recommend that USAID, through the National Economic Development Authority, require MADECOR to improve its internal accounting control for travel, transportation and per diem by adopting the following procedures:

- a) Travel orders should be prepared by any requisitioning project staff indicating the purpose of travel, date of travel and estimated expenses. Travel orders should be noted by the immediate Supervisor and approved by a responsible officer. The preparation of a travel order is a good indication that travel expenses are valid and are properly authorized.
- b) Guidelines established by MADECOR should be strictly enforced to all officers, employees and project staff.
- c) When liquidating travel advances, employees should prepare liquidation report which should include:
 1. Time and date of departure and arrival at each location;
 2. Location visited;
 3. Details of costs incurred, supported by documentation;
 4. Purpose of the trip; and
 5. Approval by a responsible officer.

Auditee's Response

While there was no formal documentation of regional travels, approval of travel activities are done during the regular weekly meetings of the Project staff. Travel schedules are arranged by the Project Leader as determined by the needs of the pre-scheduled training programs. What is lacking is the documentation only, since all travels were pre-approved during regular project meetings held weekly.

As a matter of policy, the Project authorized a daily per diem of \$30, without necessity of supporting documents. However, all other related travel expenses incurred by any project staff, are required to be supported by legitimate documents.

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Cagayan de Oro

**REPORT ON THE AUDITOR'S TEST OF COMPLIANCE WITH AGREEMENT TERMS,
APPLICABLE LAWS AND REGULATIONS**

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT WITH
MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
FOR THE DEVELOPMENT TRAINING PROJECT
NO. 492-0439**

INDEPENDENT AUDITORS' OPINION

We have audited the Fund Accountability Statement of MANDALA AGRICULTURAL DEVELOPMENT CORPORATION for the Development Training Project for the period August 14, 1990 to December 31, 1991 and have issued our report thereon dated April 29, 1992.

We conducted our 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 Fund Accountability Statement is free of material misstatement.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to MANDALA AGRICULTURAL DEVELOPMENT CORPORATION is the responsibility of MANDALA AGRICULTURAL DEVELOPMENT CORPORATION's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of compliance with the provisions of the contract, laws, regulations and binding policies and procedures. However, our objective was not to provide an opinion on the compliance with such provisions.

Material instances of noncompliance are violations of laws, regulations, contracts, grants, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the Fund Accountability Statement.

The results of our tests of compliance disclosed several instances of material noncompliance, the effects of which, have not been corrected in the Fund Accountability Statement for the period August 14, 1990 to December 21, 1991. These are: 1) The contractor claimed subcontractors fee and administrative fee amounting to U.S.\$19,616 (P533,532). This is over and above the "fixed fee" that was provided for in the contract; 2) The

contractor claimed expenses in excess of the budget amounting to U.S.\$11,582 (P315,040); 3) The contractor claimed expenses amounting to U.S.11,998 (P326,327) without the required documentation for payment.

We considered these material instances of noncompliance in forming our opinion on whether MANDALA AGRICULTURAL DEVELOPMENT CORPORATION's Fund Accountability Statement for the period August 14, 1990 to December 31, 1991 is presented fairly in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated April 29, 1992 on the Fund Accountability Statement.

Our testing of transactions and records disclosed instances of noncompliance with those provisions. All instances of noncompliance that we found are identified in the accompanying List of Agreement Terms, Applicable Laws and Regulations Not Complied by Contractor and in the Details of Expenditures Questioned by the Auditors (Schedule IV).

Except as described above, the result of our tests of compliance indicated that with respect to items tested, MANDALA AGRICULTURAL DEVELOPMENT CORPORATION complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that MANDALA AGRICULTURAL DEVELOPMENT CORPORATION had not complied, in all material respects, with those provisions.

This report is intended for the information of the United States Agency for International Development, the Government of the Philippines' National Economic Development Authority and Mandala Agricultural Development Corporation. 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
April 29, 1992

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF HOST-COUNTRY CONTRACT WITH
MANDALA AGRICULTURAL DEVELOPMENT CORPORATION
FOR THE DEVELOPMENT TRAINING PROJECT
NO. 492-0439

List of Agreement Terms, Applicable Laws and Regulations
Not Complied by Contractor

1. CONTRACT FOR TECHNICAL SERVICES

C o n d i t i o n
- - - - -

The detailed budget of the Contract for Technical Services between MADECOR and NEDA contains line item for:

- a) 20 percent subcontractors fee; and
- b) 15 percent administrative fee based on the total cost of non-degree training program and U.S.\$360 per scholar for degree program.

This conflicts with Article III and V of the same contract.

C r i t e r i a
- - - - -

- a) Article III - Responsibilities and Obligations of the Contractor (3.02 - Subcontracting of Services) - "In no event shall any subcontract be costed in a cost-plus-percentage-of-cost basis".
- b) Article V - Costs and Payments (5.02 - Fixed Fee) - "The fixed fee for all work under this Contract is U.S.\$20,480 (P557,044) to be paid in Philippine currency which may not be changed except by written contract amendment. Such contract amendment should be approved by USAID."

C a u s e

MADECOR followed the detailed budget as basis for these claims.

E f f e c t

MADECOR claimed the following expenses for reimbursement:

	U.S. Dollar	Philippine Peso
	-----	-----
20% Subcontractor's fee (page 14)	4,463	121,382
Administrative fee		
Non-degree (15%) (page 14)	12,713	345,790
Degree (at U.S.\$360 per scholar) (page 15)	2,440	66,360
	-----	-----
	19,616	533,532
	=====	=====

Although the above amount has not been reimbursed by USAID, the contractual issue still remains unresolved.

R e c o m m e n d a t i o n

We recommend that USAID through National Economic Development Authority:

1. resolve with Mandala Agricultural Development Corporation the above questioned costs of U.S.\$19,616 (P533,532) and recover any unallowable amounts; and
2. clarify, possibly through contract amendment, the conflicting provisions in the contract.

A u d i t e e ' s R e s p o n s e

MADECOR would be very willing to sit down with NEDA and USAID and resolve the issue on subcontractors' and administrative fees.

2. CONTRACT BUDGET

Condition

The Fund Accountability Statement (Cumulative Disbursements) include claims for reimbursement which are not allowable as defined under the Contract for Technical Services.

Criteria

Without prior written approval of NEDA and USAID, the contractor shall not incur peso costs for any individual line item beyond 10% of such line item. Line items a) salaries; b) indirect costs and c) fixed fee do not have the 10% flexibility. (Article V - Costs and Payments)

Cause

MADECOR incurred expenses in excess of the budgeted amounts as indicated in the Contract Budget Summary. (Annex 3 of the Contract for Technical Services)

Effect

MADECOR claimed for reimbursement the following expenses in excess of budgeted amounts:

Line Item	Amount	
	U.S. Dollars	Philippine Pesos
Base salaries	3,069	83,468
Travel, transportation and per diem	5,164	140,464
Indirect cost	2,363	64,270
Fixed fee	986	26,838
	11,582	315,040

Recommendation

We recommend that USAID, through NEDA resolve with MADECOR the U.S.\$11,582 (\$315,040) in costs being claimed for reimbursement.

Auditee's Response

We have submitted to NEDA a request for budget realignment which is currently under discussion.

3. DOCUMENTATION FOR PAYMENT

C o n d i t i o n

The Fund Accountability Statement (Cumulative Disbursements) includes claims for reimbursement which were not adequately supported by invoices, supporting receipts and documentation.

C r i t e r i a

The Contractor shall be paid on the basis of invoices, supporting receipts and documentation as prescribed in Annex 4 and as endorsed by NEDA.

C a u s e

Due to lack of supervisory review in the processing of disbursements, certain expenditures were paid/claimed by MADECOR without the required documentation for payment.

E f f e c t

MADECOR claimed for reimbursement the following expenses:

Line Item	A m o u n t	
	U.S. Dollars	Philippine Pesos
Fringe benefit	2,750	74,788
Other direct costs	2,161	58,794
Local training cost	7,034	191,311
Fixed fee	53	1,434
	11,998	326,327
	11,998	326,327

Recommendation

We recommend that USAID, through NEDA, 1) resolve with MADECOR the U.S.\$4,363 (P118,694) in unsupported costs and recover any unsupported amounts; and 2) require MADECOR to develop and implement internal control procedures to ensure that expenditures are documented.

Auditee's Response

MADECOR agrees to retrieve and submit to USAID the documentation for the following expenses:

Line Item	A m o u n t	
	U.S. Dollars	Philippine Pesos
Training fees	3,836	104,350
Other direct cost	527	14,344
	4,363	118,694
	4,363	118,694

For the remaining expenses amounting to U.S.\$1,923 (P52,293), MADECOR agrees that these will be deducted from subsequent reimbursements. For the receivable from scholars, MADECOR informed the Auditors that they will collect the money from the scholars.

4. MAINTENANCE OF ADEQUATE ACCOUNTING RECORDS

C o n d i t i o n

MADECOR maintains for its accounting records: cash receipts and disbursements books and subsidiary ledgers. The General Ledger which should have been the basis for the Fund Accountability Statement was not prepared.

C r i t e r i a

Article X - Audit and Records (10.01) - "The contractor shall maintain books, records, documents and other data or information, and shall apply consistent generally accepted accounting procedures and practices sufficient to reflect properly all transaction under or in connection with the contract."

C a u s e

Due to the malfunction of the newly installed computerized accounting system, the records are not in order.

E f f e c t

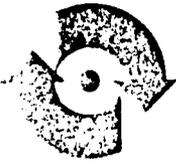
The books of accounts do not agree with the financial reports submitted to USAID.

Recommendation

MADECOR should maintain a General Ledger which should be the basis for the preparation of its financial reports.

Auditee's Response

The General Ledger (GL) is now being reconstructed due to the malfunction in the newly installed computerized accounting system. However, due to the large volume of transactions being processed, the GL is expected to be completed on or about end of June 1992.



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APPENDIX I

MANDALA AGRICULTURAL DEVELOPMENT CORPORATION

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June 02, 1992

Carlos J. Valdes & Co.
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Attention: MS. MINDA O. LEDESMA

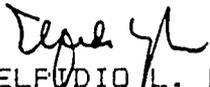
Dear Ms. Ledesma:

We are submitting herewith amended "Auditee's Response"
on the basis of your latest discussions with our Mr. G.
Revilleza and Ms. L. Cuyno.

Please feel free to edit, add and delete anything in
the text which you think is irrelevant to a desired
acceptable report.

Thank you.

Very truly yours,


ELPIDIO L. ROSARIO
President

35

AUDITEE'S RESPONSE

I. On Record of Audit Findings

A. Cash Disbursement Procedures

Condition a. - Preparation of check vouchers/checks Instead of check vouchers being pre-numbered, numbers are assigned only at the time of recording of transactions which is normally done weekly, a practice that is suited to our needs. For example, a check/funds withdrawal taken from account being maintained at the Hongkong and Shanghai Banking Corporation is, for instance, numbered 92-THSBC-01.

There are really some occasions wherein cash vouchers did not bear the signature of the approving officer. However, this does not mean that the expenditure is not duly approved by him. There was merely an oversight since he is also the principal check signatory, and sometimes, he fails to sign the supporting vouchers attached to the check.

We are aware that issuing checks "pay to cash" and checks not crossed for deposit to "payees" account only "are clear violation of internal control. However, there are instances wherein we cannot avoid doing so, as in the following sample cases:

- 1) for checks "pay to cash -
 - a) where the consultant payee, who is on out-of-town assignment is in urgent need of cash for an early morning trip the following day;
 - b) where a telegraphic transfer is to be effected to a sub-contractor's account whose depository bank is different from that of MADECOR's (e.g. from BPI to PNB);
- 2) Checks not crossed for deposit to payee's account only - these are forms of accommodation to the individual payees whose need for cash is very urgent and his depository bank is different from that of MADECOR's; a crossed check normally requires 3 days of clearing.

Check vouchers are not stamped "paid" since we feel the safeguard against reuse of the document is sufficiently provided by numbering of vouchers upon recording of transaction, as mentioned before.

Our reaction on the above findings are based on actualities and on what we feel are most practical to our operations, however, we are reviewing certain basic procedures and are considering corrective measures to improve the company's accounting procedures as recommended by the auditors.

Condition b: We concur with the observation of the Auditor on cash disbursements. For clarity, however, an overview on local training implementation with implications on financial matters follows:

1. All local training (non-degree programs) which were partly the subject of audit, except one on Local Government Administration/Management (M-1 Region V), were conducted through sub-contracting.

2. Each sub-contract includes, among others, a specific training budget, the components of which are results of mutual discussions and agreement between MADECOR and the sub-contracting institutions. More specifically, these institutions are:

Region V Bicol University
 BU College of Agriculture
 Camarines Sur State Agricultural College

Region VI Central Philippine University

Region XI University of Southeastern Philippine
 Development Academy of the Philippines

3. The itemized training budget is not an outright cost that automatically accrues to the sub-contracting institutions; rather this serves as a limit (guide) and therefore the contracting institutions, through the designated training coordinator, are required to liquidate the disbursements to MADECOR.

4. MADECOR advances, as an out-of-pocket expenses, all expenditures of the non-degree courses so far conducted.

5. For each region, a temporary savings account was opened through a local bank to ensure availability of cash; this serves as a conduit for facility and is directly controlled by MADECOR.

31'

As a matter of procedure, MADECOR Head Office (through the Project Finance Officer) periodically transmits (on-line bank transfer) to the temporary savings account the cash requirement of each training program. The Consultant, normally the Project Administrative Assistant, withdraws the deposit and transfer same to the Training Coordinator who in turn directly administers the disbursement, guided by the limitations set within the authorized training budget. Through this set-up, disbursements are virtually a direct payment to the subcontracting institution and not necessarily a cash advance to the Consultant. This was done in the case of government institutions as sub-contractors (BU, BUCA, CSSAC, USP, DAP) because it is extremely difficult to outrightly remit the training budget directly to them due to the rigidities of their accounting and auditing regulations relating to income and disbursement restrictions. In the case of CPU, a private institution, the total budget is directly remitted and CPU upon submission of the liquidation report, refunds the balance with facility, if any.

Nonetheless, the matter of payments related to catering, lodging, and the like, MADECOR directly disburses the cost to payee (Attachment A). The reason for this is board and lodging, as a component cost of the short-term training, is not part of the sub-contract, in all cases.

B. Procurement

- a. MADECOR finds it necessary to omit certain standard bureaucratic procedures in the management of the short-term training. Nonetheless, the existing policies within each sub-contracting government institutions, relative to procurement, were followed. For instance, the pricing index in the property unit of the institution was used (but canvass, preparation of purchase order, etc.) were eliminated). The reason for this is simply to ensure prompt deliveries of training supplies within the limited time. MADECOR, through the Consultant, however checks the system at random.
- b. The formal level of approval for purchases (especially for larger purchases) which must come to the attention of higher level of management in ordinary situation before commitments seems to be unnecessary. It must be noted that the procurement of training supplies, in particular, becomes the responsibility of the sub-contracting institutions through the training coordinator. The decision and approval, in the process, therefore lies in the training coordinator who is in a more competent position to determine the supply needs of the specific training. MADECOR consultant coordinates to ensure that the training budget is adhered to.

- c. The observation that purchases were done by the training coordinator is correct simply because the activity is already a sole responsibility of the sub-contractor after the sub contract is effected. What has been audited therefore is not an activity done by MADECOR but by the sub contractor delegated to the training coordinator. The activity of procurement, however, is essentially governed by the purchasing policy of the institution as in all cases, the property office of the sub-contractor is consulted and MADECOR representative ensures that this is done so. In the process, however, certain bureaucratic requirements were omitted, such as preparation of canvass, requisition, purchase order, signing policy, etc. This is because a short-term training would not be able to bear such rigid requirements.

2. On Selection of Sub-Contractors

- a. The selection of sub-contracting institutions was an outcome of the Training Needs Assessment (TNA) undertaken by MADECOR as a matter of priority requirement to determine potential participants and areas of specialization. This procedure eliminates duplication, otherwise repetition of similar existing programs.
- b. During the pre-implementation stage, however, the prospective institutions were requested to submit a training plan proposal (with costings) based on what they felt are their strengths in terms of relevant academic staff and available training facilities. This process was done in lieu of a strictly bidding procedure where all selected institutions are required to submit bid proposals for all programs. This cannot be done for reason that not all identified institutions are capable to quote on all specialized programs.

C. Travel, Transportation and Per Diem

While there was no formal documentation of regional travels, approval of travel activities are done during the regular weekly meetings of the Project staff. Travel schedules are arranged by the Project Leader as determined by the needs of the pre-scheduled training programs.

As a matter of policy, the Project authorized a daily per diem of \$30, without necessity of supporting documents. However, all other related travel expenses incurred by any project staff, are required to be supported by legitimate documents, as shown in the appended sample copy of liquidation report (Attachment B).

The claim for reimbursement of travel, transportation and per diem over and above the authorized Project budget (as determined by the audit) is not necessarily a consequence of lax policies. Additional travel schedules, which were not conceived during the planning stage, were inevitable if only to meet the desired output of the Project within the limited time frame of implementation. For budget purposes, we found this inconvenient but we have to face the realities of the actual situation. We believe in the flexibility of certain policies and therefore we have, in fact, included this particular deviation in the budget re-alignment we have earlier submitted to USAID through NEDA/SAS. A copy of such communication is enclosed (Attachment C).

**II. On List of Agreement Terms, Applicable Laws and Regulations
Not complied by Contractor**

A. Contract for Technical Services

MADECOR would be very willing to sit down with NEDA and USAID and resolve the issue on sub-contractors' and administrative fees.

B. Maintenance of Adequate Accounting Records

The General Ledger is now being reconstructed due to the malfunction in the installed computerized accounting system. However, due to the large volume of transactions being processed, the GL is expected to be completed on or about end of June, 1992.

APPENDIX II

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41-