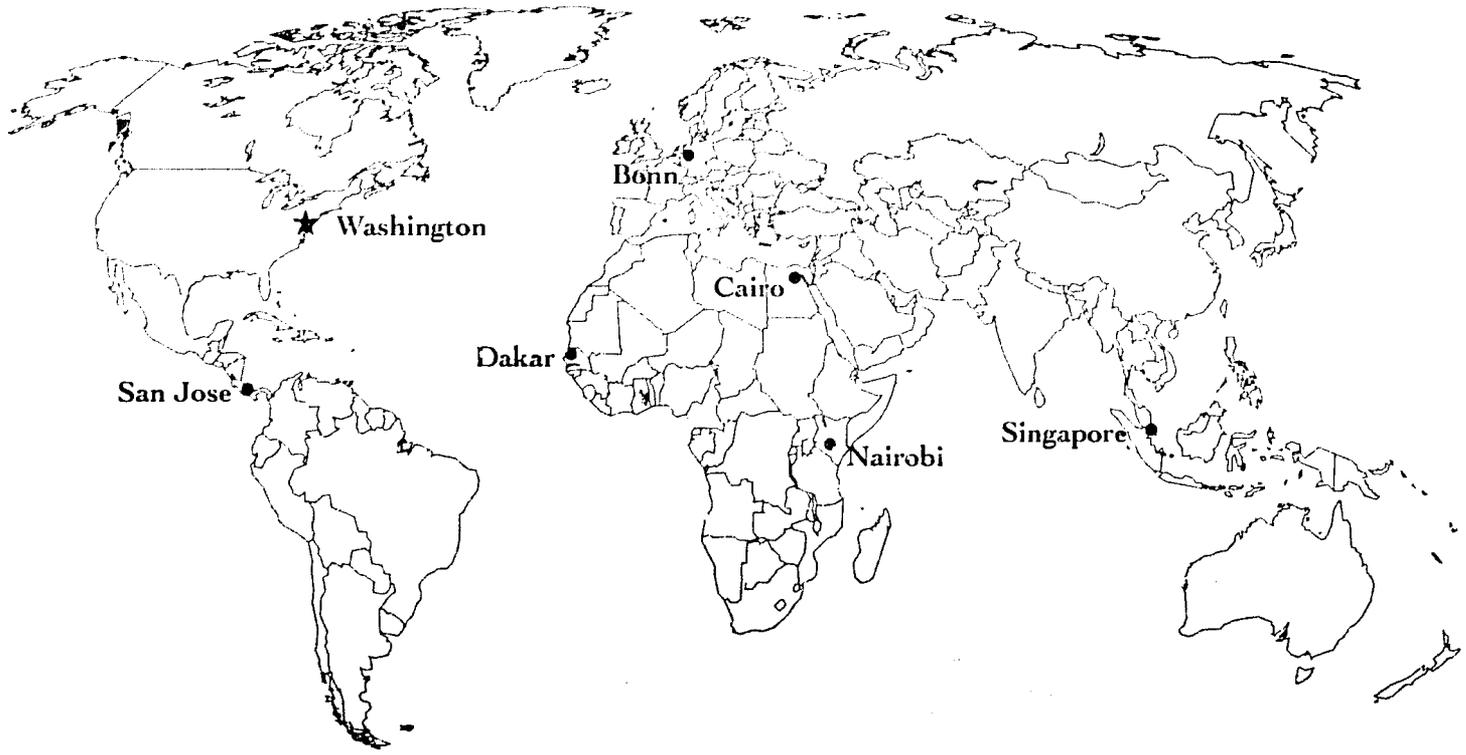


**Regional Inspector General for Audit
Singapore**

**Audit of
USAID/Philippines' Contract with
PRC Environmental Management, Inc.
Contract No. 492-0465-C-00-2147**

**Audit Report No. 5-492-96-002-N
November 9, 1995**



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





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

November 9, 1995

TO: Kenneth G. Schofield, Mission Director, USAID/Philippines

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

SUBJECT: Audit of USAID/Philippines' Contract with PRC Environmental Management Inc. Contract No. 492-0465-C-00-2147
Report No. 5-492-96-002-N

Enclosed are three copies of the subject audit report (prepared by the accounting firm, Carlos J. Valdes & Co.) for your action. The audit covered the period from July 9, 1992 through June 30, 1994. During this period, PRC Environmental Management Inc. (PRC-EM) reported that it incurred a total of \$1,985,481 in costs for its Philippines operations.

The audit objectives were to:

- Determine whether the PRC-EM Schedule of Expenses presents fairly the expenditures incurred under the contract;
- Report on PRC-EM system of internal controls;
- Report on PRC-EM compliance with applicable laws, regulations and terms of the agreement.

The audit report concluded that:

- The Schedule of Expenses presents fairly, in all material respects, the expenditures incurred under the contract;
- PRC-EM internal controls had no material weaknesses;
- PRC-EM operations complied with in all material respects with applicable laws, regulations, and terms of the contract agreement. There were, however, \$45,782 in questioned costs.

1

We are making the following recommendation which will be included in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1: We recommend that USAID/Philippines resolve the \$45,782 in questioned costs with PRC Environmental Management Inc. and recover any amounts determined to be unallowable.

We appreciate the courtesies and cooperation USAID/Philippines and PRC Environmental Management Inc. 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 recommendation.

Attachment: a/s

**INDUSTRIAL ENVIRONMENTAL MANAGEMENT PROJECT
CONTRACTED BY PRC-ENVIRONMENTAL MANAGEMENT, INC.
UNDER CONTRACT NO. AID 492-0465-C-00-2147**

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June 16, 1995

MR. DAVID L. WADSWORTH

Chief of Party
PRC-Environmental Management, Inc.
9th Floor, JMT Corporate Condominium
ADB Avenue, Ortigas Center
Pasig City

Dear Mr. Wadsworth,

This report presents the results of our audit of the Industrial Environmental Management Project (Project No. 492-0465) of the United States Agency for International Development contracted by PRC-Environmental Management, Inc. under Contract No. AID 492-0465-C-00-2147 for the period July 9, 1992 to June 30, 1994.

A. PROJECT BACKGROUND

On July 9, 1992, PRC-Environmental Management, Inc. (PRC-EMI) signed a contract with the United States Agency for International Development (USAID) to implement the Industrial Environmental Management Project (IEMP) in the Philippines. IEMP has a total budget of U.S. \$10,358,525 and will be implemented for a period of four (4) years.

IEMP's goal is to encourage sustained economic growth in the industrial sector, while reducing pollution from industrial activities, and improving human health. The purpose is to improve industrial management of pollution through a three-part strategy that; prevents or reduces pollution at its sources; reclaims industrial wastes (when such reclamation is technically and financially feasible), and encourages cost-effective pollution abatement technologies for pollutants that are neither avoided nor reclaimed.

Focusing on areas outside Metro-Manila, the approach is to work with the Government of the Philippines (GOP), Non-governmental organizations (NGOs) and individual firms and industry groups to identify industry-wide and firm-specific problem areas and solutions. The Contractor will have to deal with three project components:

1. **Pollution Reduction Initiative:** identify priority polluting industrial subsectors and to assist firm to conduct pollution management appraisal resulting the adoption of remedial measures that are environmentally and financially sound.

2. **Policy Studies and Public/Private Dialogue**: conduct key policy studies (e.g. need for pollution abatement sources of credit and more responsive legal and regulatory mechanisms) and support dialogue among affected public sector-business and non-government groups to improve economic and environmental conditions.
3. **Capability Building**: provide technology transfer to Philippine professionals concerned (government, firms, industry associations, environmental consulting firms, universities) with industrial environmental management to improve local capability in pollution management.

As of June 30, 1994, total expenditures reimbursed from USAID for this project amounted to U.S. \$5,164,681. Out of this U.S. \$1,985,481 or P53,293,905 represents expenses for Philippine operations which amount is subject to our audit.

AUDIT OBJECTIVES AND SCOPE OF WORK

Our audit was conducted in accordance with (a) generally accepted auditing standards as promulgated by AICPA; and (b) government auditing standards issued by the Comptroller General of the United States ("yellow book", 1994 revision).

The scope of our audit covers the period July 9, 1992, the effectivity of the contract to June 30, 1994. The specific objectives of our audit were to:

- determine whether the schedule of expenses of PRC-EMI fairly presents the organization's cost incurred covering the period from July 9, 1992 to June 30, 1994 in accordance with generally accepted accounting principles and the terms of the contract. Any costs which were not fully supported with adequate records or which were not allocable, reasonable or allowable under the terms of the agreement or other binding requirements will be identified and questioned.
- report on PRC-EMI's internal controls. These controls are to provide reasonable assurance that assets of the PRC-EMI are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the management of PRC-EMI's authorization and recorded properly to permit the preparation of vouchers or invoices in accordance with the terms of the agreement and other binding requirements.
- report in PRC-EMI's compliance with the applicable laws, regulations, the agreement, binding policies and procedures.

FOLLOW-UP ON PRIOR AUDIT RECOMMENDATIONS

The follow-up on prior audit recommendation is not applicable to this report because no prior audit was conducted for this grant.

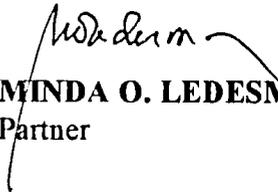
ACKNOWLEDGEMENT

We would like to take this opportunity to express our gratitude for the assistance given to us by the management and staff of PRC-Environmental Management, Inc. during the course of our audit.

Very truly yours,

CARLOS J. VALDES & CO.

By:


MINDA O. LEDESMA
Partner

Coopers
& Lybrand

Carlos J Valdes
& Co

certified public accountants

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REPORT ON THE SCHEDULE OF EXPENSES

MR. DAVID L. WADSWORTH

Chief of Party

PRC-Environmental Management, Inc.

9th Floor, JMT Corporate Condominium

ADB Avenue, Ortigas Center

Pasig City

We have audited the Schedule of Expenses for Philippine Operations of PRC-Environmental Management, Inc. for the Industrial Environment Management Project under Contract No. AID 492-0465-C-00-2147 for the period July 9, 1992 to June 30, 1994. This Schedule of Expenses is the responsibility of the PRC-Environmental Management, Inc. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with U.S. Government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenses for Philippine Operations of PRC-Environmental Management, Inc. for the Industrial Environment Management Project is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Expenses for Philippine Operations of PRC-Environmental Management, Inc. for the Industrial Management Project under Contract No. AID 492-0465-C-00-2147 referred to above presents fairly in all material respects the expenditures for the period July 9, 1992 to June 30, 1994 in accordance with the terms of the subject contract and in conformity with generally accepted accounting principles.

This report is intended for the information of the PRC Environmental Management, Inc., and the U.S. Agency for International Development (USAID). However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Carlos J. Valdes & Co.

June 21, 1995

**INDUSTRIAL ENVIRONMENT MANAGEMENT PROJECT
 CONTRACTED BY PRC-ENVIRONMENTAL MANAGEMENT, INC.
 UNDER CONTRACT NO. AID 492-0465-C-00-2147**

**Schedule of Expenses for Philippine Operations
 From July 9, 1992 to June 30, 1994**

	A C T U A L				Q U E S T I O N E D				C O S T	
	Total	U.S. Operations	Philippine Operations		Total		Ineligible		Unsupported	
	U.S. Dollars	U.S. Dollars	U.S. Dollars	Phil. Pesos	U.S. Dollars	Phil. Pesos	U.S. Dollars	Phil. Pesos	U.S. Dollars	Phil. Pesos
Salaries and Wages	1,105,321	878,475	226,846	6,011,742	438	11,618	182	4,634	256	6,984
Fringe Benefits	431,075	342,605	88,470	2,344,579	171	4,531	71	1,807	100	2,724
Overhead	408,968	325,035	83,933	2,224,345	162	4,299	67	1,715	95	2,584
Consultant's Allowance	97,828	84,817	13,011	323,614	12,680	314,778			12,680	314,778
Travel and Per Diem	405,089	269,162	135,927	3,626,823	6,605	177,498			6,605	177,498
Special Activities	215,673	80,272	135,401	3,440,232	2,720	70,303	86	2,370	2,634	67,993
Subcontracts	1,458,624	681,645	776,979	21,081,706	18,581	503,272			18,581	503,272
Other Direct Costs	372,454	129,524	242,930	6,660,656	2,079	57,701	1,719	46,923	360	10,778
Commodities	42,076	1,353	40,723	1,104,337						
G & A	<u>245,004</u>	<u>150,816</u>	<u>94,188</u>	<u>2,528,174</u>	<u>2,346</u>	<u>61,779</u>	<u>115</u>	<u>3,102</u>	<u>2,231</u>	<u>58,677</u>
Total Costs	4,782,112	2,943,704	1,838,408	49,346,208	45,782	1,205,839	2,240	60,551	43,542	1,145,288
Fixed Fee	<u>382,569</u>	<u>235,496</u>	<u>147,073</u>	<u>3,947,697</u>						
TOTAL COST PLUS FIXED FEE	<u>5,164,681</u>	<u>3,179,200</u>	<u>1,985,481</u>	<u>53,293,905</u>	<u>45,782</u>	<u>1,205,839</u>	<u>2,240</u>	<u>60,551</u>	<u>43,542</u>	<u>1,145,288</u>

**INDUSTRIAL ENVIRONMENT MANAGEMENT PROJECT
 CONTRACTED BY PRC-ENVIRONMENTAL MANAGEMENT, INC.
 UNDER CONTRACT NO. AID 492-0465-C-00-2147**

**NOTES TO SCHEDULE OF EXPENSES
 FOR THE PERIOD JULY 9, 1992 AND JUNE 30, 1994**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Transactions are recorded using the cash basis which is recognized as a comprehensive basis other than generally accepted accounting principles under standards established by the AICPA. The schedule of expenses does not include transactions which would have taken into account if accrual basis was used.

Foreign Exchange Transaction

Local costs billed in equivalent U.S. dollar was based on the authorized exchange rates (bank rate) which was determined at the time of the transaction.

Indirect Costs and Fixed Fee

Reimbursement of allowable indirect costs and fixed fee are based on negotiated provisional rates applied as follows:

<u>Type of Rate</u>	<u>Rate</u>	<u>Base</u>
Overhead	37%	Direct labor
Fringe benefits	39%	Direct labor
G&A	5.4%	Total cost inputs
Fixed Fee	8.0%	Total costs inputs plus G&A

NOTE 2 - QUESTIONED COSTS

Our audit disclosed questioned costs amounting to U.S. \$45,782 or P1,205,839 out of total expenditures U.S. \$1,985,481 or P53,293,905. These questioned costs represent 2.3% of total expenditures. These expenses were not supported with adequate documentation or did not have the required prior approvals or authorizations, or are ineligible because they were not allowed under the terms of the agreement and applicable laws and regulations.

The details of these questioned costs are presented on pages 7 to 8.

INDUSTRIAL ENVIRONMENT MANAGEMENT PROJECT
 CONTRACTED BY PRC-ENVIRONMENTAL MANAGEMENT, INC.
 UNDER CONTRACT NO. AID 492-0465-C-00-2147

SCHEDULE OF EXPENSES QUESTIONED BY AUDITORS
 FOR THE PERIOD JULY 9, 1992 TO JUNE 30, 1994

Date	Ref	Particulars	T O T A L		INELIGIBLE		UNSUPPORTED	
			U.S. Dollars	Phil. Pesos	U.S. Dollars	Phil. Pesos	U.S. Dollars	Phil. Pesos
		SALARIES AND WAGES						
Various	Various	a) Overstatement of salary rate used	109	2,683	109	2,683		
Various	Various	b) Improper charging of overtime for exempt employee	73	1,951	73	1,951		
Various	Various	c) Unlocated difference between schedule prepared and amounts reimbursed	256	6,984			256	6,984
			<u>438</u>	<u>11,618</u>	<u>182</u>	<u>4,634</u>	<u>256</u>	<u>6,984</u>
		FRINGE BENEFITS						
		39% of disallowed salaries and wages	171	4,531	71	1,807	100	2,724
		OVERHEAD						
		37% of disallowed salaries and wages	162	4,299	67	1,715	95	2,584
		CONSULTANT'S ALLOWANCE						
Various	Various	Housing allowance and residential expenses of the Chief of Party - inadequately supported	12,680	314,778			12,680	314,778

<u>Date</u>	<u>Ref</u>	<u>Particulars</u>	<u>U.S. Dollars</u>	<u>Phil. Pesos</u>	<u>U.S. Dollars</u>	<u>Phil. Pesos</u>	<u>U.S. Dollars</u>	<u>Phil. Pesos</u>
		TRAVEL AND PER DIEM						
Various	Various	Various airfare charges of PRC-EMI employees and consultants during workshops and seminars without original copies of the plane tickets	4,684	125,129			4,684	125,129
		Unlocated difference between schedule prepared and amount reimbursed	<u>1,921</u>	<u>52,369</u>			<u>1,921</u>	<u>52,369</u>
			<u>6,605</u>	<u>177,498</u>			<u>6,605</u>	<u>177,498</u>
		SPECIAL ACTIVITIES						
9/24/93	CV 9309-0208	Unallowable cost of alcoholic beverages	86	2,370	86	2,370		
Various	Various	Various airfare charges of employees and consultants during the first Compliance Monitoring Workshop, Environmental Risk Assessment and Data Collection Seminar, and ERA workshop - Inadequately supported	2,590	66,773			2,590	66,773
		Unlocated difference between schedule prepared and amount reimbursed	<u>44</u>	<u>1,220</u>			<u>44</u>	<u>1,220</u>
			<u>2,720</u>	<u>70,363</u>	<u>86</u>	<u>2,370</u>	<u>2,634</u>	<u>67,993</u>
		OTHER DIRECT COSTS						
2/24/1994	CV #9407-0107	a) Payment of custom duties for David Wadsworth personal effects - unallowable cost	238	6,507	238	6,507		
3/18/1993	PCR #721084	b) Security service charges from Dec. 25, 1992 to February 28, 1993 - believed to be part of the Contractor's G&A expense	333	8,320	333	8,320		
Various	Various	c) Newspaper ads for recruitment of General Services Supervisor, Accountant and Computer graphic artist - G&A expense	613	16,613	613	16,613		
12/24/1993	CV #9312-0503	d) Unallowable cost of alcoholic beverages	535	15,483	535	15,483		
Various	Various	e) Unlocated difference between schedule prepared and amount reimbursed	<u>360</u>	<u>10,778</u>			<u>360</u>	<u>10,778</u>
			<u>2,079</u>	<u>57,701</u>	<u>1,719</u>	<u>45,923</u>	<u>360</u>	<u>10,778</u>
		Sub-total	<u>24,855</u>	<u>640,788</u>	<u>2,125</u>	<u>57,449</u>	<u>22,730</u>	<u>583,339</u>
		SUBCONTRACTS						
		Consultant's fees without adequate supports	<u>18,581</u>	<u>503,272</u>			<u>18,581</u>	<u>503,272</u>
		G & A						
		5.4% of total disallowed costs inputs	<u>2,346</u>	<u>61,779</u>	<u>115</u>	<u>3,102</u>	<u>2,231</u>	<u>58,677</u>
		GRAND TOTAL	<u>45,782</u>	<u>1,205,839</u>	<u>2,240</u>	<u>60,551</u>	<u>43,542</u>	<u>1,145,288</u>

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REPORT ON INTERNAL CONTROLS

MR. DAVID L. WADSWORTH

Chief of Party

PRC-Environmental Management, Inc.

9th Floor, JMT Corporate Condominium

ADB Avenue, Ortigas Center

Pasig City

We have audited the Schedule of Expenses for Philippine Operations of PRC-Environmental Management, Inc. for the Industrial Environment Management Project under Contract No. AID 492-0465-C-00-2147 for the period July 9, 1992 to June 30, 1994 and have issued our report dated June 21, 1995.

We conducted our audit in accordance with U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the Schedule of Expenses for Philippine Operations of PRC-Environmental Management, Inc. for the Industrial Environment Management Project, we considered its internal control structure directly related to claims for USAID project in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule of Expenses and not to provide assurance on the internal control structure.

The management of the PRC-Environmental Management, Inc. is responsible for establishing and maintaining an internal 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 assets are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization in accordance with the terms of the agreements; and transactions are recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles (or the appropriate basis used). 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 the significant internal control structure policies and procedures related to the accounting and administration in the following categories:

- financial accounting system,
- procurement,
- cash management, and
- property management.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weakness under the standards established by the American Institute of Certified Public Accountants. 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 the errors or irregularities in amounts that would be material in relation to the Schedule of Expenses may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weakness as defined above.

This report is intended for the information of the PRC-Environmental Management, Inc., and the United States Agency for International Development (USAID). However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Harbor J. Walden & Co.

June 21, 1995

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REPORT ON COMPLIANCE

MR. DAVID L. WADSWORTH

Chief of Party

PRC-Environmental Management, Inc.

9th Floor, JMT Corporate Condominium

ADB Avenue, Ortigas Center

Pasig City

We have audited the Schedule of Expenses for Philippine Operations of PRC-Environmental Management, Inc. for the Industrial Environment Management Project under Contract No. AID 492-0465-C-00-2147 for the period July 9, 1992 to June 30, 1994 and have issued our report dated June 21, 1995.

We conducted our audit in accordance with U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to the Industrial Environment Management Project is the responsibility of the PRC-Environmental Management, Inc.'s management. As part of obtaining reasonable assurance about whether the Schedule of Expenses for Philippine Operations is free of material misstatement, we performed tests of PRC-Environmental Management, Inc. compliance with certain provisions of contract terms, laws and regulations. However, our objective was not to provide an opinion on the overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to items tested, PRC-Environmental Management, 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 the PRC-Environmental Management, Inc. for the Industrial Environment Management Project had not complied in all material respects with those provisions.

This report is intended for the information of the PRC-Environmental Management, Inc. And the U.S. Agency for International Development (USAID). However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Carlos J. Valdes & Co.
June 21, 1995