
**AUDIT OF USAID/PHILIPPINES'
CO-OPERATIVE AGREEMENT WITH
PHILIPPINE EXPORTERS FOUNDATION, INC.**

**Audit Report No. 5-492-93-07-N
February 26, 1993**



INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 26, 1993

TO: Thomas W. Stukel, Mission Director
USAID/Philippines

FROM: *Alfred M. Clavelli*
Alfred M. Clavelli, Acting RIG/A/Singapore

SUBJECT: Audit of USAID/Philippines' Co-operative Agreement with Philippine Exporters Foundation, Inc.
Audit Report No. 5-492-93-07-N

The accounting firm of Carlos J. Valdes & Co., the Coopers and Lybrand affiliate in the Philippines, performed a financial audit of USAID/Philippines' Co-operative Agreement No. 492-0449-A-00-0149-00 with Philippine Exporters Foundation, Inc. (PHILEXPORT). Five copies of the audit report are enclosed for your action.

In September 1990, USAID/Philippines signed a four-year co-operative agreement with PHILEXPORT under the Private Investment and Trade Opportunities Project to increase the level of trade and investment activities through (1) brokering services; (2) policy analysis and problem resolution studies; (3) training; and (4) technical assistance. The co-operative agreement also funds three subrecipients to provide overseas marketing and trade brokering services. The period covered by the audit was September 17, 1990 through April 30, 1992, during which PHILEXPORT reported that \$2,131,277 was received from USAID/Philippines and \$1,328,835 of that amount was expended under the agreement.

The audit objectives were to: (1) determine whether the Fund Accountability Statements of PHILEXPORT present fairly the receipts and expenditures under the co-operative agreement with USAID/Philippines and whether the expenditures were allocable, allowable, and reasonable; (2) report on PHILEXPORT's system of internal controls; and (3) report on PHILEXPORT's compliance with applicable laws, regulations, and co-operative agreement terms.

The auditors reported that the Fund Accountability Statements of PHILEXPORT present fairly the receipts and expenditures of the co-operative agreement with USAID/Philippines, except for \$160,537 in questioned costs arising from noncompliance with agreement terms. Except for the above material instances of noncompliance, PHILEXPORT complied, in all material respects, with applicable laws, regulations, and agreement terms. Two material internal control weaknesses were, however, noted.

The management of PHILEXPORT generally agreed with 13 of the 22 findings contained in the report, did not fully agree with one, disagreed with four, and offered further explanation for the remaining four. PHILEXPORT's comments are summarized under each finding in the report and the full text of the comments is included as Appendix I of this report.

This report contains 22 findings which USAID/Philippines should ensure that necessary action is taken. 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 resolve the \$160,537 in questioned costs (\$148,522 ineligible and \$12,015 unsupported) with the Philippine Exporters Foundation, Inc. and recover any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Philippines verify that the Philippine Exporters Foundation, Inc. establishes and implements a system to (a) include specific purchasing limits for each officer accorded with purchasing authority; (b) document the basis for contractual amendments; (c) issue checks directly to parties providing goods and services unless proper written authorizations are obtained from the provider of goods and services; (d) exclude Value-Added Taxes from expenditures charged to the co-operative agreement; and (e) monitor budget against actual expenditures for itself and subrecipients.

We appreciate the courtesies and cooperation USAID/Philippines and PHILEXPORT 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.

Attachment: a/s

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November 4, 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 Cooperative Agreement No. AID 492-0449-A-00-0149-00 with Philippine Exporters Foundation, Inc. (PHILEXPORT) under the Private Investment and Trade Opportunities Project (PITO-P) funded by the United States Agency for International Development (USAID).

A. BACKGROUND

The PITO-P is a USAID financed activity which seeks to contribute to long-term Philippine socio-economic development by: facilitating access of export producers to timely and vital market data and trade information; supporting the establishment and operation of trade brokering services in Metro-Manila, Cebu and Davao; sharing in the cost of training and technical assistance needed to upgrade the capability and productivity of Filipino workers and enterprises, and supporting research and other activities towards the adoption of policies and the implementation of programs most consistent with the country's development needs.

The Cooperative Agreement between USAID and PHILEXPORT was signed on September 17, 1990, wherein U.S.\$8,750,000 (increased to U.S.\$9,625,000 later) was allocated for the period beginning September 17, 1990 and ending September 17, 1994. PITO-P maintains its head office in Metro-Manila and two regional offices in Cebu and Davao. In addition, it is supporting through financial assistance the three ventures of Cooperative Business International, The Pragma Corporation and Shemberg Marketing Corporation (subrecipients). These companies are linked with overseas marketing networks and operating trade brokering services in Davao, Metro-Manila and Cebu, respectively. On a cost sharing basis, each subrecipient is allowed reimbursement of its expenses up to U.S. \$333,333 per year for a period of three (3) years, the continuity of which is subject to the outcome of the yearly evaluation by PHILEXPORT. In line with the performance of its trade brokering services, subrecipients are allowed to enter into subcontracts

with the prior approval of PHILEXPORT. The Pragma Corporation has entered into a subcontract agreement with Pintar International Ltd. with a regional office under the business name of Pragma-Pil, Inc. while Cooperative Business International has subcontracted the services of Intrade Philippines, Inc. and Access Asia (Philippines), Inc..

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 Statements of PHILEXPORT and subrecipients, present fairly the receipts and expenditures under the agreements and whether the expenditures are allocable, allowable and reasonable;
- report on the PHILEXPORT and subrecipients' internal controls;
- report on the PHILEXPORT and subrecipients' compliance with the terms of the agreements, applicable laws and regulations.

The scope of our audit covers the period September 17, 1990 up to April 30, 1992 which includes advances of USAID of U.S.\$2,131,277 (₱57,783,994) and disbursements amounting to U.S.\$1,328,835 (₱35,906,573) or 62% (See page 6).

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

For this audit, the government auditing standards related to continuing professional education was not met. Because our continuing professional education program has not been fully implemented, we cannot ensure that 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 Pesos to U.S. Dollars, we used the exchange rate of ₱27.1124 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 September 17,1990 to April 30, 1992.

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 the questioned costs amounting to U.S.\$160,537 (₱4,352,454), see page 12, out of total disbursements of U.S.\$1,328,835 (₱35,906,573) or 12%, the Fund Accountability Statements present fairly the receipts and expenditures of Philippine Exporters Foundation, Inc. and Subrecipients for the Private Investment and Trade Opportunities Project for the period September 17, 1990 to April 30, 1992.

2. Review of Internal Controls

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

1. The internal control system for contracting and disbursing is inadequate, thus contracts amounting to U.S.\$54,588 (₱1,480,000) were questioned. The following deficiencies were noted: the Regional Manager of the Cebu Office has unlimited contracting authority, advance payments were made to contractors through individuals instead of the contracting party and contract provisions are ignored as basis for paying contractors.
2. There is lack of supervisory review in the processing of disbursements, expenses amounting to U.S.\$1,701 (₱46,107) were questioned as a result of this weakness.

3. Compliance Review

As part of our objective in obtaining reasonable assurance about whether the Fund Accountability Statements are free of material misstatement, we performed test of Philippine Exporters Foundation, Inc. and Subrecipients' compliance with agreement terms, applicable laws and regulations. The result of our tests of compliance disclosed several instances of material non-compliance which resulted to questioned costs amounting to U.S.\$160,537 (₱4,352,454) which includes U.S.\$56,289 (₱1,526,107) in questioned costs under review of internal controls. These instances of material non-compliance were (1) reimbursement for value added tax (2) reimbursement for costs not included in the budget/in excess of budget and (3) excess reimbursement for allowable pre-agreement costs. Except for these questioned costs, see pages 49 to 75, for the items tested, Philippine Exporters Foundation, Inc. and Subrecipients complied in all material respects with those provisions, and for the items not tested, nothing came to our attention that the recipient/subrecipient did not comply, in all material respects, with those provisions.

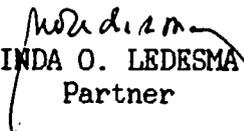
D. SUMMARY OF MANAGEMENT'S COMMENTS

PHILEXPORT's officials generally agreed with the findings and recommendations, however, they provided explanations for those recommendations that they will not adopt. These are included in Appendix I of this report.

Very truly yours,

CARLOS J. VALDES & CO.

By:


MINDA O. LEDESMA
Partner

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Cagayan de Oro

FINANCIAL REPORT

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF COOPERATIVE AGREEMENT
NO. AID 492-0449-A-00-0149-00
WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT

INDEPENDENT AUDITORS' OPINION

We have audited the Fund Accountability Statements of PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS for the Private Investment and Trade Opportunities Project for the period September 17, 1990 to April 30, 1992. These Fund Accountability Statements are the responsibility of the management of PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS. Our responsibility is to express an opinion on these Fund Accountability Statements based on our audit.

We conducted our audit in accordance with generally accepted U.S. government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the Fund Accountability Statements. 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 Statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit disclosed questioned costs amounting to U.S.\$160,537 (P4,352,454) out of total disbursements of U.S.\$1,328,835 (P35,906,573) or 12%.

In our opinion, except for the questioned costs mentioned in the preceding paragraph, the Fund Accountability Statements present fairly the receipts and expenditures of PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS for the Private Investment and Trade Opportunities Project from September 17, 1990 to April 30, 1992, in conformity with generally accepted accounting principles.

Carlos J. Valdes & Co.

CARLOS J. VALDES & CO.
Metro-Manila, Philippines
September 30, 1992

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT
 FUND ACCOUNTABILITY STATEMENT
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

PROJECT COMPONENTS	AMOUNT OBLIGATED		CUMULATIVE ADVANCES		CUMULATIVE DISBURSEMENTS		UNEXPENDED BALANCE		AMOUNT STILL OBLIGATED	
	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
I. PROJECT IMPLEMENTATION										
BROKERING SERVICES										
Subrecipients (Schedule I)	999,999	27,112,373	592,798	16,072,176	295,889	7,900,898	296,909	8,171,278	407,201	11,040,197
Self	130,001	3,524,639	77,064	1,943,105	3,773	102,290	73,291	1,840,815	52,937	1,581,534
	1,130,000	30,637,012	669,862	18,015,281	299,662	8,003,188	370,200	10,012,093	460,138	12,621,731
INFORMATION SERVICES										
POLICY ANALYSIS	700,000	18,978,680	728,128	19,906,212	173,759	4,711,013	554,369	15,195,199	(28,128)	(927,532)
TRAINING AND TECHNICAL ASSISTANCE	341,977	9,271,817	47,446	1,286,000	9,708	263,220	37,738	1,022,780	294,531	7,985,817
SALARIES	404,200	10,958,832	303,636	8,168,088	143,876	3,900,834	159,760	4,267,254	100,564	2,790,744
MAINTENANCE AND OPERATIONS	255,000	6,913,662	115,271	3,142,838	144,402	3,915,094	(29,131)	(772,256)	139,729	3,770,824
FURNITURE AND FIXTURES AND OFFICE EQUIPMENT	256,000	6,940,774	130,336	3,541,345	172,903	4,687,816	(42,567)	(1,146,471)	125,664	3,399,429
	667,000	15,083,971	136,598	3,724,230	384,525	10,425,408	(247,927)	(6,701,178)	530,402	14,359,741
II. MONITORING, EVALUATION AND AUDIT										
	65,880	1,786,165	-	-	-	-	-	-	65,880	1,786,165
TOTAL	3,820,057	103,570,913	2,131,277	57,783,994	1,328,835	35,906,573	802,442	21,877,421	1,688,780	45,786,919

Editha M. Jorvina
 MA. EDITHA M. JORVINA
 FINANCE & ADMINISTRATIVE OFFICER

Wilhelm G. Ortaliz
 WILHELM G. ORTALIZ
 NATIONAL MANAGER

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT
 FUND ACCOUNTABILITY STATEMENTS - SUBRECIPIENTS
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SUBRECIPIENTS	B U D G E T		CUMULATIVE DISBURSEMENTS		REIMBURSEMENT BY PHILEXPORT		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
COOPERATIVE BUSINESS INTERNATIONAL (SCHEDULE II)	333,333	9,037,458	105,200	2,852,216	17,775	481,927	87,425	2,370,289	228,133	6,185,242
THE PRAGMA CORPORATION (SCHEDULE III)	333,333	9,037,458	197,526	5,355,404	152,677	4,018,068	44,849	1,337,336	135,807	3,682,054
SHEMBERG MARKETING CORPORATION (SCHEDULE IV)	333,333	9,037,457	158,058	4,285,332	125,437	3,400,903	32,621	884,429	175,275	4,752,125
TOTAL	999,999	27,112,373	460,784	12,492,952	295,889	7,900,898	164,895	4,592,054	539,215	14,619,421

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
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 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT
 FUND ACCOUNTABILITY STATEMENT - COOPERATIVE BUSINESS INTERNATIONAL
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SCHEDULE II

PROJECT COMPONENTS	B U D G E T		CUMULATIVE DISBURSEMENTS		REIMBURSEMENT BY PHILEXPORT		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
SALARIES	39,158	1,061,667	11,598	314,450	-	-	11,598	314,450	27,560	747,217
FRINGE BENEFITS	7,048	191,088	2,255	61,138	-	-	2,255	61,138	4,793	129,950
CONSULTANT FEES	14,899	403,948	-	-	-	-	-	-	14,899	403,948
TRAVEL AND TRANSPORTATION	25,883	701,750	10,957	297,070	-	-	10,957	297,070	14,926	404,680
PER DIEM	7,868	213,320	3,486	94,514	-	-	3,486	94,514	4,382	118,806
OTHER DIRECT COST	4,346	117,831	2,375	64,392	-	-	2,375	64,392	1,971	53,439
OVERHEAD	38,094	1,032,820	11,778	319,330	-	-	11,778	319,330	26,316	713,490
SUBCONTRACTS	185,503	5,029,432	60,714	1,646,094	17,775	481,927	42,939	1,164,167	124,789	3,383,338
GENERAL AND ADMINISTRATIVE	10,534	285,602	2,037	55,228	-	-	2,037	55,228	8,497	230,374
TOTAL	333,333	9,037,458	105,200	2,852,216	17,775	481,927	87,425	2,370,289	228,133	6,185,242

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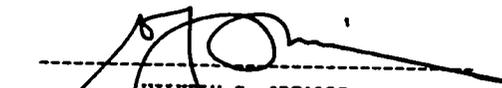
Wilhelm G. Ortaliz
 WILHELM G. ORTALIZ
 NATIONAL MANAGER

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT
 FUND ACCOUNTABILITY STATEMENT - THE PRAGMA CORPORATION
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SCHEDULE III

PROJECT COMPONENTS	B U D G E T		CUMULATIVE DISBURSEMENTS		REIMBURSEMENT BY PHILEXPORT		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
SALARIES	116,233	3,151,355	69,874	1,894,452	54,253	1,428,558	15,621	465,894	46,359	1,256,903
FRINGE BENEFITS	23,703	642,645	17,318	469,532	13,563	357,139	3,755	112,393	6,385	173,113
OVERHEAD EXPENSES	89,560	2,428,187	55,803	1,512,953	43,402	1,142,846	12,401	370,107	33,757	915,234
TRAVEL AND TRANSPORTATION	22,318	605,095	6,002	162,729	5,507	147,254	495	15,475	16,316	442,366
ALLOWANCES	30,072	815,324	5,799	157,225	5,786	155,679	13	1,546	24,273	658,099
FIELD OFFICE COSTS	31,894	864,723	26,073	706,902	18,715	489,778	7,358	217,124	5,821	157,821
OTHER DIRECT COSTS	19,553	530,129	16,657	451,611	11,451	296,814	5,206	154,797	2,896	78,518
TOTAL	333,333	9,037,458	197,526	5,355,404	152,677	4,018,068	44,849	1,337,336	135,807	3,682,054

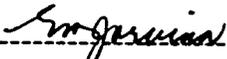

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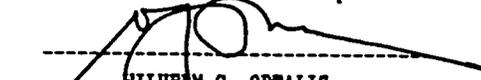

 WILHELM G. ORTALIZ
 NATIONAL MANAGER

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT
 FUND ACCOUNTABILITY STATEMENT - SHERBERG MARKETING CORPORATION
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SCHEDULE IV

PROJECT COMPONENTS	B U D G E T		CUMULATIVE DISBURSEMENTS		REIMBURSEMENT BY PHILEXPORT		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
FURNITURE AND FIXTURES	13,036	353,437	40,955	1,110,388	36,596	992,034	4,365	118,354	(27,919)	(756,951)
OFFICE EQUIPMENT	29,816	808,383	26,146	708,881	25,731	697,639	415	11,242	3,570	99,502
SERVICE VEHICLE	30,179	818,225	8,113	219,963	5,720	155,072	2,393	64,891	22,066	598,262
SALARIES AND WAGES	149,903	4,064,230	46,943	1,272,738	39,628	1,074,414	7,315	198,324	102,960	2,791,492
RENT	32,571	883,078	-	-	-	-	-	-	32,571	883,078
SUBSCRIPTIONS	4,757	128,974	498	13,502	382	10,350	116	3,152	4,259	115,472
MARKETING	73,071	1,981,130	22,439	608,376	9,278	251,561	13,161	356,815	50,632	1,372,754
COUNTERPART CONTRIBUTIONS CHARGED TO THE GRANT (SCHEDULE V)	-	-	12,964	351,484	8,108	219,833	4,856	131,651	(12,964)	(351,484)
TOTAL	333,333	9,037,457	158,058	4,285,332	125,437	3,400,903	32,621	884,429	175,275	4,752,125


 MA. EDITHA M. JORVINA
 FINANCE & ADMINISTRATIVE OFFICER


 WILHEM G. ORTALIZ
 NATIONAL MANAGER

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT
 COUNTERPART CONTRIBUTIONS CHARGED TO THE GRANT - SHERBERG MARKETING CORPORATION
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SCHEDULE V

PROJECT COMPONENTS	CUMULATIVE DISBURSEMENTS		REIMBURSEMENT BY PHILEXPORT		OUTSTANDING BALANCE	
	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
TRAVELLING	7,164	194,233	4,796	130,033	2,368	64,200
COMMUNICATION	4,070	110,347	1,578	42,787	2,492	67,560
PRINTING	1,730	46,904	1,734	47,013	(4)	(109)
TOTAL	12,964	351,484	8,108	219,833	4,856	131,651

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 FINANCE & ADMINISTRATIVE OFFICER

Wilhelm G. Ortaliz
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 NATIONAL MANAGER

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 SCHEDULE OF EXPENSES QUESTIONED BY THE AUDITORS - PHILEXPORT AND SUBRECIPIENTS

SCHEDULE VI

SEPTEMBER 17, 1990 TO APRIL 30, 1992

	T O T A L		I N E L I G I B L E		U N S U P P O R T E D	
	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
Philippine Exporters Foundation, Inc. (Schedule VII)	103,109	2,795,459	97,045	2,631,055	6,064	164,404
Subrecipients						
Cooperative Business International (Schedule VIII)	8,058	218,470	7,861	213,129	197	5,341
The Pragma Corporation (Schedule IX)	27,877	755,814	27,877	755,814	-	-
Shenberg Marketing Corporation (Schedule X)	21,493	582,711	15,739	426,711	5,754	156,000
	160,537	4,352,454	148,522	4,026,709	12,015	325,745

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
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 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 SCHEDULE OF EXPENSES QUESTIONED BY THE AUDITORS - PHILEXPORT

SCHEDULE VII
 1 of 8 pages

SEPTEMBER 17, 1990 TO APRIL 30 1992

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
A. MANILA								
I. Information Services								
Various	Various	Value added tax paid for encoding services. (Finding no. A-2 pages 51-53)	747	20,249	747	20,249	-	-
II. Training and Technical Assistance								
Various	Various	Value added tax paid for printing of various publications. (Finding no. A-2 pages 51-53)	1,107	30,004	1,107	30,004	-	-
III. Salaries								
Various	Various Journal Vouchers	Excess salaries resulting from erroneous computation of 13th month pay. (Finding no. A-II pages 40-42)	751	20,352	751	20,352	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
		IV. Maintenance and Operations						
Various	Various	a) Value added tax paid for various maintenance and operating expenses. (Finding no. A-2 pages 51-53)	639	17,321	639	17,321	-	-
Various	Various	b) Inauguration expenses for the National Office - a ceremonial expenditure which is not allowed under OMB Circular A-122 - Attachment to the Mandatory Standard Provisions of the Cooperative Agreement. (Finding no. A-1 pages 49-50)	2,911	78,933	2,911	78,933	-	-
			3,550	96,254	3,550	96,254	-	-
		V. Furniture and Fixtures and Office Equipment						
Various	Various	Value added tax paid for purchases of furniture and fixtures and office equipment. (Finding no. A-2 pages 51-53)	22,452	608,727	22,452	608,727	-	-
		Subtotal	28,607	775,586	28,607	775,586	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
		B. CEBU						
		I. Training and Technical Assistance						
Various	Various	a) Payment for the production and printing of the magazine "Make it Cebu". This payment is questionable because:	9,221	250,000	9,221	250,000	-	-
		1. The contractor was paid in advance (P213,000 in November and December 1991 and P37,000 in April 1992) contrary to the provision of the contract that payment should be made upon completion of the work. The magazine was delivered only in June 1992.						
		Three checks amounting to P187,000 were issued in favor of Miguel Noel, representative of the contracting party (VL Industries), two checks amounting to P150,000 were encashed by Helen Joyce A. Yu. The remaining balance of P63,000 was advanced by Floretta del Fierro - PITO-P Cebu Regional Project manager, and was paid in cash to Miguel Noel.						
		2. In addition, "Make it Cebu" is incomplete. There were six (6) blank pages out of the thirty-six (36) pages, and four (4) pages with half-page print only, yet the magazine was accepted by PITO-P.						

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
		3. Although the project proposal was submitted by Cebu Chamber of Commerce and Industry, the contract was awarded to VL Industries, a single proprietorship not engaged in production and printing of magazines. VL Industries in turn subcontracted the job to Jose Clavano, Incorporated (JCI) Offset Printers for P200,000. For the collection, JCI issued official receipt to VL Industries for P132,000 only.						
		4. The names VL Industries and Jose Clavano Incorporated, as producer and printer of the magazine, respectively were never indicated in the magazine. (Finding no. A-I a and b pages 34-40)						
Various	Various	b) Payment for training and workshops. This is questionable because:						
		1. Cebu Fashion Accessories Manufacturers and Exporters, Inc.(Cebu-Fame) was contracted to conduct management training, planning workshops and technical trainings. Although the contract was executed only on May 19, 1992, the total contract price was already paid as of April 30, 1992 (See Exhibit I pages 45-46). Payments amounting to P160,000 (in split checks - all issued on the same date) were issued in favor of Joyce Yang. The payments were deposited in two different bank accounts.	39,834	1,080,000	39,834	1,080,000	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
		2. The contractor was paid in advance although the training will run for one year.						
		c) Payment for International Market and Product Trend Magazine Subscription - check was issued to Joyce Yang. These checks were deposited in same bank account as the P160,000 (see b.1). (Finding no. A-I a and b pages 34-40)	5,533	150,000	5,533	150,000	-	-
			54,588	1,480,000	54,588	1,480,000	-	-
		II. Salaries						
Various	Various Journal Vouchers	a) Excess salaries resulting from erroneous computation of 13th month pay. (Finding no. A-II pages 40-42)	236	6,395	236	6,395	-	-
Various	Various	b) Payment for position not in the budget - re: Regional Accountant. (Finding no. A-3 pages 53-55)	249	6,750	249	6,750	-	-
			485	13,145	485	13,145	-	-
		III. Maintenance and Operations						
Various	Various	a) Value added tax paid for various maintenance and operating expenses. (Finding no. A-2 pages 51-53)	805	21,815	805	21,815	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
Various	Various	b) Rent for generator - an expenditure not budgeted. (Finding no. A-3 pages 53-55)	1,106	30,000	1,106	30,000	-	-
Various	Various	c) Inauguration expenses for the Cebu Office - a ceremonial expenditure which is not allowed under OMB Circular A-122 - Attachment to the Mandatory Standard Provisions of the Cooperative Agreement. (Finding no. A-1 pages 49-50)	3,850	104,376	3,850	104,376	-	-
			5,761	156,191	5,761	156,191	-	-
		IV. Furniture and Fixtures and Office Equipment						
Various	Various	Value added tax paid for purchases of furniture and fixtures and office equipment. (Finding no. A-2 pages 51-53)	2,188	59,322	2,188	59,322	-	-
		Subtotal	63,022	1,708,658	63,022	1,708,658	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
C. DAVAO								
I. Training and Technical Assistance								
9-23-91	CV0388 CK1559822	a) Claim for financial assistance given to Davao City Federation of Peoples Economic Council's Foundation, Inc. for the project MADE IN DAVAO '91 which was refunded back to PHILEXPORT on July 17, 1992. (Finding no. A-5 page 56-57)	696	18,876	696	18,876	-	-
2-04-92	CV0760 CK1626563	b) Financial assistance given to Northern Mindanao Development Bank for the Study on the Mindanao Power Crisis: Impact on Mindanao Exports - final report of the study has not yet been submitted as proof of project completion. (Finding no. A-4 pages 55-56)	6,012	163,000	-	-	6,012	163,000
			6,708	181,876	696	18,876	6,012	163,000
II. Salaries								
Various	Various Journal Vouchers	a) Excess salaries resulting from erroneous computation of 13th month pay. (Finding no. A-II pages 40-42)	194	5,261	194	5,261	-	-
Various	Payroll Sheets	b) Payment for position not in budget - re: Regional Accountant. (Finding no. A-3 pages 53-55)	681	18,450	681	18,450	-	-
			875	23,711	875	23,711	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
III. Maintenance and Operations								
Various	Various	a) Value added tax paid for various maintenance and operating expenses. (Finding no. A-2 pages 51-53)	1,003	27,192	1,003	27,192	-	-
Various	Various	b) Claims for lodging expenses which are unsupported. (Finding no. A-4 pages 55-56)	52	1,404	-	-	52	1,404
Various	Various	c) Inauguration expenses for the Davao Office - a ceremonial expenditure which is not allowed under ONB Circular A-122 - Attachment to the Mandatory Standard Provisions of the Cooperative Agreement. (Finding no. A-1 pages 49-50)	1,271	34,450	1,271	34,450	-	-
			2,326	63,046	2,274	61,642	52	1,404
IV. Furniture and Fixtures and Office Equipment								
Various	Various	Value added tax paid for purchase of office equipment. (Finding no. A-2 pages 51-53)	1,571	42,582	1,571	42,582	-	-
Subtotal			11,480	311,215	5,416	146,811	6,064	164,404
GRAND TOTAL			103,109	2,795,459	97,045	2,631,055	6,064	164,404

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 SCHEDULE OF EXPENSES QUESTIONED BY THE AUDITORS - COOPERATIVE BUSINESS INTERNATIONAL AND SUBCONTRACTORS

SEPTEMBER 17, 1990 TO APRIL 30, 1992

	TOTAL		INELIGIBLE		UNSUPPORTED	
	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
Cooperative Business International (Schedule VIII-A)	2,928	79,386	2,928	79,386	-	-
SUBCONTRACTORS						
Intrade Philippines, Inc. (Schedule VIII-B)	4,451	120,675	4,451	120,675	-	-
Access Asia (Philippines), Inc. (Schedule VIII-C)	679	18,409	482	13,068	197	5,341
	<u>8,058</u>	<u>218,470</u>	<u>7,861</u>	<u>213,129</u>	<u>197</u>	<u>5,341</u>

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 SCHEDULE OF EXPENDITURES QUESTIONED BY THE AUDITORS - COOPERATIVE BUSINESS INTERNATIONAL, INC.
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SCHEDULE VIII-A
 1 of 2 pages

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
I. SALARIES AND WAGES								
Various	Various	Compensation paid to personnel who are not included in the budget: Marc A. Beck, Kim Rose and Marsha Sheehan. (Finding no. B-1 pages 59-61)	962	26,082	962	26,082	-	-
II. FRINGE BENEFITS								
Various	Various	Expenses claimed in excess of 18% of salaries as provided in the agreement. (Finding no. B-1 pages 59-61)	340	9,218	340	9,218	-	-
III. TRAVEL AND TRANSPORTATION								
10-11-91 and 12-01-91	Various	Travel expenses of Sultan Reza charged twice. (Finding no. B-1 pages 42-43)	228	6,182	228	6,182	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
IV. OTHER DIRECT COST								
2-27-92	CV request	Charges for intern fee of Said Salah. This expenditure was not budgeted and Said Salah was not included among the contract personnel. (Finding no. B-1 pages 59-61)	512	13,882	512	13,882	-	-
3-12-92 and 2-15-92	Invoice 268212 and 34691	Office supplies not included in the budget for other direct cost as this is part of general and administrative expenses. (Finding no. B-1 pages 59-61)	19	515	19	515	-	-
			531	14,397	531	14,397	-	-
V. OVERHEAD								
None	None	38.4% (overhead rate) of questioned costs. (Findings no. B-I pages 42-43 and B-1 pages 59-61)	791	21,446	791	21,446	-	-
VI. GENERAL AND ADMINISTRATIVE (G & A)								
None	None	3.7% (G & A rate) of questioned costs. (Finding no. B-I pages 42-43 and B-1 pages 59-61)	76	2,061	76	2,061	-	-
		TOTAL	2,928	79,386	2,928	79,386	-	-

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 SCHEDULE OF EXPENDITURES QUESTIONED BY THE AUDITORS - INSTRADE (PHILIPPINES), INC.
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SCHEDULE VIII-B
 1 of 2 pages

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
I. SALARIES AND WAGES								
Various	Various	Compensation to employees in excess of the contracted amount representing additional pay for holidays. (Finding no. B-1 pages 59-61)	252	6,835	252	6,835	-	-
II. OVERHEAD								
2-15-92	CV 008 to 010	Counterpart contribution representing payment for members of the Executive Committee for attending meetings. (Finding no. B-1 pages 59-61)	1,912	51,840	1,912	51,840	-	-
1-27-92	CV 60904	Insurance for Toyota Corolla. (Finding no. B-3 pages 63-64)	497	13,470	497	13,470	-	-
Various	Various	Repairs and maintenance of Toyota Corolla. (Finding no. B-3 pages 63-64)	450	12,188	450	12,188	-	-
2-11-92	CV 004	Freight and handling for Toyota Corolla. (Finding no. B-3 pages 63-64)	179	4,848	179	4,848	-	-
Various	Various	Licenses and permits for Toyota Corolla. (Finding no. B-3 pages 63-64)	105	2,844	105	2,844	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
4-24-92	CV 028	Value added tax charged by DHL Phils. for freight services. (Finding no. B-2 pages 61-63)	8	226	8	226	-	-
			3,151	85,416	3,151	85,416	-	-
III. OTHER DIRECT COST								
Various	Various	Value added tax for purchases of office supplies and courier services. (Finding no. B-2 pages 61-63)	102	2,770	102	2,770	-	-
IV. FURNITURE AND FIXTURES AND OFFICE EQUIPMENT								
Various	Various	Value added tax paid for purchase of furniture, fixtures and equipment. (Finding no. B-2 pages 61-63)	946	25,654	946	25,654	-	-
		Total	4,451	120,675	4,451	120,675	-	-

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 SCHEDULE OF EXPENDITURES QUESTIONED BY THE AUDITORS - ACCESS ASIA (PHILS.), INC.
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
I. CONSULTANCY FEE								
Various	Various	Claims in excess of contracted rate of U.S.\$300/man-day. (Finding no. B-1 pages 59-61)	410	11,116	410	11,116	-	-
II. OFFICE SERVICES								
Various	Various	Valued added tax for purchases of office supplies and courier services. (Finding no. B-2 pages 61-63)	72	1,952	72	1,952	-	-
3-29-92	CV 920080	Check payable to "cash" without supporting documents (for taxes, releases, handling and delivery). (Finding no. C-I pages 43-44)	197	5,341	-	-	197	5,341
			269	7,293	72	1,952	197	5,341
		TOTAL	679	18,409	482	13,068	197	5,341

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 SCHEDULE OF EXPENDITURES QUESTIONED BY THE AUDITORS - THE PRAGMA CORPORATION
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SCHEDULE IX
 1 of 2 pages

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
I. SALARIES								
Various	Various	Excess payment of U.S.\$10.00 per day to the administrative officer Carina Azores. Per budget, the daily rate is U.S.\$93.44, payment was at U.S.\$103.44. (Finding no. C-2 pages 66-68)	453	12,282	453	12,282	-	-
Various	Various	Excess reimbursement to Pintar International for the salaries of the Field Coordinator. (Finding no. C-2 pages 66-68)	5,580	151,287	5,580	151,287	-	-
			6,033	163,569	6,033	163,569	-	-
II. FRINGE BENEFITS								
Various	Various	25% of excess payment to administrative officer. (Finding no. C-2 pages 66-68)	113	3,064	113	3,064	-	-
Various	Various	25% of excess salaries reimbursed to Pintar International. (Finding no. C-2 pages 66-68)	1,395	37,822	1,395	37,822	-	-
Various	Various	Amount claimed in excess of amount reimbursed to Pragma-Pil, Inc. for Manila based staff. (Finding no. C-2 pages 66-68)	3,324	90,122	3,324	90,122	-	-
			4,832	131,008	4,832	131,008	-	-
III. ALLOWANCES								
Various	Various	Per diem paid to project staff in excess of the USAID maximum per diem rates. (Finding no. C-2 pages 66-68)	90	2,440	90	2,440	-	-

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
IV. OVERHEAD								
Various	Various	64% of questioned salaries and benefit amounting to U.S.\$10,865. (Finding no. C-2 pages 66-68)	6,954	188,540	6,954	188,540	-	-
V. FIELD OFFICE COSTS								
Various	Various	Expenses incurred for the maintenance of a liaison office in Makati (re: rent, electricity, communication, et.al.) in addition to the expenses incurred by the main office located in Pasig. (Finding no. C-5 pages 70-71)	1,590	43,109	1,590	43,109	-	-
6-30-90	FAXCOM PLUS Bill	Expenses prior to July 30, 1991 not covered for reimbursement under the agreement. (Finding no. C-1 pages 64-66)	70	1,898	70	1,898	-	-
4-07-92	OR4267737	Local tax paid. (Finding no. C-3 pages 68-69)	10	271	10	271	-	-
Various	Various	Value added taxes included in billings. (Finding no. C-4 pages 69-70)	807	21,880	807	21,880	-	-
			2,477	67,158	2,477	67,158		
VI. PRE-AGREEMENT COSTS								
Various	Various	Cost prior to contract signing date in excess of U.S.\$15,000 limit. (Finding no. C-1 pages 64-66)	7,491	203,099	7,491	203,099	-	-
Total			27,877	755,814	27,877	755,814	-	-

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 SCHEDULE OF EXPENDITURES QUESTIONED BY THE AUDITORS - SHERBERG MARKETING CORPORATION
 SEPTEMBER 17, 1990 TO APRIL 30, 1992

SCHEDULE X
 1 of 2 pages

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
I. FURNITURE AND FIXTURES								
Various	Various	Value added tax included in the cost of furniture and fixtures. (Finding no. D-1 pages 72-73)	2,339	63,406	2,339	63,406	-	-
II. OFFICE EQUIPMENT								
Various	Various	Value added tax included in the cost of equipment. (Finding no. D-1 pages 72-73)	345	9,345	345	9,345	-	-
III. RENTAL								
Various	Various	Charges for vehicle rental - lease agreement does not specify which registration number, engine number, chassis number. (Finding no. D-3 pages 74-75)	5,754	156,000	-	-	5,754	156,000

DATE	REFERENCE	PARTICULARS	TOTAL		INELIGIBLE		UNSUPPORTED	
			U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
IV. SUBSCRIPTIONS								
Various	Various	Value added tax included in the cost of supplies purchased. (Finding no. D-1 pages 72-73)	91	2,476	91	2,476	-	-
V. COUNTERPART CONTRIBUTIONS								
Various	Various	Expenditures which were counterpart contributions as indicated in the budget (Section 5 of the Agreement between Philippine Exporters Foundation, Inc. and Shenberg Marketing Corporation) were reimbursed from Grant funds.						
		Travelling 130,033						
		Communications 42,787						
		Printing 47,013		219,833				
		Additional disbursements as of April 30 which were not yet reimbursed. (Finding no. D-2 pages 73-74)	131,651		12,964	351,484		
		Total			21,493	582,711	15,739	426,711
							5,754	156,000

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REPORT ON INTERNAL CONTROLS

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF COOPERATIVE AGREEMENT
NO. AID 492-0449-A-00-0149-00
WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT

INDEPENDENT AUDITORS' OPINION

We have audited the Fund Accountability Statements of PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS for the Private Investment and Trade Opportunities Project for the period September 17, 1990 to April 30, 1992 and have issued our report thereon dated September 30, 1992.

We conducted the audit in accordance with generally accepted U.S. government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statements are free of material misstatement.

In planning and performing our audit of PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statements and not to provide assurance on the internal control structure.

The management of PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS are 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 Statements 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 procurement and disbursement and payroll 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 Statements.

The reportable conditions which we identified pertains to the internal control procedures in procurement and disbursements which in our opinion is substantially inadequate. These are as follows:

1. The Regional Manager of the Cebu office has unlimited contracting authority. Advance payments were made to contractors through individuals instead of the contracting party. Contract provisions which stipulates the terms of payment to a contractor was not followed. The contractor was paid regardless of non-compliance. As a result of these weaknesses contracts amounting to U.S.\$54,588 (P1,480,000) are being questioned.
2. There is lack of supervisory review in the processing of disbursements, expenses amounting to U.S.\$1,701 (P46,107) were questioned as a result of this weakness.

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 Statements 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 and Philippine Exporters Foundation, Inc. and Subrecipients. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Carlos J. Valdes & Co.

CARLOS J. VALDES & CO.
Metro-Manila, Philippines
September 30, 1992

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF COOPERATIVE AGREEMENT
NO. AID 492-0449-A-00-0149-00
WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT

FINDINGS AND RECOMMENDATIONS

A. Philippine Exporters Foundation, Inc.

I. PROCUREMENT AND DISBURSEMENT PROCEDURES

C o n d i t i o n
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- a) The Regional Manager for Cebu office, Ms. Floretta del Fierro has unlimited contracting authority although her check signing authority is limited only up to ₱150,000. The Regional Manager signed contracts up to U.S.\$39,834 (₱1,080,000).

C r i t e r i a
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Sound internal accounting control requires that transactions are to be authorized and executed only by persons acting within the scope of their authority. Approval channels need to be defined in establishing authority for specific transactions. In this regard, procurement procedures should include the Project Implementation Committee (PIC) in reviewing major contracts prior to execution.

C a u s e
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The extent of PHILEXPORT's delegation of authority to its officers as far as signing of contracts is concerned was not specified.

E f f e c t
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Contracts amounting to U.S.\$54,588 (₱1,480,000) executed by the Regional Manager in Cebu are questioned. (See pages 15-17)

Recommendation

We recommend that PHILEXPORT (1) resolve with USAID the contracts totalling U.S.\$54,588 (P1,480,000) (2) establish a delegation of authority that specifies the limits of the delegate's authority.

Auditee's Response

The Project has not been advised by USAID regarding the need for contracts on funding assistance extended to specific proponents. The projects being referred to and its corresponding budget were approved by the Project Implementation Committee in its Ninth Meeting, 21 November 1991. Subsequently, Ms. Floretta del Fierro decided that it was necessary for her to require the proponent to enter into some commitments on how to implement the project assistance.

We note the finding and will study the recommendation for implementation.

Auditors' Comments

Only the request for funding assistance was approved by the PIC. The PIC never reviews the contract: whether the terms are reasonable or not. This is left to the discretion of the Regional Manager. PHILEXPORT should have a sound contracting procedure in the first place moreso that contract amounts are significant. Lack of advise from USAID should not be the reason for the looseness in control.

C o n d i t i o n

b) The Cebu Regional Office allows advance payments to its contractors irregardless of the terms stipulated in the contract. In addition, several payments were made to individuals and not to the contracting parties:

b.1) The contractor was paid in advance (P213,000 in November and December 1991 and P37,000 in April 1992) contrary to the provision of the contract that payment should be made upon completion of the work. The magazine was delivered only in June 1992.

Three checks amounting to P187,000 were issued in favor of Miguel Noel, representative of the contracting party (VL Industries), two checks amounting to P150,000 were encashed by Helen Joyce A. Yu. The remaining balance of P63,000 was advanced by Floretta del Fierro - PITO-P Cebu Regional Project Manager and was paid in cash to Miguel Noel.

In addition, "Make it Cebu" is incomplete. There were six (6) blank pages out of the thirty-six (36) pages, and four (4) pages with half-page print only, yet the magazine was accepted by PITO-P.

Although the project proposal was submitted by Cebu Chamber of Commerce and Industry, the contract was awarded to VL Industries, a single proprietorship not engaged in production and printing of magazines. VL Industries in turn subcontracted the job to Jose Clavano, Incorporated (JCI) Offset Printers for ₱200,000. For the collection, JCI issued two official receipts in favor of DTI for ₱68,000 and ₱132,000 in favor of VL Industries.

The names VL Industries and Jose Clavano Incorporated were never indicated in the magazine.

- b.2) A grant was approved by the PIC to Cebu Fashion Accessories and Exporters, Inc. (Cebu-FAME) for U.S.\$5,533 (₱150,000) for the subscription of the International Market and Product Trend Magazine. The checks were issued in favor of Joyce Yang and were deposited in account No. 20-29 (See Exhibit I pages 45-46).
- b.3) Cebu-FAME was also contracted for U.S.\$39,834 (₱1,080,000) for Training and Workshops for 1992 (January to December). Although the contract was executed on May 19, 1992, the total contract price was already paid as of April 3, 1992 (See Exhibit I pages 45-46). Payments amounting to ₱160,000 (in split checks - the same date issued) were issued in favor of Joyce Yang and deposited in account No. 20-29 while the balance of ₱920,000 issued in favor of Joyce Yang/Cebu-FAME was deposited in another bank account - 2-013-02-00048-1.

C r i t e r i a
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Sound internal control procedures require the following:

- a) Services should be in accordance with the contract terms and should be reviewed for completeness prior to payment;
- b) Payments should be made directly to the contracting party.

In addition, based on Attachment 3 Mandatory Standard Provisions of the Cooperative Agreement, the recipient will be reimbursed only for costs which are determined to be reasonable, allocable and allowable.

C a u s e

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Internal control procedures for disbursements is inadequate. PHILEXPORT allows advance payments to its contractors notwithstanding contract terms, and allows issuance of checks other than to the contracting party. It should also be noted that there is a deliberate intention to circumvent approval of PHILEXPORT as evidenced by the splitting of checks in ₱75,000 each (See Exhibit I pages 45-46). For amounts of more than ₱150,000, the signatories are: Mr. Wilhelm G. Ortaliz - National Manager to be countersigned either by Ms. Eufronia L. Coronel - PHILEXPORT's Controller or Atty. Ma. Rosario Franco - PHILEXPORT's President.

E f f e c t

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Expenditures for Training and Technical Assistance amounting to U.S.\$54,588 (₱1,480,000) were questioned.

Recommendation

We recommend that PHILEXPORT should (1) resolve with USAID the payments made to the contractors totalling U.S.\$54,588 (₱1,480,000) and, (2) establish internal control procedures to ensure proper control of disbursements by paying in accordance with contract terms, issuing checks directly to contracting party, documenting contractual changes through contract amendment and to discontinue the practice of splitting checks.

In addition, we also recommend that USAID should endorse the matter to the Inspector General's Office of Investigation for further investigation.

Auditee's Response

- b. 1) The publication of the "Make it Cebu" brochure was a project of the Cebu Chamber of Commerce and Industry (CCCI). It was one of the first projects approved for PITO-P financial assistance in Cebu.

The CCCI relied heavily on the assistance of the Region VII and the Cebu Provincial Offices of the Department of Trade and Industry and the PITO-P Project Staff in making arrangements for the preparation of the various inputs needed for the brochure.

Four companies were invited to bid on the publication of the "Make it Cebu" brochure. Among the companies was VL Industries, a single proprietorship owned and managed by Mr. Miguel Noel. Ms. Helen Joyce A. Yu, who is mentioned in the Audit Report, is the company's Office Manager. VL Industries offered the lowest quoted price of ₱250,000.00 for 1,000 copies of the brochure.

VL Industries is primarily engaged in general merchandising. However, Mr. Miguel Noel is also engaged in technical consultancies, preparation of feasibility studies and other services. If necessary, Mr. Noel has indicated that he can provide certifications from various companies and organizations which have engaged his services as Consultant and/or Service broker.

Eventually, VL Industries agreed to arrange for the printing of 2,000 copies of the brochure for the same amount quoted for only 1,000 copies. Mr. Miguel Noel was persuaded by the CCCI to make a contribution to the Project in as much as the brochure is intended to promote investments in Cebu.

Printing of the brochure should have been completed on or before 18 January 1991. However, the CCCI decided to postpone printing of the brochure until the first quarter of 1992 in order that data to be used can be updated to include 1991 figures. (Note: Please refer to data on Balance of Payments, Power Consumption, Water Consumption, Passenger Traffic, Cebu Shipcalls, etc.)

In March 1992, VL Industries informed the CCCI that it may have to increase its contract fee in view of the increased costs which it will incur due to the decision of CCCI to delay the printing of the brochure. VL Industries cited that it needs the increase as it will not make any profit on the contract since it already agreed to increase the number of copies to be printed to 2,000. Officials of the CCCI and the DTI again prevailed on Mr. Noel to maintain his quoted fee. VL Industries agreed to accommodate the request provided it was immediately paid the balance of the contract fee of ₱37,000.00.

We admit that the manner in which cash and checks payments were made by Ms. del Fierro may not have been in accordance with proper financial management practices. However, we are confident that grant funds provided were spent on the "Make It Cebu" Project.

Attached, we are submitting the following documents in support of our representations:

- Certification of the Cebu Chamber of Commerce and Industry duly signed by its President, Mr. Geronimo D. Sta Ana, noted by Ms. Floretta del Fierro (PITO-P Cebu Manager), Ms. Brenda Orosco (Cebu Provincial Directors of the Department of Trade and Industry) and Mr. Miguel Noel (Proprietor of VL Industries). (Please refer to Attachment A).
- Certification of Mr. Miguel E. Noel that Ms. Helen Joyce Yu is an employee of VL Industries since 1984 and that she is presently the Company's Office Manager. (Please refer to Attachment B).

- Certification by the other three companies which submitted service bids for the publication of the brochure that they knew of the award of the contract to VL Industries and interposed no objections (Please refer to Attachment C).

b. 2 and 3)

Ms. Joyce Yang was the President of Cebu-FAME at the time PITO-P provided the ₱150,000.00 funding assistance for the organization's subscription to international market and product magazines.

We are attaching, herewith, a certification signed by all officers of Cebu-FAME stating that the organization received, through its President, the ₱1,230,000.00 PITO-P funding assistance for Cebu-FAME training projects and subscriptions to design and trade magazines. (Please refer to Attachment D)

Cebu-FAME has fully utilized the ₱150,000.00 financial assistance for its subscription to market and product magazines. The organization actually spent a total of ₱194,878.30 on subscriptions to eleven producers' magazines. (Please refer to Attachment E).

The magazines Cebu-FAME subscribes to are presently kept in the PITO-P Cebu Office. These are made available to interested parties strictly for in-room use only.

The Cebu-FAME training programs and market and subscription project, as with the case of the CCCI "Make it Cebu" brochure project, were approved for PITO-P funding assistance at the start of the PITO-P Cebu Office operation. At that point, the PITO-P Cebu manager only had a Secretary and a Trade Information Officer as Support Staff. Following receipt of the Report on the Financial Management Review of the PITO-P Davao Office, conducted by the USAID Office of Financial Management on the PITO-P Davao Office, in the first quarter of 1992, it was decided that the Regional Offices should be allowed to each hire an Accountant to assist the Regional Managers in the management of project funds.

The two ₱75,000.00 checks were given to Cebu-FAME during the Christmas Party held after the 10th Meeting of the PITO-P Project Implementation Committee (PIC) on 19 December 1991 in Cebu. The checks represented the PITO-P funding assistance for the organization's subscriptions to market and product magazines.

The PIC rotates its regular monthly meetings among the Project's regional offices so that it could invite business leaders to participate in such meetings and get better acquainted with how PITO-P operates and what the Project is doing to assist in the promotion of trade and investments. Regional Project Managers optimize benefits which can be derived from the visit of the PIC arranging activities like the following:

- special meetings with officers of industry or trade organizations to discuss specific projects or development programs;
- press conferences;
- awarding of checks representing funding assistance being extended by PITO-P to PIC-approved projects

The 1991 Christmas Party served as the occasion in for the PIC, hand over the checks for the assistance funds to Officers of Cebu-FAME in the presence of leading media representatives.

Technically, the splitting of the ₱150,000.00 grant to Cebu-FAME into two - ₱75,000.00 checks may be considered a circumvention of the need to secure PHILEXPORT approval. We were actually intending to have the PHILEXPORT President, Atty. Ma. Rosario Franco countersign just one ₱150,000.00 check. However, she decided to return to Manila that afternoon immediately after the PIC Meeting and was, therefore, not able to hand-over the check herself. We also wish to stress that some PIC Members were present during the occasion.

II. PAYROLL

C o n d i t i o n

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Errors were noted in the amount claimed from and reimbursed by USAID for salaries (13th month pay) for all offices.

C r i t e r i a

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Based on Attachment 3 Mandatory Standard Provisions of the Cooperative Agreement, the recipient will be reimbursed only for costs which are determined to be reasonable, allocable and allowable.

C a u s e

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Withholding tax was erroneously debited to Salaries.

E f f e c t

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It was noted that salaries claimed from and reimbursed by USAID exceeded actual disbursements as follows:

Reference	Line Item	A m o u n t	
		U. S. Dollars	Philippine Peso
Page 13	Manila	751	20,352
Page 17	Cebu	236	6,395
Page 19	Davao	194	5,261
	TOTAL	1,181	32,008

Recommendation

We recommend that PHILEXPORT resolve with USAID the excess charges for the 13th month pay totalling U.S.\$1,181 (₱32,008) and refund any amount determined to be unallowable.

Auditee's Response

The Finance and Administrative Officer prepares the Payroll and submits it for approval by the National Manager.

There were no excess payments for the 13th month pay for employees. The withholding taxes on the 13th month pay was erroneously debited to the Salaries and Wages Account. Unfortunately, we failed to furnish Auditors with the appropriate Correcting Entries in the journal which had already been made. A check on the individual payroll bank accounts of employees will confirm that there was no excess payments made on their 13th month pay.

Auditors' Comments

Although the books of accounts have been corrected, subsequent reimbursement made by USAID for salaries exceeded by U.S.\$ 1,181 (₱32,008). This excess should be refunded back to USAID.

B. Cooperative Business International

I. CASH DISBURSEMENTS

C o n d i t i o n

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We noted that the supporting documents submitted for reimbursement are not stamped "Paid" to prevent re-use or duplication of payment.

C r i t e r i a

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Internal accounting control standards require that check vouchers and its supports should be stamped "Paid" or otherwise cancelled at the time of payment to prevent being recorded a second time and reused to support a duplicate payment.

Agreement Between Philippine Exporters Foundation, Inc. and Cooperative Business International Article V Section 2 - Accounting, Audit and Records

- The grantee shall maintain the books of accounts, records, journals, and other documents of the OFFICE and its operations, separate and distinct from those of its other business activities. The books of accounts, records, journals, and other documents of the OFFICE shall be kept in accordance with accounting procedures that sufficiently substantiate all charges to the GRANT and show the data needed by the GRANTOR in evaluating the GRANTEE's performance.

C a u s e

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It appears that there is lack of supervisory review in the processing of transactions.

E f f e c t

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Travel expense of Sultan Reza - CBI personnel was charged twice. Related overhead and general and administrative expenses were also questioned as follows:

Reference	Line Item	A m o u n t	
		U. S. Dollars	Philippine Pesos
Page 22	Travel and transportation	228	6,182
Page 23	Overhead (38.4% x U.S.\$228)	87	2,359
Page 23	General and administrative (3.7% x U.S.\$228)	8	217
	TOTAL	323	8,758

Recommendation

We recommend that PHILEXPORT (1) require CBI to establish internal control procedures to ensure supervisory review of disbursement transactions and ensure that all check vouchers and its supports are stamped "Paid" upon payment, and (2) resolve with CBI U.S.\$323 (₱8,758) in questioned costs and recover any amount determined to be unallowable.

Auditee's Response

We note the findings and will study the recommendations for implementation.

C. ACCESS ASIA (PHILS.), INC.

I. CASH DISBURSEMENTS

C o n d i t i o n

We noted that several checks were issued "pay to cash" and there was one instance when the payment does not have any supporting documents at all.

C r i t e r i a
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Internal accounting control standards require the following:

- a) Checks should be prepared based on the original approved supporting documents;
- b) Drawing of checks payable to cash should be discouraged.

Agreement Between Philippine Exporters Foundation, Inc. and Cooperative Business International Article V Section 2 - Accounting, Audit and Records - Attachment to the Subcontract Between Cooperative Business International and Access Asia

The grantee shall maintain the books of accounts, records, journals, and other documents of the OFFICE and its operations, separate and distinct from those of its other business activities. The books of accounts, records, journals, and other documents of the OFFICE shall be kept in accordance with accounting procedures that sufficiently substantiate all charges to the GRANT and show the data needed by the GRANTOR in evaluating the GRANTEE's performance.

C a u s e
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Subrecipient's internal control procedures allow drawing of checks payable to "cash" and payment of expenditures without sufficient documentation.

E f f e c t
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Access Asia (Phils.), Inc.'s payment for U.S.\$197 (P5,341) is questioned due to insufficient documentation. (See page 26)

Recommendation

We recommend that PHILEXPORT (1) require Access Asia (Phils.) to establish internal control procedures to ensure that checks are made in favor of specific payees and not to cash and (2) resolve with Access Asia (Phils.) U.S.\$197 (P5,341) questioned costs and recover any amount determined to be unallowable.

Auditee's Response

We note the findings and will study the recommendations for implementation.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COOPERATIVE AGREEMENT NO. AID 492-0449-A-00-0149-00
 WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
 FINDINGS AND RECOMMENDATIONS

EXHIBIT I
 1 of 2 pages

CONTRACTOR	CONTRACTED AMOUNT	PAYEE	DATE	CHECK NO.	AMOUNT	REMARKS
1. VL Industries	250,000	Miguel Noel	11-14-91	811398	75,000	Encashed by Helen Joyce A. Yu.
		Miguel Noel	11-29-91	811399	75,000	- Same -
		Floretta del Fierro	12-12-91	JV 46	63,000	Money was advanced and paid in cash to Miguel Noel.
		Miguel Noel	4-14-92	867170	37,000	Deposited to account no. 1161-0093-73.
					----- 250,000 -----	
2. Cebu Fashion Accessories Manufacturers and Exporters, Inc.						
a) International Project and Product Trend Magazine	150,000	Joyce Yang	12-19-92	844328	75,000	Deposited to account 20-29.
			12-19-92	844330	75,000	- Same -
					----- 150,000 -----	

CONTRACTOR	CONTRACTED AMOUNT	PAYEE	DATE	CHECK NO.	AMOUNT	REMARKS
b) Training and Workshops	1,080,000	Joyce Yang	12-19-91	844325	10,000	Deposited to account no. 20-29. - Same - - Same -
			12-19-91	844326	75,000	
			12-19-91	844327	75,000	
		Joyce Yang/Cebu-Fame	4-03-92	867160	920,000	Deposited to account no. 2-013-02-00048-1.
						1,080,000
	1,480,000					

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Coopers & Lybrand (International)

Bacolod Cebu Davao
Cagayan de Oro

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

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF COOPERATIVE AGREEMENT
NO. AID 492-0449-A-00-0149-00
WITH PHILIPPINE EXPORTERS FOUNDATION, INC.
FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT

INDEPENDENT AUDITORS' OPINION

We have audited the Fund Accountability Statements of PHILIPPINE EXPORTERS FOUNDATION, INC. AND SUBRECIPIENTS for the Private Investment and Trade Opportunities Project for the period September 17, 1990 to April 30, 1992 and have issued our report thereon dated September 30, 1992.

We conducted our audit in accordance with generally accepted U.S. government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statements are free of material misstatement.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS is the responsibility of the management of PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS. As part of obtaining reasonable assurance about whether the Fund Accountability Statements are 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 Statements.

The results of our tests of compliance disclosed several instances of material noncompliance which resulted to questioned costs amounting to U.S.\$160,537 (P4,352,454) which includes U.S.\$56,289 (P1,526,107) in questioned costs under review of internal controls. These have not been corrected in the Fund Accountability Statements for the period September 17, 1990 to April 30, 1992. These instances of non-compliance which we considered material are (1) reimbursement of value added tax (2) reimbursement for costs not included in the budget/in excess of budget and (3) excess reimbursement for allowable pre-agreement costs.

We considered these material instances of noncompliance in forming our opinion on whether PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS' Fund Accountability Statements for the period September 17, 1990 to April 30, 1992 is presented fairly in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated September 30, 1992 on the Fund Accountability Statements.

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 Philippine Exporters Foundation, Inc. and Subrecipients.

Except as described above, the result of our tests of compliance indicated that with respect to items tested, PHILIPPINE EXPORTERS FOUNDATION, INC. AND SUBRECIPIENTS 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 PHILIPPINE EXPORTERS FOUNDATION, INC. and SUBRECIPIENTS 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 and Philippine Exporters Foundation, Inc. and Subrecipients. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Carlos J. Valdes & Co.
CARLOS J. VALDES & CO.
Metro-Manila, Philippines
September 30, 1992

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF COOPERATIVE AGREEMENT
NO. AID-492-0449-A-00-0149-00 WITH
PHILIPPINE EXPORTERS FOUNDATION, INC.
FOR THE PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT

List of Agreement Terms, Applicable Laws and Regulations
Not Complied by Philippine Exporters Foundation, Inc. and Subrecipients

A. Philippine Exporters Foundation, Inc.

C o n d i t i o n
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- 1) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement for inauguration costs - a ceremonial expense which is not allowable in accordance with OMB Circular A-122 which is attached to the Mandatory Standard Provisions of the Cooperative Agreement.

C r i t e r i a
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OMB Circular A-122 - Cost Principles for Non-profit Organizations - Attachment to the Mandatory Standard Provisions of the Cooperative Agreement

Entertainment Costs - Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable.

C a u s e
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This expense was deliberately incurred by PHILEXPORT to promote PITO-P.

E f f e c t
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The following inauguration costs which were reimbursed are questioned:

Reference	Office	A m o u n t	
		U.S. Dollars	Philippine Pesos
Page 14	Manila	2,911	78,933
Page 18	Cebu	3,850	104,376
Page 20	Davao	1,271	34,450
	TOTAL	8,032	217,759

Recommendation

We recommend that USAID resolve the U.S.\$8,032 (₱217,759) with PHILEXPORT and recover unallowable costs.

Auditee's Response

The inauguration of PITO-P Office in Manila, Cebu and Davao should be considered as events/activities intended to make potential beneficiaries (e.g., small and medium enterprises, industry and trade organizations, etc.) and other important business leaders and government officials aware that the Project is already operational, as well as inform them about the Project's development interventions and how they may avail of assistance and services it offers. The lists of invitees in all three events will confirm the highly business nature of the events in all three inaugurations.

Plans for the three inaugurations were made known to Officials of the PESO/USAID, PHILEXPORT and the PIC prior to being finalized by the Project Management Staff. However, no formal presentations were made nor were approvals requested.

We note the findings and agree that USAID and the PHILEXPORT need to resolve the matter of funding for these events.

C o n d i t i o n
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2) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement for Value Added Tax (VAT).

C r i t e r i a
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Cooperative Agreement Attachment I L. - Exemption from Payment of Value Added Tax (VAT) - Effective January 1, 1988, the U.S. Government is exempt from paying the Philippines' Value Added Tax (VAT) under the Philippines' Executive Order No. 273, Revenue Regulations No. 5-87, Section 8 (b) (2) and (c) (2), zero rated sales of goods and services. This applies to U.S. Government suppliers as well. Contractors/vendors shall include this statement on their invoices for exemption purposes.

C a u s e
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PHILEXPORT was not able to obtain zero rated VAT certification from the Bureau of Internal Revenue (BIR), thus, is not VAT exempt.

E f f e c t
- - - - -

The following value added tax which were reimbursed are questioned:

Reference	Line Item	A m o u n t	
		U.S. Dollars	Philippine Pesos
Manila			
Page 13	Information services	747	20,249
Page 13	Training and technical assistance	1,107	30,004
Page 14	Maintenance and operations	639	17,321
Page 14	Furniture and fixtures and office equipment	22,452	608,727
		24,945	676,301

Cebu

Page 17	Maintenance and operations	805	21,815
Page 18	Furniture and fixtures and office equipment	2,188	59,322
		-----	-----
		2,993	81,137
		-----	-----

Davao

Page 20	Maintenance and operations	1,003	27,192
Page 20	Furniture and fixtures and office equipment	1,571	42,582
		-----	-----
		2,574	69,774
		-----	-----
	TOTAL	30,512	827,212
		=====	=====

Recommendation

We recommend that USAID resolve the U.S.\$30,512 (P827,212) with PHILEXPORT and recover unallowable costs. In addition, PHILEXPORT, as one of the largest non-governmental organizations should spearhead the request from BIR for exemptions from VAT for all USAID funded purchases as provided for in the Bilateral Agreement between the U.S. Government and the Government of the Philippines.

Auditee's Response

The creation of PHILEXPORT was actually initiated by the Department of Trade and Industry. Its Charter provided privileges for the Association which includes exemption from payment of taxes and duties. However, the Philippine Government withdrew all tax and duty exemption privileges extended to non-government organizations with the issuance of Executive Order 93 in December 1986.

We note the findings and the recommendations.

We recommend that the PESO/USAID resolve the matter on the use of grant-funds for payment of value added taxes within the USAID (and the PHILEXPORT and Government of the Philippines, if necessary).

C o n d i t i o n
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- 3) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement of expenses which are not included in the budget.

C r i t e r i a
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Cooperative Agreement Attachment I D. Budget and Financing

Funds provided by USAID under this Cooperative Agreement shall be used to finance the Philippine peso and U.S. dollar costs of the items specified in the budget set forth in the Cooperative Agreement.

C a u s e
- - - - -

Expenses which were not in the budget were approved by the Project Implementation Committee (PIC), whose membership includes USAID personnel, which was interpreted as the approval of the Contracting Officer.

E f f e c t
- - - - -

The following expenses which were not in the budget but reimbursed are questioned:

Reference	Line Item	A m o u n t	
		U.S. Dollars	Philippine Pesos
Cebu			
Page 17	Position not in budget	249	6,750
Page 18	Rent for generator	1,106	30,000
		1,355	36,750

Davao

Page 19	Position not in budget	681	18,450
		-----	-----
	TOTAL	2,036	55,200
		=====	=====

Recommendation

We recommend that USAID resolve the U.S.\$2,036 (P55,200) unbudgeted costs with PHILEXPORT and recover any unallowable costs.

Auditee's Response

The expenses referred to consist of the following:

- Salaries of Accountants for the PITO-P Cebu and Davao Offices
- Rental for the generator for the PITO-P Cebu Office

The Regional Offices were originally designed to have only a Manager, a Secretary and an Information Officer. The Secretary was expected also to function as the Bookkeeper and to prepare the financial reports of the Regional Office.

Following receipt of the Report of the Financial Management Review of the PITO-P Davao Office conducted by the USAID Office of Financial Management during the first quarter of 1992, it was decided that the PITO-P Cebu and Davao Offices be allowed to hire full-time Accountants to assist the Regional Managers implement proper financial management in the regional offices.

We will secure formal USAID approval of the hiring of Accountants for the PITO-P Cebu and Davao Offices.

The building in which the PITO-P Cebu Office is located has a stand-by power generator. The PITO-P Cebu Office was constrained to avail of power supply from the building's stand-by generator in view of frequent brownouts which affected operations, particularly at the time when the Project was only getting started in Cebu. The cost of power from a small stand-by generator is naturally much higher than the rate charged by the city power utility company.

When the power shortages in Cebu and Mindanao aggravated, the PIC approved the request of the PITO-P Cebu and Davao Managers for the acquisition of power generators. USAID approval for generator acquisition was, subsequently, also secured. (Attachment F)

C o n d i t i o n
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- 4) 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
- - - - -

Cooperative Agreement Attachment I F. Payment Procedures - Liquidation of Advances - USAID may require the Recipient to provide copies of pertinent supporting documents, including without limitation, receipts, invoices, travel authorizations, purchase orders, payroll data and used tickets.

C a u s e
- - - - -

Lack of supervisory review over the work of lower-level personnel.

E f f e c t
- - - - -

The following expenses were questioned for lack of sufficient documentation:

Reference	Line Item	A m o u n t	
		U.S. Dollars	Philippine Pesos
Davao			
Page 19	Training and technical assistance	6,012	163,000
Page 20	Maintenance and operations	52	1,404
	TOTAL	6,064	164,404

Recommendation

We recommend that USAID resolve the unsupported costs for U.S.\$6,064 (P164,404) with PHILEXPORT and recover any unallowable costs.

Auditee's Response

The expenses/claims referred to involved the following:

- Financial assistance extended for the Study on the Mindanao Power Crisis: Impact on Mindanao Exports
- Claims for lodging expenses of Ms. Joy Rubillar (PITO-P Davao Office Information Officer)

The Project is still waiting for the Completion Report of the Study on the Mindanao Power Crisis. The PITO-P Davao Manager will be requested to follow-up with the Northern Mindanao Development Bank on the matter.

The required supporting documents for the claims of Ms. Joy Rubillar for lodging expenses totalling P1,404.00 were attached to the Travel Liquidation Report, as follows:

- JV #09-08 Liquidation of Ms. Joy Rubillar
 Official Receipt of the Cebu Plaza

Auditors' Comments

Supporting documents for the claims of Ms. Joy Rubillar for lodging expenses totalling P1,404 as claimed to have been attached to the Travel Liquidation Report pertains to lodging for a different date for the same amount.

C o n d i t i o n

- 5) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement for financial assistance for the project MADE IN DAVAO '91, excess funding of which was refunded back to PHILEXPORT on July 17, 1992.

C r i t e r i a

OMB Circular No. A-122 A. - Basic Consideration 5. Applicable Credits - Attachment to the Mandatory Standard Provisions of the Cooperative Agreement - The term applicable credits refers to those receipts, or

reduction of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs. Typical examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities or erroneous charges. To the extent that such credits accruing or received by the organization relate to allowable cost they shall be credited to the Government either as a cost reduction or cash refund as appropriate.

C a u s e

- - - - -

Lack of supervisory review over the work of lower-level personnel.

E f f e c t

- - - - -

PHILEXPORT's expenditures for U.S.\$696 (P18,876) under Training and Technical Assistance is questioned since this was not subsequently reflected as a cost reduction from the books of PHILEXPORT. (See page 19)

Recommendation

We recommend that PHILEXPORT effect the above refund as a cost reduction in its books as soon as possible.

Auditee's Response

The grant of the full financial assistance for the "Made in Davao '91" Project was reported in the Quarterly Expenditure Liquidation Report for July - Sept. 1991. The Davao City Federation of People's Economic Councils' Foundation returned the P18,876.00 unused balance of the PITO-P financial assistance to the Project on 17 July 1991. The amount returned will be deducted from the next Quarterly Expenditure Liquidation Report.

C o n d i t i o n

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- 6) Not all interest earned was remitted at least quarterly to USAID. Of the remaining interest earned for U.S.\$5,281 (P143,184) as of April 30, 1992, only U.S.\$2,553 (P69,205) has been subsequently returned to USAID on May 13, 1992 leaving an unremitted balance of U.S.\$2,728 (P73,979) for the quarter as follows:

Line Item	A m o u n t	
	U.S. Dollars	Philippine Pesos
Total interest as of April 30, 1992		
Manila	5,318	144,196
Davao	163	4,410
	5,481	148,606
Less: Amount to be retained (for 2 years)	(200)	(5,422)
	5,281	143,184
Subsequent remittance CV-0990 dated 5-13-92	(2,553)	(69,205)
Unremitted balance as of May 1992	2,728	73,979

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

Cooperative Agreement Attachment I E. - If interest is earned with respect to advances, the amount in excess of U.S.\$100 per year shall promptly be paid to USAID at least quarterly in the form of a check payable to the "Treasurer of the United States".

C a u s e
- - - - -

PHILEXPORT did not establish internal control procedures to ensure that interest earned on advances are remitted at least quarterly to USAID.

E f f e c t
- - - - -

Interest earned for U.S.\$2,728 (₱73,979) as of April 30, 1992 was not remitted in a timely manner to USAID.

Recommendation

We recommend that PHILEXPORT establish internal control procedures to ensure that interest earned on advances are remitted at least quarterly to USAID.

Auditee's Response

The Project remitted to the USAID U.S.\$2,606.71 in June 1992 and U.S.\$290.00 in July 1992 (Total of U.S.\$2,896.71), representing the balance of the interest income referred to.

B. COOPERATIVE BUSINESS INTERNATIONAL

C o n d i t i o n

- 1) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement which exceeded the amount originally contracted for.

C r i t e r i a

Agreement Between Philippine Exporters Foundation, Inc. and Cooperative Business International (CBI) - Attached to the Provisions of the Subcontract made between CBI and Intrade Phils., Inc. and CBI and Access Asia (Phils.), Inc.

Article IV Section 5 - Budget - No reimbursement of expenses shall be released to the GRANTEE until the budget or any modification thereof has been approved by the GRANTOR in consultation with the USAID.

Article IV Section 6 - Reimbursement - In no event, shall the amount to be reimbursed exceed the amount committed in this AGREEMENT.

C a u s e

PHILEXPORT did not establish internal control procedures to track the expenditures of its agreement with CBI, Intrade and Access Asia.

E f f e c t
- - - - -

The following reimbursement claims representing expenses which exceeded budget/not in budget including related overhead and general administrative expenses are questioned:

Reference	Line Item	A m o u n t	
		U.S. Dollars	Philippine Pesos
<u>CBI</u>			
Page 22	Salaries and wages	962	26,082
Page 22	Fringe benefits	340	9,218
Page 23	Other direct cost	531	14,397
		<u>1,833</u>	<u>49,697</u>
Page 23	Overhead (38.4% x 1,833)	704	19,087
Page 23	General & administrative (3.7% x 1,833)	68	1,844
		<u>2,605</u>	<u>70,628</u>
<u>Instrade Phils., Inc.</u>			
Page 24	Salaries and wages	252	6,835
Page 24	Overhead	1,912	51,840
		<u>2,164</u>	<u>58,675</u>
<u>Access Asia (Phils.), Inc.</u>			
Page 26	Consultancy fee	410	11,116
	TOTAL	<u><u>5,179</u></u>	<u><u>140,419</u></u>

Recommendation

We recommend that PHILEXPORT (1) establish internal control procedures to track agreements with CBI, Intrade Phils., Inc. and Access Asia (Phils.), Inc. and (2) resolve with USAID the U.S.\$5,179 (₱140,419) costs incurred by its subrecipients and its subcontractors in excess of the agreements and refund costs determined to be unallowable.

Auditee's Response

The Project will request the CBI to submit the necessary documentation on personnel not included in the original budget submitted by the trade broker to the project/PHILEXPORT. We already have the time and attendance reports of the personnel referred to, as well as salaries paid to them.

The PITO-P required the three Project-assisted trade brokers to submit their budgets for Year-1, with monthly/quarterly breakdowns. We needed the brokers' annual budgets to guide us in formulating the Annual PITO-P Project Budget and in forecasting our fund requirements for the Requests for Quarterly Cash Advances.

The Project Management was made to understand that the financial assistance being given to the PITO-P trade brokers was intended to be a grant, transferred through a reimbursement process. PESO officials explained that, except for the shortlist of expenditures on which use of USAID grant-funds is prohibited, the trade brokers may reimburse any expenses they incur in the process of establishing their offices in the NCR, Cebu and Davao and in promoting trade and investments, pursuant to the objectives of the PITO-P Project.

The amounts for the different expense items indicated in the budgets submitted by the three trade brokers should not be taken as limits for what the project can reimburse trade brokers. Specifically, the trade brokers should not be limited in their hiring of personnel and in their requests for reimbursement for salaries only to those of personnel listed in the original plans they submitted to PITO-P.

We recommend that this matter be resolved by the PESO, with the Contracts Service Office, Office of Financial Management and Resident Audit Office of the USAID.

C o n d i t i o n

- 2) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement for Value Added Tax (VAT).

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

Cooperative Agreement Attachment I L. - Exemption from Payment of Value Added Tax (VAT) - Effective January 1, 1988, the U.S. Government is exempt from paying the Philippines' Value Added Tax (VAT) under the Philippines' Executive Order No. 273, Revenue Regulations No. 5-87, Section 8 (b) (2) and (c) (2), zero rated sales of goods and services. This applies to U.S. Government suppliers as well. Contractors/vendors shall include this statement on their invoices for exemption purposes.

C a u s e
- - - - -

Instrade Phils., Inc. and Access Asia (Phils.), Inc. - CBI's subcontractors in the Philippines are not VAT exempt.

E f f e c t
- - - - -

The following value added tax which were reimbursed from the grant are questioned:

Reference	Line Item	A m o u n t	
-----	-----	U.S. Dollars	Philippine Pesos
-----	-----	-----	-----
<u>Instrade Phils., Inc.</u>			
Page 25	Overhead	8	226
Page 25	Other direct cost	102	2,770
Page 25	Furniture, fixtures and office equipment	946	25,654
		-----	-----
		1,056	28,650
		-----	-----
<u>Access Asia (Phils.), Inc.</u>			
Page 26	Office services	72	1,952
		-----	-----
	TOTAL	1,128	30,602
		=====	=====

Recommendation

We recommend that USAID, through PHILEXPORT, resolve with Intrade Phils., Inc. and Access Asia (Phils.), Inc. the U.S.\$1,128 (P30,602) VAT reimbursements and recover unallowable costs. In addition, PHILEXPORT, as one of the largest non-governmental organizations should spearhead the request from BIR for exemptions from VAT for all USAID funded purchases as provided for in the Bilateral Agreement between the U.S. Government and the Government of the Philippines.

Auditee's Response

We note the findings and recommendation.

We recommend that the PESCO resolve the matter within the USAID (and the PHILEXPORT, GOP, CBI, Intrade and Access Asia, if necessary).

C o n d i t i o n

3) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement of expenses which are not included in the budget.

C r i t e r i a

Cooperative Agreement Attachment I D. Budget and Financing - The recipient may not expend USAID funds in excess of the amount obligated under this Agreement; adjustments among budget line items are restricted to 15% without prior approval from the USAID Agreement Officer.

C a u s e

The budget submitted by Intrade Phils., Inc. - CBI's subcontractor included provision for vehicle acquisition.

E f f e c t

Intrade Phils., Inc. - CBI's subcontractor incurred expenses related to its acquisition of a motor vehicle which is not included for reimbursement under the Cooperative Agreement. Details as follows:

Reference	Line Item	A m o u n t	
		U.S. Dollars	Philippine Pesos
Overhead			
Page 24	Expenses related to the purchase of Toyota Corolla XE 1.3	1,231	33,350

Recommendation

We recommend that USAID, through PHILEXPORT, resolve the U.S.\$1,231 (P33,350) questioned costs and recover unallowable costs.

Auditee's Response

We will deduct the amount of P33,350.00 from the next reimbursement to Intrade.

C. THE PRAGMA CORPORATION

C o n d i t i o n

- 1) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement for pre-agreement costs in excess of the U.S.\$15,000 limit and expenses not covered for reimbursement under the agreement.

C r i t e r i a

Agreement Between Philippine Exporters Foundation, Inc. and The Pragma Corporation - Article IV Section 4. Date of Effectivity for Reimbursible Expenses - The GRANTOR shall reimburse eligible expenses incurred by the GRANTEE in connection with the establishment of the trade and services brokering facility, allowed and within the maximum amount under this AGREEMENT; provided that expenses, incurred by the GRANTEE prior to the signing of this AGREEMENT but after receipt of the GRANTOR's letter dated 30 July 1991 indicating acceptance of the GRANTEE's project proposal, and which expenses were incurred in pursuance to this AGREEMENT shall also be allowed for reimbursement, provided that such expenses shall not exceed U.S.\$15,000.

C a u s e

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PHILEXPORT misinterpreted the terms and conditions of its agreement with Pragma Corporation.

E f f e c t

- - - - -

The Pragma Corporation claimed reimbursement for expenses prior to July 30, 1991 not covered for reimbursement under the agreement and costs prior to contract signing date (October 02, 1991) in excess of U.S.\$15,000 limit as follows:

Reference	Line Item	A m o u n t	
		U.S. Dollars	Philippine Pesos
Page 28	Field Office Costs	70	1,898
Page 28	Pre-agreement Costs	7,491	203,099
	TOTAL	7,561	204,997

Recommendation

We recommend that USAID, through PHILEXPORT, resolve with The Pragma Corporation the U.S.\$7,561 (P204,997) excess reimbursement of pre-agreement costs and recover unallowable costs.

Auditee's Response

The proposal of the Pragma Corporation on the establishment of trade-brokering operations in the NCR was accepted on 30 July 1991.

The PHILEXPORT and THE PRAGMA CORPORATION signed the Trade Brokering Contract on 17 September 1991. The Contract was notarized on 02 October 1991.

Expenses incurred by The Pragma Corporation between 31 July and 17 September 1991 (contract-signing date) amounted to only U.S.\$11,874.98, well within the U.S.\$15,000.00 limit for reimbursable pre-agreement cost/expenses.

The amount determined by the Auditors as the pre-agreement expenses of The Pragma Corporation represented the sum total of all expenses incurred by the NCR-based trade broker between 31 July and 02 October 1991 (contract notarization date).

Auditors' Comments

The Agreement Between PHILEXPORT and the Pragma Corporation specifically identifies that the contract signing date was October 2, 1991. Based on the correspondence from the The Pragma Corporation dated November 30, 1992, this finding was acknowledged as ineligible cost.

C o n d i t i o n

- 2) The Fund Accountability Statement (Cumulative Disbursements) includes claims for reimbursement which exceeded the amount originally contracted for.

C r i t e r i a

Agreement Between Philippine Exporters Foundation, Inc. and The Pragma Corporation

Article IV Section 5 - Budget - No reimbursement of expenses shall be released to the GRANTEE until the budget or any modification thereof has been approved by the GRANTOR in consultation with the USAID.

Article IV Section 6 - Reimbursement - In no event, shall the amount to be reimbursed exceed the amount committed in this AGREEMENT.

C a u s e

PHILEXPORT misinterpreted the terms and conditions of its agreement with Pragma Corporation.

E f f e c t

- - - - -

The Pragma Corporation claimed reimbursement for the following expenses in excess of budgeted amounts:

Reference	Line Item	A m o u n t	
		U.S. Dollars	Philippine Pesos
Page 27	Salaries	6,033	163,569
Page 27	Fringe benefits	4,832	131,008
Page 27	Allowances	90	2,440
Page 28	Overhead	6,954	188,540
	TOTAL	17,909	485,557

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

We recommend that USAID, through PHILEXPORT, resolve with The Pragma Corporation the U.S.\$17,909 (₱485,557) excess reimbursement and recover any unallowable costs.

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

The Project Management will verify with Pragma-Pil the increase in salary rates referred to.

However, we wish to respectfully reiterate the opinion that the amounts contained in the original budgets submitted by the trade brokers are indicative and should not be used as limits for expenses which the Project may reimburse trade brokers.

The per diem expenses referred to were incurred by Pragma-Pil staff in their trips to Laguna, Cavite and Bulacan. In computing their per diem allowances, the Staff used the USAID per diem rates effective 01 December

1990. (Attachment G) On 28 February 1992, we were furnished by Ms. Sarah Dama of the USAID Office of Financial Management the USAID per diem rates effective 01 August 1991. (Attachment H). The former schedule provides for US\$27.00 maximum daily per diem rate for trips to provinces not specifically listed (Others). The latter schedule has a reduced rate of only US\$22.00.

We will deduct the excess payment of US\$90.00 (P 2,440.00) from the next reimbursement to Pragma-Pil.

C o n d i t i o n
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- 3) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement for taxes which are unallowable expenses as defined in the agreement and the USAID Applicable Standard Provisions for non-U.S., non-governmental grantees.

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

Agreement Between Philippine Exporters Foundation, Inc. and The Pragma Corporation

Article IV Section 3 - The following costs, direct or indirect, are not allowed even if incurred by the GRANTEE in pursuance of this agreement:

- Advertising, bad debts, contingencies, entertainment, fines and penalties, interest, fund raising, investment management costs, losses on other awards, taxes, public information service costs and first class airfare unless specifically approved by the USAID.

Article VI Section 1

- the GRANTEE shall comply with all the laws, rules and regulations enforced in the Philippines for it to engage and continue engaging in the business of a trade and service broker. It shall also secure all permits and licenses, whether domestic or international, to qualify as a trade broker. It shall pay all taxes and assessments which may have been appropriately assessed on it or on its business operations.

C a u s e
- - - - -

PHILEXPORT did not strictly implement the terms and conditions of its agreement with The Pragma Corporation.

E f f e c t

- - - - -

The Pragma Corporation claimed reimbursement for taxes for U.S.\$10.00 (P271) which are unallowable expenses. (See page 28)

Recommendation

We recommend that USAID, through PHILEXPORT, resolve with The Pragma Corporation the U.S.\$10.00 (P271) questioned costs and recover unallowable costs.

Auditee's Response

We agree that Pragma Corporation should not be reimbursed for the Municipal License Fee of US\$10 (P 271.00). The Project Management will deduct the corresponding amount from its next reimbursement for Pragma-Pil.

C o n d i t i o n

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4) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement for Value Added Tax.

C r i t e r i a

- - - - -

Cooperative Agreement Attachment I L, Exemption From Payment of Value Added Tax (VAT) - Effective January 1, 1988, the U.S. Government is exempt from paying the Philippines' Value Added Tax (VAT) under the Philippines' Executive Order No. 273, Revenue Regulations No. 5-87, Section 8 (b) (2) and (c) (2), zero rated sales of goods and services. This applies to U.S. government suppliers as well. Contracts/vendors shall include this statement on their invoices for exemption purposes.

C a u s e

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Pragma - Pil., Inc. - The Pragma Corporation's regional office in the Philippines is not VAT exempt.

E f f e c t

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Value Added Tax included in billings for various field office costs for U.S.\$807 (P21,880) which were reimbursed from the grant are questioned. (See page 28)

Recommendation

We recommend that USAID, through PHILEXPORT, resolve with Pragma-Pil, Inc. (The Pragma Corporation's regional office) the U.S.\$807 (P21,880) reimbursement for VAT and recover unallowable costs. In addition, PHILEXPORT, as one of the largest non-governmental organizations should spearhead the request from BIR for exemptions from VAT for all USAID funded purchases as provided for in the Bilateral Agreement between the U.S. Government and the Government of the Philippines.

Auditee's Response

We note the findings and recommendations.

We recommend that the PKSO resolve the matter within the USAID (and the PHILEXPORT, GOP and Pragma-Pil, if necessary).

C o n d i t i o n

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- 5) The Fund Accountability Statements (Cumulative Disbursements) includes claims for reimbursement of field office costs which are not reasonable in accordance with the agreement and with the USAID Applicable Standard Provisions for non-U.S., non-governmental grantees. These claims pertains to expenses of Pragma-Pil, Inc. - The Pragma Corporation's regional office for the maintenance of a liaison office in Makati in addition to the main office in Pasig.

C r i t e r i a

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Agreement Between Philippine Exporters Foundation, Inc. and The Pragma Corporation Article IV Section 2 - Reimbursible Expenses - The GRANTOR shall reimburse the GRANTEE for expenses incurred in carrying out the purposes of this GRANT which are determined by the GRANTOR to be reasonable, allocable and allowable in accordance with the terms of this GRANT and of the COOPERATIVE AGREEMENT between the GRANTOR and the USAID. An expense is deemed reasonable when it does not exceed that which would be incurred by a prudent man in the conduct of normal business.

C a u s e
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Pragma-Pil., Inc. (The Pragma Corporation's regional office in the Philippines) found it convenient to maintain a liaison office in Makati in addition to its main office in Pasig since most of their business transactions are coursed there.

E f f e c t
- - - - -

Reimbursement claims of The Pragma Corporation for field office costs for U.S.\$1,590 (P43,109) representing expenses for the maintenance of a liaison office were questioned since these are excessive costs. (See page 28)

Recommendation

We recommend that USAID, through PHILEXPORT, resolve with The Pragma Corporation the U.S.\$1,590 (P43,109) excess reimbursement and recover unallowable costs.

Auditee's Response

It should be noted that the trade brokers have to achieve performance targets. As such, it was important that they were able to establish "presence" immediately after signing of their contracts with PHILEXPORT.

Pragma-Pil decided to locate its trade brokering office in Pasig. It paid a reservation deposit and advance monthly rentals as early as January 1992. During the process of making the physical office operational, Pragma-Pil operated from the office of a relative of one of the trade broker's officers located in Fedman Building in Makati. Pragma-Pil shared in the rental cost of the office as well as for the use of certain office facilities and equipment.

The Pasig office became operational in March 1992. When Pragma-Pil was able to fully transfer to its Pasig Office, it stopped payments on shared use of the Fedman Building Office.

Auditors' Comments

Although Pragma-Pil stopped payments on shared use of the Fedman office in Makati in March 1992, it continued to incur telephone and fax bills in that office despite its official transfer to its main office in Pasig.

D. SHERBERG MARKETING CORPORATION

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

- 1) The Fund Accountability Statement (Cumulative Disbursements) includes reimbursement for Value Added Tax.

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

Cooperative Agreement Attachment I L. - Exemption from Payment of Value Added Tax (VAT) - Effective January 1, 1988, the U.S. Government is exempt from paying the Philippines' Value Added Tax (VAT) under the Philippines' Executive Order No. 273, Revenue Regulations No. 5-87, Section 8 (b) (2) and (c) (2), zero rated sales of goods and services. This applies to U.S. Government suppliers as well. Contractors/vendors shall include this statement on their invoices for exemption purposes.

C a u s e
- - - - -

Shemberg Marketing Corporation is not VAT exempt.

E f f e c t
- - - - -

The following value added tax which were reimbursed from the grant are questioned:

Reference	Line Iter	A m o u n t	
		U.S. Dollars	Philippine Pesos
Page 29	Furniture and fixtures	2,339	63,406
Page 29	Office equipment	345	9,345
Page 30	Subscriptions	91	2,476
	TOTAL	2,775	75,227

Recommendation

We recommend that USAID, through PHILEXPORT, resolve with Shemberg Marketing Corporation the U.S.\$2,775 (P75,227) Value Added Tax which was reimbursed from the grant and recover unallowable costs. In addition, PHILEXPORT, as one of the largest non-governmental organizations should spearhead the request from BIR for exemptions from VAT for all USAID funded purchases as provided for in the Bilateral Agreement between the U.S. Government and the Government of the Philippines.

Auditee's Response

We note the findings and recommendation.

We recommend that the PISO resolve the matter within the USAID (and the PHILEXPORT, GOP and Shemberg Marketing Corporation, if necessary).

C o n d i t i o n

- 2) The Fund Accountability Statement (Cumulative Disbursements) includes claims for reimbursement which exceeded the amount originally contracted for.

C r i t e r i a

Agreement Between Philippine Exporters Foundation, Inc. and Shemberg Marketing Corporation

Article IV Section 5 - Budget - No reimbursement of expenses shall be released to the GRANTEE until the budget or any modification thereof has been approved by the GRANTOR in consultation with the USAID.

Article IV Section 6 - Reimbursement - In no event, shall the amount to be reimbursed exceed the amount committed in this AGREEMENT.

C a u s e

PHILEXPORT misinterpreted the terms and conditions of its agreement with Shemberg Marketing Corporation.

E f f e c t

- - - - -

Expenditures which were counterpart contributions as indicated in the budget for U.S.\$12,964 (P351,484) were reimbursed from the grant funds. (See page 30)

Recommendation

We recommend that USAID, through PHILEXPORT, resolve with Shemberg Marketing Corporation the U.S.\$12,964 (P351,484) costs claimed for reimbursement and recover unallowable costs.

Auditee's Response

We note the findings and recommendation.

However, we wish to respectfully reiterate the opinion that the amounts contained in the original budgets submitted by the trade brokers are indicative and should not be used as limits for expenses which the Project may reimburse trade brokers.

C o n d i t i o n

- - - - -

- 3) 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

- - - - -

Cooperative Agreement Attachment I F. - Payment Procedures - Liquidation of Advances - USAID may require the Recipient to provide copies of pertinent supporting documents, including without limitation, receipts, invoices, travel authorizations, purchase orders, payroll data and used tickets.

C a u s e

- - - - -

PHILEXPORT did not strictly comply with this requirement.

K f f e c t

- - - - -

Shemberg Marketing Corporation claimed reimbursement for vehicle rental for U.S.\$5,754 (P156,000) whose lease agreement does not specify the vehicle's registration number, engine number and chassis number. (See page 29)

Recommendation

We recommend that USAID, through PHILEXPORT, resolve with Shemberg Marketing Corporation the U.S.\$5,754 (P156,000) insufficiently documented costs and recover any unallowable amounts.

Auditee's Response

Shemberg submitted Official Receipts to support payment of lease-rental for the vehicle.

The lease agreement does not specify the registration, engine and numbers of the vehicle. However, we have been informed by Shemberg Marketing Corporation that these information are available and can be submitted, if needed.

We note the findings and will resolve the matter with USAID and Shemberg Marketing Corporation.

**PRIVATE INVESTMENT AND TRADE OPPORTUNITIES - PHILIPPINES**

7th Floor, King's Court I, 2129 Pasong Tamo, Makati, Metro Manila
Tels. 812-71-31 • 88-83-71 to 77 locals 315 & 316 • Telefax: 87-83-75

26 October 1992

MS. MINDA O. LEDESMA
Partner
Carlos J. Valdes & Co., CPA's
CJVC Building
Aguirre Street, Legaspi Village
Makati, Metro Manila

Dear Ms. Ledesma:

We are respectfully submitting, herewith, our comments on the Findings and Recommendations of the Financial Audit of the Cooperative Agreement (AID 492-0449-A-00-0149-00) with the Philippine Exporters Foundation, Inc. for the Private Investment and Trade Opportunities - Philippines.

We believe that the audit was very thorough and has been carefully conducted. The comments we are submitting are meant to provide additional information and not to contest the specific findings. We will consider recommendations contained in the Draft Report to guide us towards further improving our financial management system.

Thank you very much.

Warmest regards.

Very truly yours,


WILHELM S. ORTALIZ
National Manager

**COMMENTS OF THE PITO-P PROJECT MANAGEMENT
ON THE FINDINGS AND RECOMMENDATIONS OF THE FINANCIAL AUDIT
OF THE COOPERATIVE AGREEMENT (AID 492-0449-A-00-0149-00)
WITH THE PHILIPPINE EXPORTERS FOUNDATION, INC. FOR THE
PRIVATE INVESTMENT AND TRADE OPPORTUNITIES - PHILIPPINES**

- I. REPORT ON INTERNAL CONTROLS**
- A. PHILIPPINE EXPORTERS FOUNDATION, INC.**
- 1. CONTRACTING AND DISBURSING PROCEDURES**
- a. ON SIGNING OF CONTRACTS OF CEBU REGIONAL MANAGER
(Pages 34-35)**

The Project has not been advised by USAID regarding the need for contracts on funding assistance extended to specific proponents. The projects being referred to and its corresponding budget were approved by the Project Implementation Committee in its Ninth Meeting, 21 November 1991. Subsequently, Ms. Floretta del Fierro decided that it was necessary for her to require the proponent to enter into some commitments on how to implement the project assistance.

We note the finding and will study the recommendation for implementation.

- b. 1) ON THE "MAKE IT CEBU" BROCHURE PROJECT OF THE CHAMBER OF
COMMERCE AND INDUSTRY (Page 35)**

The publication of the "MAKE IT CEBU" brochure was a project of the Cebu Chamber of Commerce and Industry (CCCI). It was one of the first projects approved for PITO-P financial assistance in Cebu.

The CCCI relied heavily on the assistance of the Region VII and the Cebu Provincial Offices of the Department of Trade and Industry and the PITO-P Project Staff in making arrangements for the preparation of the the various inputs needed for the brochure.

Four companies were invited to bid on the publication of the "MAKE IT CEBU" brochure. Among the companies was VL Industries, a single proprietorship owned and managed by Mr. Miguel Noel.

Ms. Helen Joyce A. Yu, who is mentioned in the Audit Report, is the company's Office Manager. VL Industries offered the lowest quoted price of ₱250,000.00 for 1,000 copies of the brochure.

VL Industries is primarily engaged in general merchandising. However, Mr. Miguel Noel is also engaged in technical consultancies, preparation of feasibility studies and other services. If necessary, Mr. Noel has indicated that he can provide certifications from various companies and organizations which have engaged his services as Consultant and/or Service broker.

Eventually, VL Industries agreed to arrange for the printing of 2,000 copies of the brochure for the same amount quoted for only 1,000 copies. Mr. Miguel Noel was persuaded by the CCCI to make a contribution to the Project in as much as the brochure is intended to promote investments in Cebu.

Printing of the brochure should have been completed on or before 18 January 1991. However, the CCCI decided to postpone printing of the brochure until the first quarter of 1992 in order that data to be used can be updated to include 1991 figures. (Note: Please refer to data on Balance of Payments, Power Consumption, Water Consumption, Passenger Traffic, Cebu Shipcalls, etc.)

In March 1992, VL Industries informed the CCCI that it may have to increase its contract fee in view of the increased costs which it will incur due to the decision of the Chamber to delay the printing of the brochure. VL Industries cited that it needs the increase as it will not make any profit on the contract since it already agreed to increase the number of copies to be printed to 2,000. Officials of the CCCI and the Department of Industry again prevailed on Mr. Noel to maintain his quoted fee. VL Industries agreed to accommodate the request provided it was immediately paid the balance of the contract fee of ₱ 37,000.00.

We admit that the manner in which cash and checks payments were made by Ms. del Fierro may not have been in accordance with proper financial management practices. However, we are confident that grant funds provided were spent on the "MAKE IT CEBU" Project.

Attached, we are submitting the following documents in support of our representations:

- Certification of the Cebu Chamber of Commerce and Industry duly signed by its President, Mr. Geronimo D. Sta. Ana, noted by Ms. Floretta del Fierro (PITO-P Cebu Manager), Ms. Brenda Orosco (Cebu Provincial Director of the Department of Trade and Industry) and Mr. Miguel Noel (Proprietor of VL Industries). (Please refer to Attachment A)

- Certification of Mr. Miguel E. Noel that Ms. Helen Joyce Yu is an employee of VL Industries since 1984 and that she is presently the Company's Office Manager. (Please refer to Attachment B)
- Certification by the other three companies which submitted service bids for the publication of the brochure that they knew of the award of the contract to VL Industries and interposed no objections. (Please refer to Attachment C)

b. 2 & 3) ON THE PITO-P ₱ 150,000.00 FINANCIAL ASSISTANCE FOR THE SUBSCRIPTION OF THE CEBU FASHION ACCESSORIES AND EXPORTERS, INC. (CEBU-FAME) TO INTERNATIONAL MARKET AND PRODUCT MAGAZINES AND ₱ 1,080,000 FOR TRAINING AND WORKSHOPS FOR 1992. (Page 36)

Ms. Joyce Yang was the President of Cebu-FAME at the time PITO-P provided the ₱ 150,000.00 funding assistance for the organization's subscription to international market and product magazines.

We are attaching, herewith, a certification signed by all officers of Cebu-FAME stating that the organization received, through its President, the ₱ 1,230,000.00 PITO-P funding assistance for Cebu-FAME training projects and subscription to design and trade magazines. (Please refer to Attachment D)

Cebu-FAME has fully utilized the ₱150,000.00 financial assistance for its subscription to market and product magazines. The organization actually spent a total of ₱194,878.30 on subscriptions to eleven producers' magazines. (Please refer to Attachment E)

The magazines Cebu-FAME subscribes to are presently kept in the PITO-P Cebu Office. These are made available to interested parties strictly for in-room use only.

The Cebu-FAME training programs and market and subscription project, as with the case of the CCCI "MAKE IT CEBU" brochure project, were approved for PITO-P funding assistance at the start of the PITO-P Cebu Office operation. At that point, the PITO-P Cebu Manager only had a Secretary and a Trade Information Officer as Support Staff. Following receipt of the Report on the Financial Management Review of the PITO-P Davao Office, conducted by the USAID Office of Financial Management on the PITO-P Davao Office, in the first quarter of 1992, it was decided that the regional offices should be allowed to each hire an Accountant to assist the Regional Managers in the management of project funds.

c. THE SPLITTING OF THE ₱ 150,000.00 FUNDING ASSISTANCE FOR THE CEBU-FAME SUBSCRIPTION TO MARKET AND PRODUCT MAGAZINES INTO TWO CHECKS OF ₱ 75,000.00 EACH (Page 36)

The two ₱ 75,000.00 checks were given to Cebu-FAME during the Christmas Party held after the 10th Meeting of the PITO-P Project Implementation Committee (PIC) on 19 December 1991 in Cebu. The checks represented the PITO-P funding assistance for the organization's subscription to market and product magazines.

The PIC rotates its regular monthly meetings among the Project's regional offices so that it could invite business leaders to participate in such meetings and get better acquainted with how PITO-P operates and what the Project is doing to assist in the promotion of trade and investments. Regional Project Managers optimize benefits which can be derived from the visit of the PIC arranging activities like the following:

- special meetings with officers of industry or trade organizations to discuss specific projects or development programs:
- press conferences,
- awarding of checks representing funding assistance being extended by PITO-P to PIC-approved projects

The 1991 Christmas Party served as the occasion in for the PIC, hand over the checks for the assistance funds to Officers of Cebu-FAME in the presence of leading media representatives.

Technically, the splitting of the ₱ 150,000.00 grant to Cebu-FAME into two-₱ 75,000.00 checks may be considered a circumvention of the need to secure PEF approval. We were actually intending to have the PEF President, Atty. Ma. Rosario Franco countersign just one ₱ 150,000.00 check. However, she decided to return to Manila that afternoon immediately after the PIC Meeting and was, therefore, not able to hand-over the check herself. We also wish to stress that some PIC Members were present during the occasion.

2. PAYROLL

**a. "ERRORS" IN THE CALCULATION OF THE 13TH MONTH PAY
(Page 37-38)**

The Finance and Administrative Officer prepares the Payroll and submits it for approval by the National Manager.

There were no excess payments for the 13th-month pay for employees. The withholding taxes on the 13th-month pay was erroneously debited to the Salaries and Wages Account. Unfortunately, we failed to furnish Auditors with the appropriate Correcting Entries in the Journal which had already been made. A check on the individual payroll bank accounts of employees will confirm that there was no excess payments made on their 13th-month pay.

B. COOPERATIVE BUSINESS INTERNATIONAL

1. CASH DISBURSEMENTS (Pages 38-39)

**a. SUPPORTING DOCUMENTS SUBMITTED FOR REIMBURSEMENT WERE NOT STAMPED PAID TO PREVENT RE-USE OR DUPLICATION OF PAYMENT
(Page 36-37)**

We note the findings and will study the recommendations for implementation.

C. ACCESS ASIA (PHILS.)

1. CASH DISBURSEMENTS (Page 40)

a. CHECKS ISSUED WERE PAID TO CASH AND, IN ONE INSTANCE, THERE WERE NO SUPPORTING DOCUMENTS ON A PAYMENT (Page 40)

We note the findings and will study the recommendations for implementation.

II. REPORT ON THE AUDITORS' TEST OF COMPLIANCE WITH AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS

A. PHILIPPINE EXPORTERS FOUNDATION, INC.

1. PEF'S CONTRACTS WITH SUB-CONTRACTORS DO NOT PROVIDE AN AUDIT CLAUSE, IN ACCORDANCE WITH THE COOPERATIVE AGREEMENT (Pages 45-46)

We note the findings and will study the recommendations for implementation.

2. COST OF THE INAUGURATION OF PITO-P OFFICES IN THE NCR, CEBU AND DAVAO (Pages 46-47)

The inauguration of PITO-P Offices in the NCR, Cebu and Davao should be considered as events/activities intended to make potential beneficiaries (e.g., small and medium enterprises, industry and trade organizations, etc.) and other important business leaders and government officials aware that the Project is already operational, as well as inform them about the Project's development interventions and how they may avail of assistance and services it offers. The lists of invitees in all three events will confirm the highly business nature of the events in all three inaugurations.

Plans for the three inaugurations were made known to Officials of the PESO/USAID, PHILEXPORT and the PIC prior to being finalized by the Project Management Staff. However, no formal presentations were made nor were approvals requested.

We note the findings and agree that USAID and the PHILEXPORT need to resolve the matter of funding for these events.

3. USE OF GRANT-FUNDS FOR PAYMENTS OF VALUE-ADDED TAX (VAT) (Pages 47-49)

The creation of PHILEXPORT was actually initiated by the Department of Trade and Industry. Its Charter provided privileges for the Association which includes exemption from payment of taxes and duties. However, the Philippine Government withdrew all tax and duty exemption privileges extended to non-government organizations with the issuance of Executive Order 93 in December 1986.

We note the findings and the recommendations.

We recommend that the PESO/USAID resolve the matter on the use of grant-funds for payment of value-added taxes within the USAID (and the PHILEXPORT and the Government of the Philippines, if necessary).

**4. REIMBURSEMENT OF EXPENSES NOT INCLUDED IN THE BUDGET
(Page 49-50)**

The expenses referred to consist of the following:

- Salaries of Accountants for the PITO-P Cebu and Davao Offices
- Rental for the generator for the PITO-P Cebu Office

The Regional Offices were originally designed to have only a Manager, a Secretary and an Information Officer. The Secretary was expected also to function as the Bookkeeper and to prepare the financial reports of the regional office.

Following receipt of the Report of the Financial Management Review of the PITO-P Davao Office conducted by the USAID Office of Financial Management during the first quarter of the 1992, it was decided that the PITO-P Cebu and Davao Offices be allowed to hire full-time Accountants to assist the Regional Managers implement proper financial management in the regional offices.

We will secure formal USAID approval of the hiring of Accountants for the PITO-P Cebu and Davao Offices.

The building in which the PITO-P Cebu Office is located has a stand-by power generator. The PITO-P Cebu Office was constrained to avail of power supply from the building's stand-by generator in view of frequent brownouts which affected operations, particularly at the time when the Project was only getting started in Cebu. The cost of power from a small stand-by generator is naturally much higher than the rate charged by the city power utility company.

When the power shortages in Cebu and Mindanao aggravated, the PIC approved the request of the PITO-P Cebu and Davao Managers for the acquisition of power generators. USAID approval for generator acquisition was, subsequently, also secured. (Attachment F)

5. REIMBURSEMENT OF CLAIMS NOT ADEQUATELY SUPPORTED BY INVOICES, SUPPORTING RECEIPTS AND DOCUMENTATION (Pages 50-51)

The expenses/claims referred to involved the following:

- Financial assistance extended for the Study on the Mindanao Power Crisis: Impact on Mindanao Exports
- Claims for lodging expenses of Ms. Joy Rubillar (PITO-P Davao Office Information Officer)

The Project is still waiting for the Completion Report of the Study on the Mindanao Power Crisis. The PITO-P Davao Manager will be requested to follow-up with the Northern Mindanao Development Bank on the matter.

The required supporting documents for the claims of Ms. Joy Rubillar for lodging expenses totaling ₱1,404.00 were attached to the Travel Liquidation Report, as follows:

- JV #09-08 Liquidation of Ms. Joy Rubillar
 Official Receipt of the Cebu Plaza

6. INCLUSION IN THE FUND ACCOUNTABILITY STATEMENT OF THE AMOUNT OF US\$ 696.00 OF FINANCIAL ASSISTANCE EXTENDED TO THE "MADE IN DAVAO '91" PROJECT EVEN AS SAID AMOUNT WAS REFUNDED BACK TO THE PROJECT ON 17 JULY 1992 (Pages 51-52)

The grant of the full financial assistance for the "MADE IN DAVAO '91" Project was reported in the Quarterly Expenditure Liquidation Report for July - Sept. 1991. The Davao City Federation of People's Economic Councils' Foundation returned the ₱ 18,876.00 unused balance of the PITO-P financial assistance to the Project on 17 July 1991. The amount returned will be deducted from the next Quarterly Expenditure Liquidation Report.

7. UNREMITTED BALANCE OF US\$2,828 (₱ 76,690) OF INTEREST INCOME AS OF 30 APRIL 1992, WHICH NEEDS TO BE RETURNED TO THE USAID (Page 52-53)

The Project remitted to the USAID US\$2,606.71 in June 1992 and US\$290.00 in July 1992 (Total of US\$2,896.71), representing the balance of the interest income referred to.

B. COOPERATIVE BUSINESS INTERNATIONAL

1. REIMBURSEMENT OF EXPENSES WHICH EXCEEDED/WERE NOT INCLUDED IN THE BUDGET SUBMITTED BY THE TRADE BROKER (Pages 53-55)

The Project will request the CBI to submit the necessary documentation on personnel not included in the original budget submitted by the trade broker to the Project/PHILEXPORT. We already have the time and attendance reports of the personnel referred to, as well as salaries paid to them.

The PITO-P required the three Project-assisted trade brokers to submit their budgets for Year-1, with monthly/quarterly breakdowns. We needed the brokers' annual budgets to guide us in formulating the Annual PITO-P Project Budget and in forecasting our fund requirements for the Requests for Quarterly Cash Advances.

The Project Management was made to understand that the financial assistance being given to the PITO-P trade brokers was intended to be a grant, transferred through a reimbursement process. PESO Officials explained that, except for the short-list of expenditures on which use of USAID grant-funds is prohibited, the trade brokers may reimburse any expenses they incur in the process of establishing their offices in the NCR, Cebu and Davao and in promoting trade and investments, pursuant to the objectives of the PITO-P Project.

The amounts for the different expense items indicated in the budgets submitted by the three trade brokers should not be taken as limits for what the Project can reimburse trade brokers. Specifically, the trade brokers should not be limited in their hiring of personnel and in their requests for reimbursement for salaries only to those of personnel listed in the original plans they submitted to PITO-P.

We recommend that this matter be resolved by the PESO, with the Contracts Service Office, Office of Financial Management and Resident Audit Office of the USAID.

2. REIMBURSEMENT OF VAT PAYMENTS (Page 55-56)

We note the findings and recommendation.

We recommend that the PESO resolve the matter within the USAID (and the PHILEXPORT, GOP, CBI, Intrade and Access Asia, if necessary.)

3. REIMBURSEMENT OF EXPENSES RELATED TO ACQUISITION OF VEHICLE (Page 57)

We will deduct the amount of ₱ 33,350.00 from the next reimbursement to Intrade.

C. THE PRAGMA CORPORATION

1. REIMBURSEMENT OF PRE-AGREEMENT EXPENSES IN EXCESS OF THE US\$15,000.00 PROVIDED UNDER THE CONTRACT BETWEEN THE PHILEXPORT AND THE TRADE BROKER (Pages 58-59)

The proposal of The Pragma Corporation on the establishment of trade-brokering operations in the NCR was accepted on 30 July 1991.

The PHILEXPORT and THE PRAGMA CORPORATION signed the Trade Brokering Contract on 17 September 1991. The Contract was notarized on 02 October 1991.

Expenses incurred by The Pragma Corporation between 31 July and 17 September 1991 (contract-signing date) amounted to only US\$11,874.98, well within the US\$15,000.00 limit for reimbursable pre-agreement cost/expenses.

The amount determined by the Auditors as the pre-agreement expenses of The Pragma Corporation represented the sum total of all expenses incurred by the NCR-based trade broker between 31 July and 02 October 1991 (contract notarization date).

2. REIMBURSEMENT OF EXPENSES WHICH EXCEEDED THE AMOUNTS CONTRACTED FOR (i.e., THE ORIGINAL BUDGETS SUBMITTED BY THE TRADE BROKER (Pages 59-60))

The Project Management will verify with Pragma-Pil the increase in salary rates referred to.

However, we wish to respectfully reiterate the opinion that the amounts contained in the original budgets submitted by the trade brokers are indicative and should not be used as limits for expenses which the Project may reimburse trade brokers.

The per diem expenses referred to were incurred by Pragma-Pil Staff in their trips to Laguna, Cavite and Bulacan. In computing their per diem allowances, the Staff used the USAID Per Diem Rates Effective 01 December 1990. (Attachment G) On 28 February 1992, we were furnished by Ms. Sarah Diama of the USAID Office of Financial Management the USAID Per Diem Rates Effective 01 August 1991. (Attachment H). The former schedule provides for US\$27.00 maximum daily per diem rate for trips to provinces not specifically listed (Others). The latter schedule has a reduced rate of only US\$22.00.

We will deduct the excess payment of US\$90.00 (₱ 2,440.00) from the next reimbursement to Pragma-Pil.

3. REIMBURSEMENT OF TAXES WHICH ARE UNALLOWABLE EXPENSES PER COOPERATIVE AGREEMENT AND THE USAID APPLICABLE STANDARD PROVISION FOR NON-U.S., NON GOVERNMENTAL GRANTEEES (Pages 60-61)

We agree that Pragma Corporation should not be reimbursed for the Municipal License Fee of US\$10.00 (₱ 271.00). The Project Management will deduct the corresponding amount from its next reimbursement for Pragma-Pil.

4. REIMBURSEMENT OF VAT PAYMENTS (Pages 61-62)

We note the findings and recommendation.

We recommend that the PESO resolve the matter within the USAID (and the PHILEXPORT, GOP and Pragma-Pil, if necessary.)

5. REIMBURSEMENT OF COSTS OF FIELD OFFICES OF PRAGMA-PIL IN MAKATI AND PASIG (Page 62)

It should be noted that the trade brokers have to achieve performance targets. As such, it was important that they were able to establish "presence" immediately after signing of their contracts with PHILEXPORT.

Pragma-Pil decided to locate its trade brokering office in Pasig. It paid a reservation deposit and advance monthly rentals as early as January 1992. During the process of making the physical office operational, Pragma-Pil operated from the office of a relative of one of the trade broker's officers located in Fedman Building in Makati. Pragma-Pil shared in the rental cost of the office as well as for the use of certain office facilities and equipment.

The Pasig office became operational in March 1992. When Pragma-Pil was able to fully transfer to its Pasig Office, its stopped payments on shared use of the Fedman Building Office.

D. SHERBERG MARKETING CORPORATION (Page 63)

1. REIMBURSEMENT OF VAT PAYMENTS (Pages 63-64)

We note the findings and recommendation.

We recommend that the PESO resolve the matter within the USAID (and the PHILEXPORT, GOP and Shemberg Marketing Corporation, if necessary.)

2. REIMBURSEMENT OF EXPENSES WHICH EXCEEDED THE AMOUNTS IN THE ORIGINAL BUDGETS SUBMITTED BY THE TRADE BROKER (Page 64)

We note the findings and recommendation.

However, we wish to respectfully reiterate the opinion that the amounts contained in the original budgets submitted by the trade brokers are indicative and should not be used as limits for expenses which the Project may reimburse trade brokers.

3. REIMBURSEMENT OF AN EXPENSE (i.e., VEHICLE RENTAL) NOT ADEQUATELY DOCUMENTED (Pages 65)

Shemberg submitted Official Receipts to support payment of lease-rental for the vehicle.

The lease agreement does not specify the registration, engine and numbers of the vehicle. However, we have been informed by Shemberg Marketing Corporation that these information are available and can be submitted, if needed.

We note the findings and will resolve the matter with USAID and Shemberg Marketing Corporation.



CEBU CHAMBER OF COMMERCE & INDUSTRY

ROOM 10-1, WDC BUILDING, OSMEÑA BOULEVARD, CEBU CITY PHILIPPINES 6000
TELEPHONE NOS. 8-93-12/9-98-89 / 7-04-09 / 8-18-35 / 8-10-54
FAX (03-32)63635 TELEEX 24745 CCCI PH.

ATTACHMENT A

C E R T I F I C A T I O N

This certification is being issued by the Cebu Chamber of Commerce and Industry (CCCI), in connection with the production of the investment promotion magazine entitled "Make It Cebu", which was funded by a P250,000.00 grant from the Private Investment and Trade Opportunities-Philippines (PITO-P).

The CCCI hereby certifies the following;

1. That the CCCI undertook the production of the magazine with the active assistance of the PITO-P and DTI staff members.
2. That the CCCI participated in the selection of V.L. Industries to broker services needed in the production of the magazines and that the CCCI authorized the PITO-P Cebu Manager, Ms. Floretta S. del Fierro, to enter into a contract with V.L. Industries for the production of 1,000 copies of the magazine at a quoted price of P250,000.00
3. That while the CCCI is aware that V.L. Industries is primarily engaged in the trading of chemical products, the CCCI is also aware that Mr. Miguel Noel, the single proprietor - owner of the company, is also engaged in technical consultancy services;
4. That, with the assistance of Ms. del Fierro and Ms. Brenda Proscio, Cebu Provincial Director of the Department of Trade and Industry (DTI), the CCCI negotiated with Mr. Miguel Noel, and successfully persuaded him to contribute the margin he expected to gain from the transaction towards increasing the number of copies to be printed from 1,000 to 2,000 copies.
5. That the CCCI is aware that PITO-P paid V.L. Industries the total amount of P250,000.00 (the total amount of the PITO-P grant), broken down into; P63,000.00 cash, and 3 checks for P75,000.00, P75,000.00 and P75,000.00.
6. That the CCCI received 2,000 copies of the magazine; and
7. That while the CCCI is not very pleased with a couple blank pages in the magazine, the CCCI is nevertheless, satisfied with the overall quality of the final material;

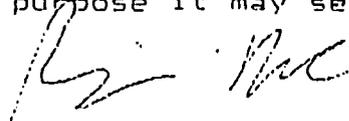
9



CEBU CHAMBER OF COMMERCE & INDUSTRY

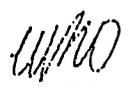
ROOM 104, WDC BUILDING, OSMEÑA BOULEVARD, CEBU CITY PHILIPPINES 6002
TELEPHONE NOS. 9-93-12/0-96-88 / 7-04-89 / 5-11-35 / 8-10-64
FAX (63-32)53835 TELEEX 24745 CCCI PH

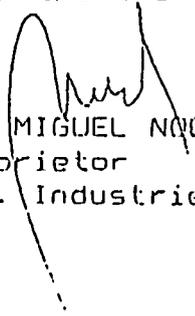
This certification is being issued upon the request of Ms. Floretta del Fierro, for whatever purpose it may serve.


GERONIMO D. STA. ANA
President
Cebu Chamber of Commerce & Industry

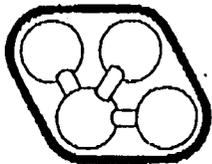
Noted:


MS. FLORETTA DEL FIERRO
PITO-P Cebu Manager


BRENDA OROSCO
Cebu Provincial Director
Department of Trade and Industry


MR. MIGUEL NOEL
Proprietor
V.L. Industries

FOR : MR W. ORTALIZ
FR : PITO-P CEBU



VL INDUSTRIES

259 DON JOSE AVILA STREET
CEBU CITY, PHILIPPINES
TELS. 53319 & 212258
FAX: (63-32) 212258

ATTACHMENT B

21 October 1992

C E R T I F I C A T I O N

This is to certify that Ms. Helen Joyce Yu is an employee of VL INDUSTRIES of Cebu City since Jan. 1984, and that she is presently the office manager of the company.

This certification is being issued upon the request of Ms. Floretta Del Fierro, for whatever purpose it may serve.

MIGUEL E. NOEL
Proprietor
VL Industries

ATTACHMENT C

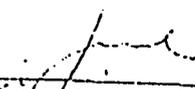
C E R T I F I C A T I O N

We, the undersigned, hereby certify:

1. That we were invited by Ms. Floretta S. del Fierro, Cebu Manager of the Private Investment and Trade Opportunities - Philippines, Ms. Brenda Orosco, Cebu Provincial Director of the Department of Trade and Industry and Mr. Gerry Sta. Ana, President of the Cebu Chamber of Commerce and Industry to submit quotations for services needed in the production of 1,000 copies of the investment promotion magazine entitled "MAKE IT CEBU";
2. That we submitted our cost quotations for the production of 1,000 copies of the "MAKE IT CEBU" investment promotion magazines, as follows:

T. Carangue Printing Press	:	P 260,000.00
Pro - Ads	:	255,500.00
Barba Press I. B.	:	265,000.00
3. That we were informed that V. L. Industries submitted the lowest cost quotation of P 250,000.00 and was, therefore, awarded the contract; and
4. That we interposed no objection to the award of the contract to V. L. Industries.

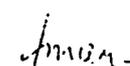
We are issuing this certification upon the request of Ms. Floretta S. del Fierro, for whatever purpose it may serve.



TEDDY CARANGUE
Proprietor
T. Carangue Printing Press



ERENIO BAREA
Proprietor
Barba Press I B



THERESE MARGARET ROSAURO
Manager
Pro - Ads



ATTACHMENT D

CERTIFICATION

This is to certify that the Cebu Fashion Accessories Manufacturers & Exporters (Cebu FAME) received through its President, Ms. Joyce Yang, the amount of One Million Two Hundred Thirty Thousand Pesos (P 1,230,000) from the Private Investment & Trade Opportunities - Philippines Cebu Office for its development projects, detailed as follows:

Purpose	Amount
1. Trainings	P 1,080,000.00
2. Design & Trend Magazines	150,000.00

	P 1,230,000.00
	=====

The amount was given to the association in the following manner:

1. Checks issued in the name of Ms. Joyce Yang, Cebu FAME president, totalling P 310,000 for the following purposes:

1.1 Advance for Trainings	-	P 160,000.00
1.2 Design Trend Magazines	-	150,000.00

- Date checks were turned over to Cebu FAME:
December 19, 1991

2. Check issued in the name of Cebu FAME/Ms. Joyce Yang in the amount of P 920,000, representing the balance of the funding for the trainings.

- Date check was turned over to Cebu FAME:
May 6, 1992

Furthermore, we would like to attest that the funding was applied to projects of the association, of which the following have been completed:

CEBU FASHIONS ACCESSORIES MANUFACTURERS AND EXPORTERS, INC.
2ND FLOOR, RIASJAC BUILDING, BASELINE COMPLEX
JUANA OSMENA STREET, CEBU CITY, PHILIPPINES
TELEPHONE NUMBER: 217-937
FAX NUMBER: 211-477

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1. Exporters' Library

- Subscriptions to international design and trend magazines
- Date library was launched: June 25, 1992

2. Eight (8) Trainings

- Production Planning & Control Seminar for Exporters: June 16-18, 1992
- Production Planning & Control Seminar for Manufacturers: June 16-19, 1992
- CBI Workshop: April 2-3, 1992
- Trade Fair Seminar: March 16, 1992
- Trade Fair Application: March 25-26, 1992
- Back to Basics on Values & Attitudes Seminar: March 18-19, 1992
- Electroplating of Conductive Materials: February 26-29, 1992
- Electroplating of non-Conductive Materials: February 26-29, 1992

This Certification is issued for whatever purpose it may serve.



Joyce Natalie Yang
President

Robert Escolin
PRO

Marilou Canizares
Vice-President
Exporters

Mel Galma
Auditor

Milton Rodriguez
Vice-President
Manufacturers

Emelie Tenorio
Secretary

Jesusa Enriquez
Treasurer



ATTACHMENT E

STATUS REPORT CEBU-FAME FITO-P EXPORTERS LIBRARY

MAGAZINES	COST (Proposed)	COST (Actual)	NO. OF ISSUES SUBSCRIBED	NO. OF ISSUES RECEIVED	PENDING RECEIPT
PROMOSTYL	\$ 5,595.00	5,703.51	6	6	-
VIEW	145.00	140.00	2	1	1
ACCENT	130.00	130.00	12	2	10
ACCESSORIES	125.00	125.00	12	5	7
FREE	45.00	35.00	2	1	1
ORNAMENT	125.00	29.00	2	1	1
DR. COLOR CARD	125.00	105.64	2	1	1
GERMAN FASHION GUIDE	80.00	58.96	2	1	1
VOGUE ITALIA	140.00	98.06	12	5	7
CAUS	540.00	540.00	2	1	1
ICA-TYBO	320.00	320.00	2	2	-
Exchange rate	\$ 7,370.00	7,285.17			
	27.00	26.75			
Total amount in Pesos	198,990.00	194,873.30			

Approved by:

Noted by:

ORIGINAL SIGNED

ORIGINAL SIGNED

JANET CHUA
Head, Educations Committee
CEBU FAME

ROBERT ESCOLIN
President
CEBU FAME

CEBU FASHION ACCESSORIES MANUFACTURERS AND EXPORTERS, INC.
2ND FLOOR, RIASAC BUILDING, BASELINE COMPLEX
JUANA OSMENA STREET, CEBU CITY, PHILIPPINES
TELEPHONE NUMBER: 212-937
FAX NUMBER: 211-977

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Ramon Magsaysay Center
1680 Roxas Boulevard
Ermita 1000, Manila
Philippines



Fax No.: 632-521-5241
Tel. No.: 632-521-7116

MAY 14 1992

ATTACHMENT F

Mr. Wilhelm Ortaliz
National Manager
Private Investment & Trade Opportunities-Phil
7/F, King's Court I,
2129 Pason Tamo Extension
Makati, Metro Manila

Dear Mr. Ortaliz:

In response to your letter dated April 20, 1992 which Mr. Brad Wallach of PESO/USAID referred to Contracts Services Office, please be advised of our concurrence on the purchase of power generators for PITO-P/Cebu and Davao offices to be charged against budget line item furniture and fixtures and office equipment.

Sincerely,

William Reynolds
Contract Officer
Contracts Services Office

cc: Mr. Eufronia Coronel
Phil. Exporters Foundation

ATTACHMENT G

PER DIEM RATES EFFECTIVE DECEMBER 1, 1990

<u>Philippines</u>	<u>Lodging 1/</u>	<u>Meals and Incidental Exp. 2/</u>	<u>Total</u>
Bacolod	28	31	59
Baguio City	47	33	80
Cavite	45	36	81
Cebu	52	33	85
Davao City	43	29	72
Dipolog City	31	25	56
Laoag	43	27	70
Manila	75	47	122
Palawan	37	25	62
Subic Bay	28	22	50
Tacloban City	39	18	57
Tagbilaran	39	23	62
Other	21	27	48

1/ Receipts required.

2/ No receipts required.

Manila on travel of ...

ATTACHMENT H

Effective August 1, 1991, the maximum per diem rates for travel to localities within the Philippines are as follows:

LOCALITY	MAXIMUM LODGING AMOUNT (A)	(PLUS)	MEALS AND M&IE RATE (B)	EQUALS	MAXIMUM PER DIEM RATE (C)
Bacolod	\$28.00		\$31.00		\$59.00
Baguio City	\$47.00		\$33.00		\$80.00
Cavite	\$52.00		\$34.00		\$86.00
Cebu	\$62.00		\$36.00		\$98.00
Davao City	\$45.00		\$31.00		\$76.00
Dipolog City	\$31.00		\$25.00		\$56.00
Laoag	\$43.00		\$27.00		\$70.00
Manila	\$85.00		\$47.00		\$132.00
Palawan	\$37.00		\$25.00		\$62.00
Subic Bay**	\$28.00		\$22.00		\$50.00
Tacloban City	\$39.00		\$18.00		\$57.00
Tagbilaran	\$39.00		\$23.00		\$62.00
Other	\$23.00		\$22.00		\$45.00

**Includes Cubi Point, and the cities of Iba, Olongapo, and Subic.

Please note that, in order to calculate the correct per diem rate to be reimbursed under a lodging-plus system, lodging receipts are required of all travelers. If no lodgings receipts are submitted, then only the M&IE rate can be reimbursed to the traveler. The M&IE amount is fixed for each locality and does not require itemization for reimbursement.

2/28/92
2/28/92
Please send copy to
all concerned. Thanks.

J. S. S. S.

APPENDIX II

REPORT DISTRIBUTION LIST

	<u>No. of Copies</u>
Mission Director, USAID/Philippines	5
Assistant Administrator for Asia and Private Enterprise Bureau (AA/Asia)	2
Associate Administrator for Finance and Administration (AA/FA)	1
Associate Administrator for Operations (AA/OPS)	1
Office of Press Relations (XA/PR)	1
Office of Financial Management (FA/FM)	1
Office of Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
POL/CDIE/DI, Acquisitions	1
Management Control Staff (FA/MCS)	1
Asia/FPM	1
Inspector General	1
Assistant Inspector General/Audit	1
Office of Policy, Plans and Oversight (IG/A/PPO)	2
Office of Programs and Systems Audit (IG/A/PSA)	1
Office of Legal Counsel (IG/LC)	1
Assistant Inspector General for Investigations and Security (AIG/I&S)	1
Inspector General for Investigations/Singapore Field Office (IG/I/SFO)	1
Office of Resource Management (IG/RM/C&R)	5
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/EUR/W	
RIG/A/Bonn	1
RAO/Manila	1
RIG/A/Nairobi	1
RIG/A/Tegucigalpa	1
IG/A/FA	1