

Regional Inspector General for Audit
Singapore

AUDIT OF
USAID/PHILIPPINES' GRANT TO
ASIA RATTAN MANUFACTURING COMPANY, INC.
PHILIPPINES

Audit Report No. 5-492-94-01-N
October 8, 1993





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

October 8, 1993

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

FROM: Richard C. Thabet, RIG/A/Singapore

A handwritten signature in black ink, appearing to read "Richard C. Thabet".

SUBJECT: Audit of USAID/Philippines' Grant to
Asia Rattan Manufacturing Company, Inc. - Philippines
Report No. 5-492-94-01-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm of Carlos J. Valdes & Co., the Coopers and Lybrand affiliate in the Philippines) for your action. This financial audit of USAID/Philippines' grant to Asia Rattan Manufacturing Company, Inc. (Asia Rattan) covered the period from May 4, 1992 through May 31, 1993. During this period, Asia Rattan reported it had received \$67,274 and spent \$50,982. They also reported \$51,668 in counterpart contributions toward grant activities. The background on this grant is presented on pages 1 to 3 of the report.

The audit objectives were to:

- Determine whether Asia Rattan's Fund Accountability Statement presents fairly the receipts and expenses under the contract;
- Report on Asia Rattan's system of internal controls; and
- Report on Asia Rattan's compliance with applicable laws, regulations, and terms of the agreements.

The audit report concluded that Asia Rattan's:

- Fund Accountability Statement presents fairly the receipts and expenses under the grant except for \$13,345 in questioned costs (see page 29). In addition, the auditors identified another \$16,180 in questioned costs (see page 30) pertaining to unliquidated advances which have not been recovered. The total amount of questioned costs identified in this report is therefore \$29,525.

- Internal controls had two material weaknesses in the areas of cash disbursements and contracting.
- Operations complied in all material respects with applicable laws, regulations, and terms of the grant except for those instances that gave rise to the questioned costs noted above, shortfalls in contributions to counterpart funds, and failure to remit all of the interest income earned on advances.

On the issue of shortfalls in counterpart contributions, the auditors reported that Asia Rattan has not met its budgeted contributions for the first year of the grant but has managed to match USAID/Philippines' actual contributions. Therefore, we are not making any recommendations pertaining to this issue.

This audit report contains six findings and recommendations. In their response, Asia Rattan officials generally agreed with and also provided further explanations on these findings and recommendations. Their comments are summarized after each finding in the report and presented in their entirety as Appendix D.

USAID/Philippines needs to ensure that necessary action is taken to correct the problems noted in this audit. In addition, the following recommendations are being made and will be included in the Inspector General's recommendation follow-up system:

Recommendation No. 1: We recommend that USAID/Philippines: (a) resolve the \$29,525 in questioned costs (\$16,571 ineligible and \$12,954 unsupported) with Asia Rattan and recover any amounts due.

Recommendation No. 2: We recommend that USAID/Philippines verify that Asia Rattan establishes and implements a system to: (a) periodically remit interest income to USAID and (b) obtain receipts for cash disbursements made on expenses.

We appreciate the courtesies and cooperation USAID/Philippines and Asia Rattan 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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August 16, 1993

Mr. Richard C. Thabet
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United States Agency for International Development
111 North Bridge Road
#17-03 Peninsula Plaza
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Gentlemen:

This report presents the results of the financial audit of Grant No. AID 492-0395-G-SS-2103-00 for the Community Agroforestry and Microenterprise Development Project administered by Asia Rattan Manufacturing Company, Inc.

A. BACKGROUND

On May 4, 1992, the U.S. Agency for International Development (AID) granted P5,000,000 (\$200,000) to Asia Rattan Manufacturing Company, Inc. (ARMCO) to administer the Community Agroforestry and Microenterprise Development Project in barangays Maruglo and Sta. Juliana, Capas, Tarlac. This grant which is under the Enterprise in Community Development (ECD) Project of AID, is effective for a period of three years.

The purpose of this project is to establish sustainable community based food livelihood production, improved access to health care and drinking water as well as environmental rehabilitation for 375 families in the aforementioned barangays. This project will focus on three components:

1. Agriculture and Natural Resource Management

Under this component, the project is envisioned to establish:

- a. Food production - approximately 10 hectares of idle grasslands will be cultivated addressing the immediate need to overcome the acute problems of hunger and malnutrition prevailing within the target areas.
- b. Reforestation
 - a minimum of 10,000 trees will be planted generating employment, livelihood and food.

- Five (5) mini woodlots will be established with fast growing tree species providing a source of firewood to the community.

Additional benefits of this component will be an improved water shed, reduced soil erosion and a buffer zone to protect the few remaining patches of forest from charcoal makers.

2. Livelihood

- a. Credit - credit assistance, training and consultancy will be extended to at least ten qualified groups or individual beneficiaries at a maximum loan size of ₱30,000.
- b. Community organizing - at least one farmer's association will be formed to undertake activities such as procurement in bulk and regular delivery of essential items and better marketing of banana blossoms which is one of the few existing sources of cash income.

3. Health and Water Sanitation

a. Primary Health Care/Access to Health Services

- Upland project sites to be visited by a health professional for the duration of the project rendering basic health services.
- A minimum of twenty (20) community members will be trained as Barangay Health Workers (BHW's) to ensure that primary services and health education will continue after the life of the project.

b. Water Systems

- Three (3) community-based water systems to be rehabilitated or constructed.
- Corresponding number of water associations to be organized and trained to actively participate in the design, implementation and management of this component.

As provided in the Grant Agreement, the AWECA Foundation, corporate social responsibility arm of ARMCO will take the lead in implementing this project in coordination with Human Organization for Peak Performance Corporation (HOPPCOR) and Transnational Management Associates (TRANSMASS) which serve as consultants to the Company. HOPPCOR will assist in training, group dynamics organization assistance while TRANSMASS will assist in project management. The project began in May 1992 with TRANSMASS taking charge of project management.

A series of financial/program monitoring activities were conducted by both Urban Integrated Consultants, Inc. (UICI), an independent consultant hired by AID and the ECD staff of AID.

The report of UICI disclosed several financial management issues regarding the manner of advancing payments to the consultants (TRANSMASS and HOPPCOR) and their failure to properly liquidate these advances. In the UICI Financial Review Report for February 1993, advances to the two consultants amounting to ₦1,287,618 and counterpart contributions of ₦687,500 were already questioned due to inadequate supporting documents. Further, in a letter of AID to ARMCO dated March 3, 1993, AID recommended that ARMCO should stop further advances to these consultants until they fully and satisfactorily liquidate previous advances based on the results of the monitoring conducted by the AID ECD staff.

On March 1, 1993, the President of ARMCO directed its Management Support Group (MSG) to conduct a financial and management audit of the project which included the activities of these two consultants.

Based on the results of the audit, these two consultants were terminated effective March 20, 1993. ARMCO then adjusted the books of accounts of the program by reducing grant expenditures by ₦840,573 (\$32,859) and counterpart contributions by ₦1,008,962 (\$39,442) because these amounts can not be substantiated.

The basis of our financial audit was the adjusted fund accountability statement per MSG report.

B. AUDIT OBJECTIVES AND SCOPE

The objectives of this financial audit are to:

- express an opinion as to whether the fund accountability statement presents fairly in all material respects, receipts and expenditures incurred for the year then ended in accordance with the terms of the agreements and in conformity with generally accepted accounting principles.
- evaluate and obtain a sufficient understanding of the grantee's internal control structure related to the project, assess control risk and identify reportable conditions, including material internal control weaknesses.
- perform tests to determine whether the grantee complies in all material respects, with agreement terms and applicable laws and regulations related to the project and express positive assurance on those items tested and negative assurance on those items not tested. All material instances of noncompliance and all indications of illegal acts should be identified.

The scope of our audit covers the period May 4, 1992 to May 31, 1993 which includes receipts and expenditures of ₱1,720,930 (\$67,274) and ₱1,304,083 (\$50,982), respectively.

For the purpose of quantifying Philippine Pesos to U.S. Dollars, we used ₱25.5809 to \$1.00, which is the average exchange rate of the total cumulative payments in Philippine Pesos to the cumulative payments in U.S. Dollars based on AID's records for the period July 8, 1992 to February 2, 1993.

C. RESULTS OF AUDIT

1. Opinion on the Fund Accountability Statement

The results of our tests disclosed the following questioned material costs as detailed in the fund accountability statement: (1) ₱331,352 (\$12,954) in costs are not supported with adequate documentation or did not have the required prior approvals or authorizations; and (2) ₱10,000 (\$391) in costs are explicitly ineligible because it is prohibited under the terms of the agreement. These questioned costs altogether represent 26.18% of total expenditures for the period under audit. (See Appendix B for details).

In our opinion, except for the questioned costs mentioned in the preceding paragraph, the fund accountability statement presents fairly the receipts and expenditures of Asia Rattan Manufacturing Company, Inc. for the Community Agroforestry and Microenterprise Development Project for the period May 4, 1992 to May 31, 1993, in conformity with the accounting principles described in Note 2.

2. Review of Internal Controls

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). 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 judgement, could adversely affect the foreign recipient's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement and schedule of counterpart contributions.

Contracts for procurement of services were deficient and payments were made without supporting documents. This resulted to questioned costs of ₱327,802 (\$12,814) representing 25.13% of total costs reported for the period. (See pages 15 and 18 for details).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement and the schedule of counterpart contributions 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 also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are also material weaknesses.

3. Compliance Review

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from the failures or violations is material to the fund accountability statement and the schedule of counterpart contributions. The results of our tests of compliance disclosed the following material instances of noncompliance:

1. The Grantee has an outstanding obligation from grant funds amounting to ₱413,909 (\$16,180). (See page 21 for details).
2. Counterpart contributions is deficient by ₱900,602 (\$35,225). (See page 22 for details).
3. Project expenditures amounting to ₱13,550 (\$530) were not in the budget or were in excess of budget. (See page 24 for details).
4. Interest income amounting to ₱8,421 (\$329) was not remitted to AID. (See page 26 for details).

Except as described above, the results of our tests of compliance indicate that with respect to items tested, Asia Rattan Manufacturing Company, Inc. complied, in all material respects, with the provisions referred to in the third paragraph of our report (page 19) and with respect to items not tested, nothing came to our attention that caused us to believe that Asia Rattan Manufacturing Company, Inc., had not complied, in all material respects, with those provisions.

D. SUMMARY OF MANAGEMENT COMMENTS

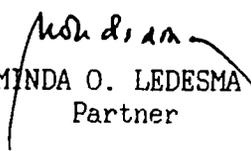
Asia Rattan Manufacturing Company, Inc. generally agreed with the findings and recommendations and their comments are included in the Section on The List of Internal Control Weaknesses and List of Agreement Terms and Applicable Laws and Regulations not Complied by Grantee.

Since this is the first independent financial audit for this grant, there were no prior audit recommendation.

Very truly yours,

CARLOS J. VALDES & CO.

By:


MINDA O. LEDESMA
Partner

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INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT

Mr. Richard C. Thabet
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United States Agency for International Development
111 North Bridge Road
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We have audited the fund accountability statement of Asia Rattan Manufacturing Company, Inc. for the Community Agroforestry and Microenterprise Development Project for the period May 4, 1992 to May 31, 1993. The fund accountability statement is the responsibility of Asia Rattan Manufacturing Corporation. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit of the fund accountability statement in accordance with U. S. Government Auditing Standards issued by the Comptroller General of the United States. The standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the fund accountability statement, the statement is prepared on a cash basis which is a comprehensive basis of accounting other than generally accepted principles under standards established by the American Institute of Certified Public Accountants.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, par. 46 of U. S. Government Auditing Standards, since no such program is offered by professional organizations in the Philippines. We believe that the effects of this departure from U.S. Government Auditing Standards is not material because we participate in the Coopers & Lybrand International worldwide internal quality control review program which requires our office to be subjected every three years, to an extensive quality control review by partners and managers from other affiliate offices.

The results of our tests disclosed the following material questioned costs as detailed in the fund accountability statement: (1) ₱331,352 (\$12,954) in costs are not supported with adequate documentation or did not have required prior approvals or authorizations; and (2) ₱10,000 (\$391) in costs are explicitly ineligible because it is prohibited under the terms of the agreement. These questioned costs altogether represent 26.18% of total expenditures for the period under audit. (See Appendix B for details).

In our opinion, except for the questioned costs mentioned in the preceding paragraph, the fund accountability statement presents fairly the receipts and expenditures of Asia Rattan Manufacturing Company, Inc. for the Community Agroforestry and Microenterprise Development Project for the period May 4, 1992 to May 31, 1993, in conformity with the accounting principles described in Note 2.

This report is intended for the information of Asia Rattan Manufacturing Company, Inc. and the U. S. Agency for International Development (AID). However, upon acceptance by the AID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Carlos J. Valdes & Co.

Carlos J. Valdes & Co.
August 16, 1993

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF GRANT NO. AID 492-0395-G-SS-2103-00
 FOR THE COMMUNITY AGROFORESTRY AND MICROENTERPRISE DEVELOPMENT PROJECT
 ADMINISTERED BY
 ASIA RATTAN MANUFACTURING COMPANY, INC.

FUND ACCOUNTABILITY STATEMENT
 MAY 4, 1992 TO MAY 31, 1993

	BUDGET		ACTUAL	
	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
REVENUE				
Grant Receipts (Note 1)	200,000	5,000,000	67,274	1,720,930
COSTS INCURRED				
Personnel (Note 3)	74,189	1,854,735	18,622	476,349
Equipment and Commodities (Note 4)	4,560	114,000	4,848	124,000
Monitoring and Evaluation	10,000	250,000	-	-
Administration (Note 5)	8,292	207,290	2,166	55,396
Training (Note 6)	18,048	451,200	7,518	192,305
Program Support (Note 7)	60,911	1,522,775	17,828	456,033
Audit	12,000	300,000	-	-
Microenterprise Credit/Loan Fund	12,000	300,000	-	-
Total Costs Incurred	200,000	5,000,000	50,982	1,304,683
Outstanding Fund Balance	-	-	16,292	416,847

See Notes to Fund Accountability Statement

AMEL P. FELICIANO
 Project Accountant

BERNARDO C. SARMIENTO
 Project Manager

~~LEONARDO PALO
 Assistant to the President~~

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF GRANT NO. AID 492-0395-G-55-2103-00
FOR THE COMMUNITY AGROFORESTRY AND MICROENTERPRISE DEVELOPMENT PROJECT
ADMINISTERED BY ASIA RATTAN MANUFACTURING COMPANY, INC.

NOTES TO FUND ACCOUNTABILITY STATEMENT

NOTE 1 - COST PRINCIPLE

AID provided an initial advance of funds equivalent to the amount required for the first ninety (90) days of grant activities. This is liquidated quarterly for expenditures which are determined to be reasonable, allocable and allowable, in accordance with agreement terms and applicable laws and regulations and binding policies and procedures.

Reasonable costs are costs that do not exceed those which would be incurred by an ordinary prudent person in the conduct of normal business. Allocable costs are those which are necessary to the grant. Allowable costs are those which must conform to any limitations set forth in the grant.

NOTE 2 - BASIS OF ACCOUNTING

Transactions are recorded using the cash basis which is recognized as a comprehensive basis of accounting other than generally accepted accounting principles under standards established by the AICPA.

NOTE 3 - PERSONNEL COSTS

Personnel costs represent compensation and fringe benefits of project personnel.

NOTE 4 - EQUIPMENT AND COMMODITIES

This includes office equipment and working animals used for program activities.

NOTE 5 - ADMINISTRATION ›

Administration expenses include amounts spent for repairs and maintenance, office supplies, communication, utilities and meetings and conferences.

NOTE 6 - TRAINING

Training expenses represents costs of training, training materials, honoraria for resource persons, meals and transportation.

NOTE 7 - PROGRAM SUPPORT

Program support are substantially expenses for the establishment of infrastructures to be utilized in the project.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

Mr. Richard C. Thabet
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Office of the Regional Inspector General for Audit/Singapore
United States Agency for International Development
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We have audited the fund accountability statement of Asia Rattan Manufacturing Company, Inc. for the Community Agroforestry and Microenterprise Development Project for the period May 4, 1992 to May 31, 1993 and have issued our report thereon dated August 16, 1993. We also reviewed the separate schedule of counterpart contributions to determine whether they are provided and accounted for in accordance with the terms of the agreements.

Except for not conducting an internal quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with U. S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of Asia Rattan Manufacturing Company, Inc. for the Community Agroforestry and Microenterprise Development Project, we considered its internal control structure related to the AID funded programs and projects in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure. We also considered the internal controls applicable to the counterpart contributions provided by Asia Rattan Manufacturing Company, Inc..

The management of Asia Rattan Manufacturing Company, Inc., is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal

control structure, policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in conformity 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 cash receipts and disbursements and procurement procedures to be significant internal control structures.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under 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 judgement, could adversely affect the foreign recipient's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement and schedule of counterpart contributions.

Contracts for procurement of services were deficient and payments were made without supporting documents. This resulted in questioned costs of ₦327,802 (\$12,814) representing 25.13% of total costs reported for the period. (See pages 15 and 18 for details).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement and the schedule of counterpart contributions 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 also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are also material weaknesses.

This report is intended for the information of Asia Rattan Manufacturing Company, Inc. and the U. S. Agency for International Development (AID). However, upon acceptance by the AID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Carlos J. Valdes & Co.

Carlos J. Valdes & Co.
August 16, 1993

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF GRANT NO. AID 492-0395-G-SS-2103-00
 FOR THE COMMUNITY AGROFORESTRY AND MICROENTERPRISE DEVELOPMENT PROJECT
 ADMINISTERED BY ASIA RATTAN MANUFACTURING COMPANY, INC.

LIST OF INTERNAL CONTROL WEAKNESSES

1. CASH DISBURSEMENTS

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

Our review of Cash Disbursements procedures disclosed that payments were made without supporting documents.

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

Disbursements should be made only if there are adequate, appropriately approved supporting documentation. The documents serves as the best evidence that a valid transaction requiring a cash disbursement has occurred.

C a u s e
 - - - - -

The grantee did not establish adequate control procedures in the disbursements of funds.

E f f e c t
 - - - - -

The following costs are questioned due to lack of adequate supporting documents:

Line Item	Philippine Pesos	U.S. Dollars
Equipment and commodities	30,000	1,173
Program support	10,296	403
Administration	600	23
	40,896	1,599
	40,896	1,599

The ₱30,000 represents cost of working animals (2 horses and 1 carabao) whose ownership were not certified under the name of the organization.

Of the questioned costs under the line item program support, the ₱10,000 represents additional cost of water system paid by ARMCO (it should be noted that ARMCO is not a party to this contract) and reimbursed from grant funds. The contractor was not able to complete the water facilities, as required under the terms of the contract. The ₱296 represents additional charges without supporting documents.

The ₱600 represents the cost of office supplies without supporting sales invoice.

Recommendation

We recommend that the Grantee establish and implement control procedures for the disbursement of funds. We likewise suggest that AID resolve the above questioned costs and recover from Grantee any ineligible costs.

Auditee's Response

With regards to the working animals worth ₱30,000, in addition to the certification of ownership by ARMCO-ECD over the working animals issued by the barangay captain and barangay council of Maruglo, Capas, Tarlac, ARMCO will seek their assistance for the documentation of subject working animals at the municipality of Capas, Tarlac to ensure the legality of ownership.

On the water system amounting to ₱10,296.00, since the amount was spent after the project was taken over by ARMCO, the charging was thought to be justifiable. ARMCO agrees with the analysis of the auditors and therefore will have to shoulder the cost in addition to the significant amounts it had already voluntarily shouldered. This does not mean however, that the cost of water system will be limited to the architect's estimate. There are many things to be done to the system due to fortuitous circumstances to make it operational.

Office supplies amounting to ₱600 represents cost of ARMCO letterhead which Paper Press failed to include in its July 9 charge invoice but was included in its July 29 statement of account. The letterhead were delivered, in fact we are using them now. However, official receipt was not issued to ARMCO. The latter overlooked the non-issuance. The reason was, when the collector of Paper Press arrived to collect, the last page of his booklet was already consummated. He promised to return but did not. Anyway, the official receipt was already requested to complete documentation.

C o n d i t i o n

- - - - -

2. We noted that the agreements with the consultants (HOPPCOR and TRANSMASS) have the following deficiencies:
 1. The responsibilities of the consultants were not clearly defined.
 2. Administrative remedies in the contract were not provided in case of non-performance.
 3. Project accomplishment was not used as basis for paying the consultants.
 4. There is no specific time frame within which each activity should be implemented/completed.

C r i t e r i a

- - - - -

Internal accounting control standards for procurement require the following:

1. Contracts shall be based upon a clear and accurate description of the technical requirements for the material, product or service to be procured.
2. Contracts should clearly define the responsibilities of the contracting parties.
3. Contracts shall be made only to responsible contractors who possess the potential ability to perform successfully the terms and conditions of a proposed contract.
4. Administrative remedies should be provided in the agreement in case of default by contracting parties.
5. The terms of payment should be defined and should be equated with accomplishment.

C a u s e

- - - - -

ARMCO did not find it necessary to go through the standard procurement procedures.

E f f e c t
- - - - -

There were charges by TRANSMASS for program support amounting to P286,906 (\$11,216) which can not be verified. For safety reasons, it is not possible to visit the project site to validate expenditures.

	Philippine Pesos	U.S. Dollars
Footpath	61,106	2,389
Graded Trail	225,800	8,827
	-----	-----
	286,906	11,216
	=====	=====

Recommendation

ARMCO should strengthen its internal control procedures in contracting. AID should resolve the questioned cost with ARMCO and recover any ineligible cost.

Auditee's Response

Positive steps were already taken prior to the auditors' visits. ARMCO's act of entrusting the implementation of the project to two reputable firms serving as contractors was the result of most of the negative comments on internal controls and questioned costs raised. As already noted, such contracts were already terminated last March 20, 1993 and significant improvements in the system were made when ARMCO took over. This is evidenced by the absence of comments on the subject in the monitoring report of AID contractor which was monitoring the project regularly. Accordingly, upon our own initiative, we have already closed or reversed in our records by charging "counterpart funds" all transactions we deemed were inadequately documented and which could not stand legal test. The cases of "Footpath" and "Graded Trail" were not touched pending our own investigation. This information was relayed in advance to concerned parties. ARMCO will have to substantiate its claims prior to making any adjustments. It is estimated that our investigation of these transactions will be completed within the quarter.

**Carlos J Valdes
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Bacolod Cebu Davao
Cagayan de Oro

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

Mr. Richard C. Thabet
Regional Inspector General for Audit
Office of the Regional Inspector General for Audit/Singapore
United States Agency for International Development
111 North Bridge Road
#17-03 Peninsula Plaza
Singapore 0617

We have audited the fund accountability statement of Asia Rattan Manufacturing Company, Inc. for the Community Agroforestry and Microenterprise Development Project for the period May 4, 1992 to May 31, 1993 and have issued our report thereon dated August 16, 1993. We also reviewed the separate schedule of counterpart contributions to determine whether they were provided and accounted for in accordance with the terms of the agreements.

Except for not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to Asia Rattan Manufacturing Company, Inc. is the responsibility of Asia Rattan Manufacturing Company, Inc.'s management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of Asia Rattan Manufacturing Company, Inc.'s compliance with the provisions of agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of Asia Rattan Manufacturing Company, Inc.'s compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of counterpart contributions.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from the failures or violations is material to the fund accountability statement and the schedule of counterpart contributions. The results of our tests of compliance disclosed the following material instances of noncompliance:

1. The Grantee has an outstanding obligation from grant funds amounting to ₱413,909 (\$16,180). (See page 21 for details).
2. Counterpart contributions is deficient by ₱900,602 (\$35,225). (See page 22 for details).
3. Project expenditures amounting to ₱13,550 (\$530) were not in the budget or were in excess of budget. (See page 24 for details).
4. Interest income amounting to ₱8,421 (\$329) was not remitted to AID. (See page 26 for details).

Except as described above, the results of our tests of compliance indicate that with respect to items tested, Asia Rattan Manufacturing Company, Inc. complied, in all material respects, with the provisions referred to in the third paragraph of this report and with respect to items not tested, nothing came to our attention that caused us to believe that Asia Rattan Manufacturing Company, Inc., had not complied, in all material respects, with those provisions.

This report is intended for the information of Asia Rattan Manufacturing Company, Inc. and the U. S. Agency for International Development (AID). However, upon acceptance by the AID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Carlos J. Valdes & Co.

Carlos J. Valdes & Co.
August 16, 1993

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF GRANT NO. AID 492-0395-G-SS-2103-00
FOR THE COMMUNITY AGROFORESTRY AND MICROENTERPRISE DEVELOPMENT PROJECT
ADMINISTERED BY ASIA RATTAN MANUFACTURING COMPANY, INC.

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

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

1. As of May 31, 1993, ARMCO had an outstanding obligation to grant funds amounting to ₱413,909 (\$16,180).

This basically represents unliquidated cash advances from two consultants Human Organization for Peak Performance (HOPPCOR) and Transnational Management Associates (TRANSMASS) whose services were both terminated effective March 20, 1993. (See pages 2 and 3 of the transmittal letter for background information).

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

Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees - The grantee shall be reimbursed for costs incurred in carrying out the purpose of the grant which are determined by the grant officer to be reasonable, allocable and allowable in accordance with the terms of this grant and the applicable cost principles in effect on the date of the grant.

C a u s e
- - - - -

HOPPCOR and TRANSMASS did not liquidate the advances made to them.

E f f e c t
- - - - -

There is no cash to support the fund balance amounting to ₱413,909 (\$16,180).

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

ARMCO should reimburse grant funds for ₱413,909 (\$16,180).

Auditee's Response

In our meeting with USAID last April 15, 1993, upon the latter's receipt of our April 14, 1993 communication, we were asked about the status of the items in question. Our response was that we will provide and spend the money accordingly, to the project and request for budgetary revision and PACD extension to fully satisfy our agreement.

C o n d i t i o n

2. Counterpart contribution for year I is deficient:

	Philippine Pesos	U.S. Dollars
	-----	-----
Required contribution	2,222,317	86,893
Actual contribution	(1,321,715)	51,668
	-----	-----
	900,602	35,225
	=====	=====

Of the actual counterpart contribution amounting to ₱1,321,715 (\$51,668) the following are still questioned because they were not budgeted.

	Philippine Pesos	U.S. Dollars
	-----	-----
Equipment and commodities	3,080	120
Administration	1,010	39
	-----	-----
	4,090	159
	=====	=====

C r i t e r i a

Section 5.3 and 5.7 of the Grant Agreement - The Grantee shall ensure that counterpart contributions having a value of not less than fifty percent (50%) of the total project cost will be provided in cash or in kind. At the same time, such contributions should be used for performance of the Grant Agreement. The counterpart contributions for three years are as follows:

Year	Philippine Pesos	U.S. Dollars
-----	-----	-----
1	2,222,317	88,893
2	1,572,548	62,902
3	1,205,135	48,205
	-----	-----
	5,000,000	200,000
	=====	=====

Section 9.1 of the Grant Agreement - Cash and in-kind contribution shall be accepted towards satisfaction of the counterpart contribution requirement only if such contribution:

- a. are verifiable from the grantee's records;
- b. are not included as contributions for the purpose of any other project or program assisted by the U.S. Government;
- c. are necessary and reasonable for proper and efficient accomplishment of project objectives;
- d. are types of charges that would be allowable under applicable U.S. Government cost principles;
- e. are not financed by the U.S. Government under any other grant or agreement unless otherwise approved by AID; and
- f. are provided for in the budget approved by AID.

C a u s e
- - - - -

Counterpart contributions previously reported can not be substantiated, thus ARMCO's counterpart contribution as of May 31, 1993 is deficient.

E f f e c t
- - - - -

Counterpart contributions for year I is deficient by ₦900,602 (\$35,225).

Recommendation

We recommend that Grantee fulfill the required contribution.

Auditee's Response

This will be settled upon our submission of request for budget revision now that we are already fully equipped with the knowledge of accurate needs of the project.

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

3. Costs incurred includes expenditures which are not in the budget or in excess of budget.

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

Section 5.1 of the Grant Agreement - Funds provided by AID under this Grant Agreement shall be used to finance the Philippine Peso cost of the items specified in the budget under Section 5.7

C a u s e
- - - - -

Expenses were incurred prior to the approval of the proposed revised budget by ARMCO.

E f f e c t
- - - - -

1. The following costs (see Appendix B for details) are questioned:

	Philippine Pesos	U.S. Dollars
Personnel costs	9,000	352
Administration	4,550	178
	-----	-----
	13,550	530
	=====	=====

₱3,000 represents amounts paid to project manager, project accountant and bookkeeper in excess of their budgeted rate and ₱6,000 represents amounts paid to community aide, a position not included in the budget.

₱4,550 represents payments for security services, an expense which was not in the budget.

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

We recommend that AID resolve the above questioned costs with ARMCO and recover ineligible costs.

Auditee's Response

With regards to personnel costs, ARMCO only want to note that as per our request, any increase in salary in one position/s is offsetted from another position/s thereby not affecting the total under our request. As a matter of fact, we underspent on personnel costs in the first year. We are still hopeful of AID's consideration due to the reasonableness of our request.

With regards to security services amounting to ₱4,550, we consider the cost necessary. We are hopeful likewise that this be considered.

Auditors' Rebuttal

In determining whether the expense is allocable to the grant, the auditors followed the budget which was agreed upon by AID and ARMCO in its agreement dated May 4, 1992. The change in the salaries of personnel and the inclusion of expenditures not in the budget are still questionable in the absence of AID's approval.

C o n d i t i o n

4. Our review indicated that only interests earned in the first quarter of 1992 was remitted. Interest income from October to May 31, 1993 was not remitted to AID.

C r i t e r i a

Section 5.4 of the Grant Agreement - Interests earned on the respective cash deposits of AID funds and Grantee's will be calculated. The AID's share of interest earned shall be refunded to AID quarterly. Such refunds shall be made by check payable to AID.

C a u s e

This was overlooked.

E f f e c t

- - - - -

	Philippine Pesos	U.S. Dollars
Total interests earned	13,197	516
Amount remitted	(4,776)	(187)
Unremitted	8,421	329

Recommendation

We recommend that interest due to AID be refunded as required by the Grant Agreement.

Auditee's Response

In the seminar that we attended last February 18, 1993, we learned that interest earned may not be remitted to AID but can be deducted instead from the proceeds of cash advance. Our last request was for the quarter October to December 1992.

Auditors' Rebuttal

In the cash advances made by AID to ARMCO, there was no single instance that interest earned was deducted. AID was not aware that grant funds earned interest.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF GRANT NO AID 492-0395-G-SS-2103-00
 ADMINISTERED BY
 ASIA RATTAN MANUFACTURING COMPANY, INC.

SCHEDULE OF COUNTERPART CONTRIBUTIONS
 MAY 4, 1992 TO MAY 31, 1993

	BUDGET		ACTUAL	
	U.S. DOLLARS	PHILIPPINE PESOS	U.S. DOLLARS	PHILIPPINE PESOS
CASH				
Personnel	105,424	2,635,588	27,731	709,382
Equipment and Commodities	31,648	791,200	3,960	101,319
Administration	12,640	316,000	840	21,488
Training	6,644	166,100	-	-
Program Support	43,644	1,091,112	10,715	274,093
	200,000	5,000,000	43,246	1,106,282
IN-KIND				
Personnel	-	-	2,624	67,129
Equipment and Commodities	-	-	5,798	148,304
	-	-	8,422	215,433
TOTAL	200,000	5,000,000	51,668	1,321,715

EF
 AMEL P. FELICIANO
 Project Accountant

BS
 BERNARDO SARMIENTO
 Project Manager

Leonardo
 LEONARDO PALO
 Assistant to the President

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
 FINANCIAL AUDIT OF COMMUNITY AGROFORESTRY AND MICROENTERPRISE DEVELOPMENT PROJECT
 ADMINISTERED BY
 ASIA RATTAN MANUFACTURING COMPANY, INC.

SCHEDULE OF QUESTIONED COSTS
 MAY 4, 1992 TO MAY 31, 1993

GRANT FUNDS	DATE	REFERENCE	PARTICULARS	TOTAL	INELIGIBLE	UNSUPPORTED
PERSONNEL COSTS						
Monthly rate of project personnel in excess of budget	Various	Various	B. Sarmiento - Project Manager	1,000	-	1,000
			A. Feliciano - Project Accountant	1,000	-	1,000
			L. Nuguid - Bookkeeper	1,000	-	1,000
				3,000	-	3,000
Salary paid to personnel included in the budget			L. Paldo - Community Aide	6,000	-	6,000
			Sub-Total	9,000	-	9,000
EQUIPMENT AND COMMODITIES						
Cost of 2 horses and 1 buffalo, whose ownership were not registered under the name of the organization	9-30	227352	V. Zablan - R. Corpuz/E. Manalang	30,000	-	30,000

	DATE	REFERENCE	PARTICULARS	TOTAL	INELIGIBLE	UNSUPPORTED
ADMINISTRATION						
Purchase of office supplies not received	9-18	227362	Paper Press	600	-	600
Payment for Security Services, an expense not budgeted	12-08 5-05	227391 54523, 54550	Aweca Security Force	4.550	-	4.550
			Sub-Total	5.150	-	5.150
PROGRAM SUPPORT						
WATER SYSTEM						
Additional payment to contractor who did not complete his work	5-06	JV049	S. Tanglao	10,000	10,000	-
Repair of water system without supporting document	5-06	JV049	AMICI	296	-	296
			Sub-Total	10,296	10,000	296
INFRASTRUCTURE						
Expenditure without supporting documents. These two projects are not verifiable because the project site is not accessible to transportation						
Graded Trail	Various	Various	C. Bernardo	61,106	-	61,106
Footpath	Various	Various	- do -	225,800	-	225,800
				286,906	-	286,906
			Sub-Total	297,202	10,000	287,202
			Total In Philippine Pesos	341,352	10,000	331,352
			Total In U.S. Dollars	13,345	391	12,954

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL AUDIT OF GRANT NO AID 492-0395-G-SS-2103-00
ADMINISTERED BY
ASIA RATTAN MANUFACTURING COMPANY, INC.

SCHEDULE OF GRANT FUNDS TO BE RECOVERED FROM GRANTEE

	PHILIPPINE PESOS	U.S. DOLLARS
	-----	-----
Unliquidated cash advances (page 21)	413,909	16,180
Interest income of grant funds from October to May 31, 1993 (pages 25 to 26)	8,421	329
	-----	-----
TOTAL	422,330	16,509
	=====	=====

ASIA RATTAN Manufacturing Co, Inc. - ECD Project

Mangga Road, Pulungbulu, Angeles City, Pamp. Tel. No. 22684

TO: MS. MINDA O. LEDESMA
PARTNER
C. J. VALDES & CO., CPA's
MAKATI, METRO MANILA

AUDITEE'S RESPONSE
ARMCO - ECD PROJECT (AUDITEE)
ANGELES CITY

Page 16

1. In addition to the certification of ownership by ARMCO-ECD over the working animals issued by the barangay captain and barangay council of Maruglo, Capas, Tarlac, ARMCO will seek their assistance for the documentation of subject working animals at the municipality of Capas, Tarlac to ensure the legality of ownership.
2. Since the amount was spent after the implementation of the the project was taken over by ARMCO, the charging was thought to be justifiable. ARMCO agrees to the analysis of the auditors and therefore will have to shoulder the cost in addition to the significant amounts it had already voluntarily shouldered. This does not mean however, that the cost of water system will be limited to the architect's estimate. There are many things to be done to the system due to fortuitous circumstances to make it operational.

Page 20

Positive steps were already undertaken prior to the auditors' visits. ARMCO's act of entrusting the implementation of the project to two reputable firms serving as contractors was a misclaculation for most of the negative comments on internal control and questionable costs arose under such set-up. As already noted, such contracts were already terminated last March 20, 1993 and significant improvements in the system were undertaken upon ARMCO's take-over. This is evidenced by the absence of comments on the subject in the monitoring report of AID contractor which was monitoring the project regularly. Accordingly, upon our own initiative, we have already closed or reversed in our records by charging "counterpart funds" all transactions we deemed were inadequately documented and which could not stand legal test. The cases of "Footpath" and "Graded Trail" were not touched pending our own investigations. This information was relayed in advance to concerned parties. ARMCO will have to substantiate its claims prior to any adjustment to be made. It is estimated that investigation of these transactions will be completed within this quarter.

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Page 22

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Page 23

1. ARMCO would only want to note that as per our request, any increase in salary in one position is offsetted from another position/s thereby not affecting the total under our request. As a matter of fact, we underspent on personnel costs in the first year. We are still hopeful of AID's consideration due to the reasonableness of our request.
2. We consider the cost necessary. We are hopeful likewise that this be considered.

Page 24

In the seminar we attended last February 18, 1993, we learned that interest earned may not be remitted to AID but can be deducted instead from the proceeds of cash advance. Our last request was for the quarter October to December, 1992.

Page 25

1. ARMCO followed AID's recommendation of "rental basis" in recording our vehicle. The P500,000.00 vehicle which contributed to our counterpart's deficiency and charged the lowest rate of car rental from among car rental companies on the basis of our car usages.
2. We agree to the reversing of the charge as we already reversed P7,831.00. This was overlooked.

Page 26

This will be settled upon our submission of request for budget revision now that we are already fully equipped with the knowledge of accurate needs of our project.

Respectfully Submitted,

Leonardo M. Palo

~~Leonardo M. Palo
Assistant to the President - ECD Project~~

APPENDIX E

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