

**Regional Inspector General for Audit  
Singapore**

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**Audit of Arthur Andersen & Co.'s  
Contract No. 492-0477-C-00-3119-00 with  
USAID/Philippines under the  
Capital Markets Development Project**

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**Audit Report No. 5-492-96-003-N  
November 3, 1995**



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





U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

November 3, 1995

## MEMORANDUM

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

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

SUBJECT: Audit of USAID/Philippines' Contract No. 492-0477-C-00-3119-00  
Capital Markets Development Project  
Audit Report No. 5-492-96-003-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm, Guzman Bocaling & Co., Manila) for your action. The audit covered the period from October 1, 1993 through September 30, 1994. During this period, Arthur Andersen & Co. reported that they received a total of \$916,874 and spent \$925,092 under the grant agreement with USAID/Philippines.

The audit objectives were: (1) to determine whether Arthur Andersen's Fund Accountability Statement for Contract No. 492-0477-C-00-3119-00 presents fairly, in all material respects the costs incurred for the period from October 1, 1993 to September 30, 1994, (2) to report on the contractor's system of internal controls, (3) to report on the contractor's compliance with applicable laws and regulations, terms of the agreement, binding policies and procedures.

The auditors concluded that except for questioned costs amounting to \$26,632 (Pesos 692,431) the Fund Accountability Statement presents fairly, in all material respects, the receipts and costs incurred in the Philippines for the abovementioned period.

We are making one recommendation to be included in the Office of the Inspector General's recommendation follow-up system.

**Recommendation No. 1 : We recommend that USAID/Philippines resolve the questioned cost of \$26,632 (Pesos 692,431, all ineligible) and recover any unallowable amount due.**

We appreciate the courtesies and cooperation USAID/Philippines and Arthur Andersen & Co. 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

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**ARTHUR ANDERSEN & CO.**

USAID/PHILIPPINES' DIRECT CONTRACT NO. 492-0447-C-00-3119-00  
FOR THE CAPITAL MARKETS DEVELOPMENT PROJECT

**FINANCIAL AUDIT OF USAID/PHILIPPINES'  
DIRECT CONTRACT**

FOR THE PERIOD FROM OCTOBER 1, 1993 TO SEPTEMBER 30, 1994

**ARTHUR ANDERSEN & CO.**  
USAID/PHILIPPINES' DIRECT CONTRACT NO. 492-0447-C-00-3119-00  
FOR THE CAPITAL MARKETS DEVELOPMENT PROJECT

**FINANCIAL AUDIT OF USAID/PHILIPPINES'  
DIRECT CONTRACT**

FOR THE PERIOD FROM OCTOBER 1, 1993 TO SEPTEMBER 30, 1994

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# GUZMAN, BOCALING & CO.

CERTIFIED PUBLIC ACCOUNTANTS

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P.O. Box 2421, Manila

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**June 2, 1995**

**The Partners**  
**Arthur Andersen & Co.**  
1666 K Street, N. W.  
Washington, D. C. 20006

**RE: Financial Audit of USAID Philippines'**  
**Direct Contract No. 492-0477-C-00-3119-00**

Dear Sirs:

In accordance with our engagement with USAID/Philippines, we are pleased to submit to you the results of the financial audit of USAID/Philippines' Direct Contract No. 492-0447-C-00-3119-00 under AID Project No. 492-0447 (Capital Markets Development Project) which was granted to your Organization by the United States Agency for International Development.

## **A. BACKGROUND**

### **I. The Project**

Under the Project Grant Agreement No. AID 492-0447 executed on September 29, 1992 and as amended in September 30, 1993, the United States for International Development will provide financial assistance amounting to US\$ 13,500,000 to the Republic of the Philippines to finance the project entitled "Capital Markets Development Project". The project will assist in the enhancement of the efficiency of the securities market in the Philippines, by improvements in the quality and transparency of information available to investors, the public, and other capital market participants. The Project Assistance Completion Date (PACD) is on September 30, 1997.

### **II. The Contract**

On September 2, 1993, Arthur Andersen & Co. (contractor) entered into a contract with USAID/Philippines under Contract No. 492-0447-C-00-3119-00 wherein the Contractor shall provide technical services for the improvement of the Public Sector Component of the Capital Markets Development Project (USAID Project No. 492-047). The contract is a cost reimbursement plus fixed fee and the total estimated cost for performance of the services plus fixed fee is US\$ 7,937,000. The effective date of the contract is October 1, 1993 and the estimated completion date is September 30, 1996.

## **B. AUDIT OBJECTIVES AND SCOPE OF WORK**

The specific objectives of this audit are to:

- o Express an opinion on whether the Contractor's Fund Accountability Statement for USAID/Philippines' Direct Contract No. 492-0447-C-00-3119-00 presents fairly in all material respects the cost incurred for the period from October 1, 1993 to September 30, 1994 in accordance with the generally accepted accounting principles or other comprehensive basis of accounting and terms of the agreement and other binding requirements and whether the expenditures are project related, reasonable, allowable and allocable and supported with adequate documentations.
- o Report on the Contractor's internal controls. These controls are to provide reasonable assurance that project assets are safeguarded against loss from unauthorized use or disposition and the transactions are executed in accordance with the Contractor'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.
- o Report on the Contractor's compliance with applicable laws, regulations, the agreement, binding policies and procedures.

Our audit was performed in accordance with (a) generally accepted auditing standards as promulgated by the AICPA; and (b) government auditing standards issued by the Comptroller General of the United States.

Our audit covered the receipts and expenditures incurred in the Philippines under USAID/Philippines Contract No. 492-0447-C-00-3119-00 for the period from October 1, 1993 to September 30, 1994. The "Guide for Financial Audits" issued by USAID Office of the Inspector General was used on the assignment and our work was performed in accordance with the guide.

Our work consisted of the following.

- o Examination of the documents supporting the amount and disclosures underlying the receipts and expenditures of the Contractor's Fund Accountability Statement.
- o Evaluation of the adequacy of the Contractor's internal control and accounting system relevant to the contract.
- o Review of contracts, pertinent documents and other applicable laws and regulations related to the contract.

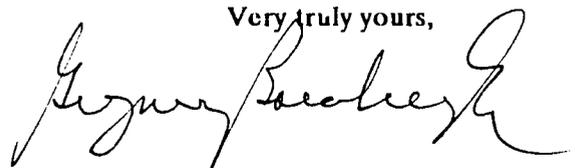
In determining compliance with the contract agreements, applicable laws and regulations, binding policies and procedures, we designed audit steps to provide reasonable assurance for detecting errors, irregularities and illegal acts that could have a direct and material effect on the Contractor's Fund Accountability Statement.

We also include in our audit scope, cost charged by the local subcontractors. We have reviewed the system the Contractor and Subcontractors had in place to ensure that the costs charged by the Subcontractors are allowable, allocable, recoverable and in accordance with the terms of agreements.

Our work was the initial financial audit carried out in the Philippines, hence no prior audit recommendation is necessary.

We shall be pleased to discuss with you any questions you may have regarding this report.

Very truly yours,





**GUZMAN, BOCALING & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON THE  
FUND ACCOUNTABILITY STATEMENT**

**The Partners**

**Arthur Andersen & Co.**  
1666 K Street, N. W.  
Washington, D. C. 20006

We have audited the fund accountability statement of Arthur Andersen & Co. for the period from October 1, 1993 to September 30, 1994 for the USAID/Philippines' Direct Contract No. 492-0447-C-00-3119--00. The fund accountability statement is the responsibility of Arthur Andersen & Co.'s management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

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. 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. 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.

The results of our tests disclosed questioned costs as detailed in the fund accountability statement amounting to US\$ 26,631.96 (P692,430.96) in costs that are unreasonable, or prohibited by the terms of the agreement.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, receipts and cost incurred in the Philippines for the abovementioned period then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in the Note 1 of the Notes to Fund Accountability Statement.

This report is intended for the information of Arthur Andersen & Co. and the U.S. Agency for International Development (A.I.D.). However, upon acceptance by the A.I.D. Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

June 2, 1995

**ARTHUR ANDERSEN & CO.**  
**FUND ACCOUNTABILITY STATEMENT**  
 USAID PHILIPPINES' DIRECT CONTRACT NO. 492-0447-C-00-3119-00  
**FOR THE CAPITAL MARKETS DEVELOPMENT PROJECT**  
 FOR THE PERIOD FROM OCTOBER 1, 1993 TO SEPTEMBER 30, 1994

	QUESTIONED COSTS						REFERENCE
	ACTUAL		INELIGIBLE		UNSUPPORTED		
	U.S. Dollar	Philippine Peso	U.S. Dollar	Philippine Peso	U.S. Dollar	Philippine Peso	
<b>Receipts</b>	916,874.18	23,838,728.68					
<b>Disbursements:</b>							
Subcontractors	447,960.91	11,646,983.66	3,809.91	99,057.66			Page 11
Project subcomponents	332,594.39	8,647,454.14	31.63	822.38			Page 11
Other direct costs	136,355.11	3,545,232.86	22,790.42	592,550.92			Page 13
Fixed fee	8,181.30	212,713.80					
<b>Total disbursements</b>	925,091.71	24,052,384.46	26,631.96	692,430.96			
<b>Excess of disbursements over receipts</b>	(8,217.53)	(213,655.78)					Page 5 Notes 4a

**ARTHUR ANDERSEN & CO.**  
**NOTES TO FUND ACCOUNTABILITY STATEMENT**  
 USAID/PHILIPPINES' DIRECT CONTRACT NO. 492-0447-C-00-3119-00  
**FOR THE CAPITAL MARKETS DEVELOPMENT PROJECT**  
 FOR THE PERIOD FROM OCTOBER 1, 1993 TO SEPTEMBER 30, 1994

**1. BASIS OF ACCOUNTING**

The Fund Accountability Statement was prepared on the cash basis of accounting, which in accordance with AFPA Standards, is recognized as a comprehensive basis of accounting other than generally accepted accounting principles.

**2. TRANSLATION OF US. DOLLAR TO PHILIPPINE PESO**

The Fund Accountability Statement includes receipts and disbursements in US dollar amounts translated to Philippine Peso for the purpose of financial reporting using the exchange rate as at September 30, 1994 at P26.00 to US\$1.00.

**3. SCOPE COVERED BY THE FINANCIAL AUDIT**

The Fund Accountability Statement reflects only the receipts and expenditures applicable to a certain operations of the contract in the Philippines which is the coverage of the financial audit conducted.

**4. OTHERS**

- a. Receipts as shown in the Fund Accountability Statement represent the amount reimbursed by USAID for the expenses incurred by the Contractor. The excess of disbursements over the receipts amounting to US\$8,217.53 (P213,655.78) represents expenses incurred by the Contractor subject for reimbursement as at September 30, 1994. The amount was subsequently reimbursed by USAID.
- b. Questioned costs are presented below, the details of which are contained in pages 11 to 13 of this report:

EXPENSE LINE ITEM	QUESTIONED COSTS					
	Ineligible		Unsupported		Total	
	US Dollar	Philippine Peso	US Dollar	Philippine Peso	US Dollar	Philippine Peso
Subcontractor	3,809.91	99,057.66			3,809.91	99,057.66
Project Subcomponents	31.63	822.38			31.63	822.38
Other direct costs	22,790.42	592,550.92			22,790.42	592,550.92
<b>Total</b>	<b>26,631.96</b>	<b>692,430.96</b>			<b>26,631.96</b>	<b>692,430.96</b>



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## INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE

### The Partners

Arthur Andersen  
1666 K Street, N. W.  
Washington, D. C. 20006

We have audited the fund accountability statement of Arthur Andersen & Co. for the period from October 1, 1993 to September 30, 1994 for USAID/Philippines Direct Contract No. 492-0447-C-00-3119-00 and we have issued our report thereon dated June 2, 1995.

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 the fund accountability statement of Arthur Andersen & Co., we considered the internal control structure related to the A.I.D. 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.

The management of the Arthur Andersen & Co. 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 structures, 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; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note 1 of the Fund Accountability Statement. Because of the 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 the 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 Contractor's inter-office documentation, and review policies on Subcontractors' disbursements, procurement and payroll procedures to be the significant internal control structure.

For all of the internal control structure categories listed above, 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under 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 specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of Arthur Andersen & Co. and the U.S. Agency for International Development (A.I.D.). However, upon acceptance by the A.I.D. Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "Guzman Bocaling".

**June 2, 1995**



**GUZMAN, BOCALING & CO.**  
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH AGREEMENT  
TERMS AND APPLICABLE LAWS AND REGULATIONS**

**The Partners**

**Arthur Andersen & Co.**  
1666 K Street, N. W.  
Washington, D. C. 20006

We have audited the fund accountability statement of Arthur Andersen & Co. for the period from October 1, 1993 to September 30, 1994 for USAID/Philippines' Direct Contract No. 492-0447-C-00-3119-00 and have issued our report thereon dated June 2, 1995.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by 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 Arthur Andersen & Co. is the responsibility of Arthur Andersen & Co.'s management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of Arthur Andersen & Co.'s compliance with certain provisions of agreement terms and 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.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms that cause us to conclude that the aggregation of misstatements resulting from such violations is material to the fund accountability statement. The results of our tests of compliance disclosed instances of material noncompliance, details of which are provided in the Summary of Questioned Costs in pages 11 to 13. The effects of this noncompliance are shown as questioned costs in the Arthur Andersen & Co.'s fund accountability statement and further details are provided under the Summary of Audit Findings in page 10.

We considered these material instances of noncompliance in forming our opinion on whether the Arthur Andersen & Co.'s fund accountability statement is presented fairly in all material respects in accordance with the terms of the agreements and in conformity with the basis of accounting described in the Note 1 of the Notes to Fund Accountability Statement and this report does not affect our report on the Fund Accountability Statement dated June 2, 1995.

Except as described above, the results of our tests of compliance indicate that with respect to items tested, Arthur Andersen & Co. 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 Arthur Andersen & Co. had not complied in all material respects with those provisions.

This report is intended for the information of Arthur Andersen & Co., 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.

A handwritten signature in black ink, appearing to read "Gregory Boeley". The signature is written in a cursive style with a large, looping initial "G".

June 2, 1995

**ARTHUR ANDERSEN & CO.**  
**SUMMARY OF AUDIT FINDINGS AND RECOMMENDATION**  
**ON COMPLIANCE WITH AGREEMENT TERMS AND**  
**APPLICABLE LAWS AND REGULATIONS**

USAID/PHILIPPINES' DIRECT CONTRACT NO. 492-0447-C-3119-00

**FOR THE CAPITAL MARKETS DEVELOPMENT PROJECT**  
FOR THE PERIOD FROM OCTOBER 1, 1993 TO SEPTEMBER 30, 1994

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**CONDITION**

Our audit disclosed instances of noncompliance with agreement terms and other binding policies and procedures between the contractor and USAID/Philippines as detailed in pages 11 to 13 of this report. Documents showing approval by USAID/Philippines for any adjustments or amendments to the agreed amount for certain line item of expenses were not available.

**CRITERIA**

Under the Contract Agreement and its clauses, the Contractor should be reimbursed for its cost incurred in carrying out its purpose which are determined to be allowable, allocable and reasonable and necessary. Each line item of expense claimed for reimbursement should not exceed the amount approved by USAID contracting office for the proper execution of the contract.

**CAUSE**

The Contractor was not aware that some line item of expenses had exceeded the allowable amount as required in the contract provisions or on certain situations where some other expenses claimed are not provided in the approved items by the contracting officer.

**EFFECT**

The above material condition which constitutes violation of the terms of the contract agreement resulted in questioned costs of US\$26,631.96 (P692,430.96) which was determined to be ineligible or unallowable.

**RECOMMENDATION**

If no written approval regarding the contract amendment from USAID/Philippines, Arthur Andersen & Co. must refund the questioned costs to USAID.

**MANAGEMENT RESPONSE**

On questioned amounts which represent the excess of actual cost paid versus the estimated amount, CMDP submitted a realigned budget to USAID to correct budget line item variances. The contract amendment is currently in process for Arthur Andersen's signature.

For other questioned costs which were determined to be unallowable, the Contractor is prepared to deduct said costs from future reimbursement claims.

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**ARTHUR ANDERSEN & CO.**  
**SUMMARY OF QUESTIONED COSTS**  
 USAID/PHILIPPINES DIRECT CONTRACT NO. 492-0447-C-3119-00

**FOR THE CAPITAL MARKETS DEVELOPMENT PROJECT**  
 FOR THE PERIOD FROM OCTOBER 1, 1993 TO SEPTEMBER 30, 1994

DATE	PARTICULARS	QUESTIONED COSTS			
		Ineligible		Unsupported	
		U.S. Dollar	Philippine Peso	U.S. Dollar	Philippine Peso

**SUBCONTRACTORS**

Dec '93 - Sept '94	Salaries, fringe, overhead, expenses and fixed fee of short-term consultants.	3,809.91	99,057.66
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*The above expenses reimbursed by Andersen and SGV Consulting exceeded the amount allowed computed based on their given task order and the percentages approved by USAID.*

Voucher No. 3	Dec '93 - Jan '94	25,846.97
Voucher No. 4	Feb '94	34,269.87
Voucher No. 5	Mar '94	96,708.34
Voucher No. 6	Apr '94	83,550.07
Voucher No. 8	Jun '94	63,203.10
Actual		303,578.35
Allowable amount		299,768.44
Amount questioned		3,809.91

**Total subcontractors**

<b>3,809.91</b>	<b>99,057.66</b>
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*Auditee's comments:*

*AA will deduct this questioned cost from future reimbursement claims.*

**PROJECT SUBCOMPONENTS**

Feb. 28, 1994	Amount given to the waiter of Saisaki Restaurant by Judy Tan and waiter of Latasca and Grassi's given by Molly Bayley. VAT is not included in the approved budget.	31.63	822.38
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*The expenses are not included in the approved budget and are therefore subject to budget realignment.*

Voucher No. 4		3.37
Voucher No. 8 (including VAT)		28.26
Actual		31.63
Amount allowed per audit		-
Amount questioned		31.63

**Total Project Subcomponent**

<b>31.63</b>	<b>822.38</b>
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DATE	PARTICULARS	QUESTIONED COSTS			
		Ineligible		Unsupported	
		U.S. Dollar	Philippine Peso	U.S. Dollar	Philippine Peso

*Auditee's comments:*

*Although gratuity is not VAT AA is prepared to deduct this cost from future reimbursement claim.*

**OTHER DIRECT COST**

Dec. 22, 1993	Unaccompanied baggage – Matrix International Logistic, Inc.	1,462.00	38,012.00
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*Unaccompanied baggage reimbursed by Ms. Molly Bayley exceeded the amount allowed based on expatriate expenses table (reimbursed in Voucher No. 1).*

Actual	2,962.00
Amount allowed per audit	1,500.00
Amount questioned	<u>1,462.00</u>

*Auditee's comments:*

*The questioned amount represents the actual cost paid versus the estimated amount. The CMDP submitted a Realigned Budget to USAID to correct budget line item variances. It incorporated the questioned amount that may possibly arise during the life of the project (I.OP).*

*The PIO/T for the realigned budget is already approved. An advance copy of the revised budget is attached (see Attachment 2) in incorporating all the realignment which provided for the excess funding. The Contract Amendment is currently in process for AA's signature. The issuance of the amended contract will resolve the questioned cost.*

Jan – Jun '94	Storage fee of Ms. Molly Bayley's personal properties in Washington D.C.	12,658.16	329,112.16
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*Based on expatriate expense table, reimbursement of home storage is only allowed in Andersen and Intrados expatriate at \$2,400 per year.*

Voucher No. 3	Jan '94	11,536.03
Voucher No. 6	Feb '94	589.50
Voucher No. 8	Jun '94	2,932.63
Actual		15,058.16
Amount allowed		2,400.00
Amount questioned		<u>12,658.16</u>

DATE	PARTICULARS	QUESTIONED COSTS			
		Ineligible		Unsupported	
		U.S. Dollar	Philippine Peso	U.S. Dollar	Philippine Peso

*Auditee's comments:*

*The questioned amount was already part of the disallowances of \$14,805.52 by USAID Project Office that was deducted from AA's reimbursement to Voucher #14 dated March 15, 1995 with the advice that AA should file for a reclaim once the budget realignment is approved.*

Jan. 15-31, 1994	Household furnishings paid by Andersen Consulting.	8,670.26	225,426.76
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*Cost incurred household furnishings is not provided in the approved budget.*

Voucher No. 3	Jan. '94	4,920.10
Voucher No. 4	Feb. '94	3,746.16
Voucher No. 6	Apr. '94	4.00
Actual		<u>8,670.26</u>

Total Other Direct Costs	<u>22,790.42</u>	<u>592,550.92</u>
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*Auditee's comments:*

*The Budget realignment submitted to USAID has a line item for "Household Furnishings" with a budget amount of \$17,281.97. Advance copy of the approved budget realignment is already attached to the two previous questioned costs, i.e., Unaccompanied Baggage and Home Storage. See Attachment #2.*

<b>GRAND TOTAL</b> ==>>>	<u>26,631.96</u>	<u>692,430.96</u>
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**ARTHUR ANDERSEN & CO.**  
USAID/PHILIPPINES' DIRECT CONTRACT NO. 492-0447-C-00-3119-00  
**FOR THE CAPITAL MARKETS DEVELOPMENT PROJECT**

**Management Comments in Their Entirety**

105 De la Rosa Street, Makati  
1200 Metro Manila, Philippines  
Telephone (632) 817 0301  
Facsimile (632) 817 2397  
(632) 812-2490

**CAPITAL MARKETS DEVELOPMENT PROJECT  
PUBLIC SECTOR COMPONENT**

August 9, 1995

GUZMAN, BOCALING & Co.  
Certified Public Accountants  
Suites 2108 & 2109 Cityland 10 Tower  
6816 Ayala Ave., Makati City

Subject: Management Comment to the Summary of Questioned Costs and the Auditors' Report  
Financial Audit of USAID Philippines  
Direct Contract No. 492-0477-C-00-3119-00 for the Capital Markets Development Project

Attention: Messrs. Abednego P. Pelayo, Partner-in-Charge  
Napoleon A. Calderon, Partner-in-Charge

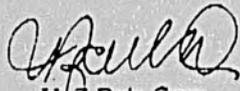
Dear Sirs:

Please find attached our Management Comments to the Summary of Questioned Costs and the Auditors' Report under the subject audit report.

We hope that our suggestions be given due consideration and favorable action

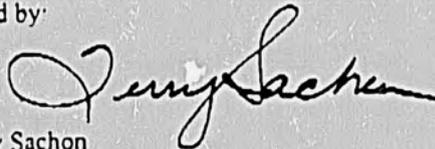
Thank you.

Yours truly,



U. Z. Dela Cruz  
Accountant  
Capital Markets Development Project

Noted by:



Terry Sachon  
Authorized Representative  
Arthur Andersen, LLP

## Management Comments to the Summary of Questioned Costs and the Auditors' Report

### I. Summary of Questioned Costs

#### 1) Subcontractor

Questioned Cost : *Salaries, Fringe, Overhead and Fixed Fee - Short-term Consultants*  
Period covered : *December 1993 to September 1994*  
Amount : *\$3,809.91*

AA will deduct this questioned cost from future reimbursement claims.

#### 2) Project Subcomponents

Questioned Cost : *Amount given as "tip" by Judy Tam and Molly Bayley to the waiters of Sasaki Restaurant, Latascia and Cirassis (VAT is not included in the approved budget)*  
Period Covered : *February 28, 1994*  
Amount : *\$31.63*

Although gratuity is not VAT AA is prepared to deduct this costs from future reimbursement claim.

#### 3) Other Direct Costs

a. Questioned Cost : *Unaccompanied Baggage of Molly Bayley*  
Period Covered : *December 22, 1993*  
Amount : *\$1,460.00*

The questioned amount represents the actual cost paid versus the estimated amount. The CMDP submitted a Realigned Budget to USAID to correct budget line item variances. It incorporated the questioned amount that may possibly arise during the life of the project (LOP).

The PIO T for the realigned budget is already approved. An advance copy of the revised budget is attached (see Attachment 2) incorporating all the realignment which provided for the excess funding. The Contract Amendment is currently in process for AA's signature. The issuance of the amended contract will resolve the questioned cost.

b. Questioned Cost : *Storage Fee of Molly Bayley's personal properties in Washington DC*  
Period Covered : *January to June 1994*  
Amount : *\$12,658.16*

The questioned amount was already part of the disallowances of \$14,805.52 by USAID Project Office that was deducted from AA's reimbursement to Voucher #14 dated March 15, 1995 with the advice that AA should file for a reclaim once the budget realignment is approved.

Attached is a copy of the said voucher pertaining to the disallowances and the approved revised budget (See Attachments # 1 & 2).

c. Questioned Cost : *Household Furnishings (not provided for in the budget)*  
Period Covered : *January 15 - 31, 1995*  
Amount : *\$8,670.26*

The Budget Realignment submitted to USAID has a line item for "Household Furnishings" with a budget amount of \$17,281.97. Advance copy of the approved budget realignment is already attached to the two previous questioned costs, i.e., Unaccompanied Baggage and Home Storage. See Attachment #2.

## II. Auditors' Report

The following are our major concerns in the Auditors' Report:

### 1) Fund Accountability Statement

The sentence on paragraph 3 of page 3 which states that "*costs that are explicitly ineligible because they are not program-related are unreasonable or prohibited by the terms of the agreement*" is, in our opinion, an overstatement. Except for the VAT charges and the accidental overbilling of fees, we believe all invoiced expenses are allowable under our contract and are in accordance with AID guidelines. We have realigned the budget within the funding availability, but in no case are we asking for reimbursement for expenses that are "explicitly ineligible". We suggest that the phrase "*explicitly ineligible because they are not program related*" be deleted from the statement or that the auditor cite the contract clause where such expenses are "explicitly" made ineligible.

### 2) Compliance with the terms and applicable laws and regulations

The remaining questioned costs of \$26,631.96 compared to the total reimbursed amount of \$925,091.71 represents only 2.9% which is very negligible. This percentage will be much lower if we take into consideration the approval of the Realigned Budget to resolve the excess payment of \$22,790.42.

We suggest that the word "material" be deleted from the phrase "*The results of our tests of compliance disclosed instances of material noncompliance*" in paragraph 4 of page 9.

### 3) Summary of Audit Findings and Recommendation

Under the caption "CAUSE" on page 9, the statement that "*The contractor was not aware that each line item of expenses exceeded the allowable ...*" is, in our opinion, incorrect because not all line items of expenses have exceeded. Only the questioned costs under the Other Direct Costs exceeded the allowable amount. May we suggest that this statement be qualified by changing the word "each" to "some".

Standard Form 1034  
September 1973  
Treasury Form 2000  
1034-111

**PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL**

VOUCHER NO. 4927036

U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION  
**USAID/Manila**

DATE VOUCHER PREPARED  
**March 10, 1995**

CONTRACT NUMBER AND DATE  
**492-0447-C-00-3119-00**

REQUISITION NUMBER AND DATE  
**Voucher #15 / 14**

SCHEDULE NO. 918

PAID BY

PAYEE'S NAME AND ADDRESS  
**Arthur Andersen & Co.  
1666 K Street, N.W.  
Washington, D.C. 20006  
c/o Riggs National Bank of Washington, D.C.  
Acct. No. 0107003570**

INPUT VOUCHER DATE BY  
PAYTRACK LOG - 3/10 **PAID**  
MACS TRNDAT - 5/14  
MACS FSTDAT - MAK 6/1  
MACS TRNTYP - DD

ABA No. 054000030  
VOUCHER SECTION  
ADVANCE OR PREPAYMENT : YES NO  
SUBJECT TO PROMPT PAY ACT : YES NO

DATE INVOICE RECEIVED

DISCOUNT TERMS  
**1995**

PAYEE'S ACCOUNT NUMBER

SHIPPED FROM

WEIGHT

GOVERNMENT B/L NUMBER

NUMBER AND DATE OF ORDER	SUBJECT OF DETERMINATION (Enter description of purchase, number of contract or Federal Acquisition Regulation (FAR) title, and other information deemed necessary)	QUANTITY	UNIT PRICE		AMOUNT (')
			COST	PER	
	Reimbursement of costs relevant to the above contract as per attached statement Dec. 1-31, 1994				\$100,259.11
	Disallowance by Project Office				<del>\$85,453.59</del> =====
					14,805.52

**RECEIVED**  
**MAR 10 1995**  
**ACCOUNTS PAYABLE**

(Use continuation sheet(s) if necessary) (Payee must NOT use the space below) **TOTAL \$85,453.59**

PAYMENT:  COMPLETE  PARTIAL  FINAL  PROGRESS  ADVANCE

APPROVED FOR BY: Catherine M. Placido  
TITLE: Project Mgmt. Specialist

EXCHANGE RATE = \$1.00

DIFFERENCES

Amount verified; correct for: \$85,453.59  
(Signature or initials) RM

Pursuant to authority vested in me, I certify that this voucher is correct and proper for payment.  
3/15/95 (Date) Larry Brady (Authorized Certifying Officer) Deputy Controller (Title)

ACCOUNTING CLASSIFICATION

72-112/31010 HAI29227492KG13 E920104 AID 492-0447-C-00-3119 \$85,453.59 D

PAID BY CHECK NUMBER ON TREASURER OF THE UNITED STATES CHECK NUMBER ON (Name of bank)

CASH DATE PAYEE'S

\* When stated in foreign currency, insert name of currency.  
\* If the ability to certify and authority to approve are combined in one person, one signature only is necessary, otherwise the approving officer will sign in the space provided, over his official title.  
\* When a voucher is received in the name of a company or corporation, the name of the person writing the company or corporate name, as well as the capacity in which he signs, must appear. For example: "John Doe Company, Inc."

## Attachment 2

In Section B, IV B of the original contract agreement, replace budget with the following:

**Arthur Andersen Budget**  
**Contract No. 492-0447-C-00-3119-00**  
**In US Dollars**

BUDGET ITEM	ORIGINAL BUDGET	ADJUSTMENTS	REVISED BUDGET
Salaries and Wages	258,898.00	(9,025.00)	249,873.00
Fringe Benefits	39,741.00	(2,786.00)	36,955.00
Overhead	224,640.00	(18,391.00)	206,249.00
Travel, transportation and Per diem	23,760.00	(8,885.00)	14,875.00
Sub-contracts			
Aries	367,964.00	0.00	367,964.00
Andersen Consulting	836,971.00	0.00	836,971.00
SGV	98,500.00	0.00	98,500.00
Intrados	1,282,575.00	0.00	1,282,575.00*
Subtotal	2,586,010.00	0.00	2,586,010.00
Other Direct Costs			
DBA	19,255.50	1,488.50	20,744.00
MEDEVAC	510.00	234.00	744.00
Communications	3,000.00	7,179.43	10,179.43
Expal Costs			
Move in-bound	12,000.00	7,300.00	19,300.00
Move out-bound	12,000.00	7,157.63	19,157.63
Housing Allowance	78,000.00	0.00	78,000.00
Temporary Living	13,860.00	2,492.83	16,352.83
Home Storage	7,200.00	26,544.36	33,744.36
Enroute Travel	13,200.00	(1,603.60)	11,596.40
Tuition	35,000.00	0.00	35,000.00
Homeleave	27,000.00	(27,000.00)	0.00
R & R	0.00	18,696.82	18,696.82
Post Differential	64,724.50	(13,639.94)	51,084.56
Auto Shipment	9,000.00	(6,120.00)	2,880.00
Unaccompanied Baggage	3,000.00	2,962.00	5,962.00
Excess Baggage	500.00	(180.00)	320.00
Prep and enroute travel	400.00	(400.00)	0.00
Household furnishings	0.00	17,281.97	17,281.97
Sub-total	298,650.00	42,394.00	341,044.00
G&A	61,737.00	(3,307.00)	58,430.00
Project Sub-components	4,389,119.00	0.00	4,389,119.00**
<b>TOTAL ESTIMATED COST</b>	<b>7,882,555.00</b>	<b>0.00</b>	<b>7,882,555.00</b>
plus Fixed fee	54,445.00	0.00	54,445.00
<b>TOTAL COST PLUS FIXED FEE</b>	<b>7,937,000.00</b>	<b>0.00</b>	<b>7,937,000.00</b>

\* The Intrados subcontract budget is likewise re-aligned as presented in attachment #2.

\*\* The sub-component budget is re-aligned to include office space rental until PACD  
 Office space budget is \$32,650.00

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