Report of Audit

Report on Agreed-Upon Procedures Review Related to the Associates in Rural Development, Inc. Governance and Local Democracy Project

Report No. 5-492-01-002-D
February 8, 2001

"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."

Manila, Philippines

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February 8, 2001

MEMORANDUM

TO: USAID/Philippines Director, Patricia K. Buckles

FROM: RIG/Manila, Paul E. Armstrong Paul E. Armstrong

SUBJECT: Report on Agreed-Upon Procedures Review Related to the Associates in Rural Development, Inc. Governance and Local Democracy Project, Report No. 5-492-01-002-D

The attached Defense Contract Audit Agency (DCAA) report (Report No. 4201-2000F17740002), dated January 31, 2000, presents the results of an "Application of Agreed-Upon Procedures" review. This was the second of two DCAA Agreed-Upon Procedures reviews of the Associates in Rural Development, Inc. Governance and Local Democracy Project (ARD/GOLD) done by DCAA at the request of USAID/Philippines[1]. The review was intended to evaluate whether ARD/GOLD has taken adequate corrective action on a prior DCAA report recommendation and suggestions for improvement of the ARD/GOLD accounting and billing systems.

Windfall Exchange Rate Gains

During both of the Agreed-Upon Procedures reviews, among other things, the DCAA auditors determined that ARD/GOLD did not require its two subcontractors, Orient Integrated Development Consultants, Inc. (OIDCI) and Human Environmental Resources Services, Inc. (HERS), to bill cost based on actual exchange rates or in local currency. Both the OIDCI and the HERS subcontracts were cost-reimbursable and contained the clause at Federal Acquisition Regulation (FAR) 52.216-7 which requires reimbursing cost incurred based on actual payment. In addition, according to generally accepted accounting principles (GAAP), OIDCI should use pesos as functional currency for recording and reporting cost because it is a Philippine firm. HERS, as a U.S.-based firm, should have used actual exchange rates to record and report its actual costs.

As a result of not following FAR requirements, according to the DCAA auditors, OIDCI had an exchange rate gain of approximately $150,000 for the period of July 1997 through

[1] On June 24, 1999, DCAA prepared an earlier "Application of Agreed-Upon Procedures" report (Report No. 4201-99F17740016) related to USAID's governance and local democracy contract No. 492-0471-C-00-5089-00 with ARD/GOLD.

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January 1999. Likewise, although they did not quantify the amount, the DCAA auditors concluded that HERS experienced a similar exchange rate gain since HERS used the same exchange rates as OIDCI. However, the DCAA concluded the monetary impact of using the stated exchange rates by HERS was less significant than that of OIDCI since the HERS subcontract billings were significantly less than those of OIDCI.

In responding to the DCAA review, ARD/GOLD disagreed with DCAA's findings regarding the exchange rates it used for several reasons. For example, ARD/GOLD stated that the exchange rate gain issue was not relevant because both the OIDCI and HERS subcontracts were approved in dollars. Further, ARD/GOLD asserted that the guidance received from the USAID/Philippines Contracting Officer regarding the exchange rate issue was that it should not be a problem because the subcontracts were in dollars but ARD/GOLD should "monitor the situation". As well, ARD/GOLD avers that it had been utilizing the "peg" exchange rate used by USAID to estimate local costs.[2] Also, according to ARD/GOLD "It is important to note that on three occasions from September 1997 to August 1998, USAID changed the "peg" rate in response to the devaluation. In all three instances, ARD instructed OIDCI (and HERS) to use the new "peg" exchange rate in converting their employees and consultants daily rates from U.S. dollars to pesos."

DCAA reviewed ARD/GOLD's response to its recommendation on the exchange rate issue and still concluded that OIDCI and HERS should have been paid for actual costs incurred. According to DCAA, if the subcontractors prefer to use U.S. dollars for billing and payment, then the actual cost should be converted to dollars at the actual exchange rate. Since the subcontracts were based on a cost reimbursement agreement and *did* include the requirements of FAR 52.226-7 the hourly rates stated in the subcontracts are for provisional billing purposes and are subject to a final incurred cost audit. The use of a "peg" rate for billings is inappropriate.

The USAID did acknowledge, in a form letter sent to contractors (including ARD) on January 21, 2000, that inconsistencies did exist in the accounting and payment of local staff or sub-contractor salaries by USAID/Philippines' prime contractors, and that some prime contractors were not using the actual exchange rates in calculating their claims to USAID. It reminded contractors that the majority of local costs in the Philippines should be accounted and disbursed in pesos, and that the FAR required that Peso costs "be billed to USAID in local currency or in U.S. dollars based on the actual exchange rate."

Nevertheless, when reviewing the specific recommendation made by DCAA that ARD's subcontractors refund the exchange rate gain to USAID, the USAID/Philippines Contracting Officer on May 26, 2000, determined the exchange rate issue closed in favor of ARD/GOLD. The Contracting Officer concluded that since the subcontractors were directed by ARD home office to use the specified exchange rates and they acted accordingly and given that ARD had not profited from the exchange rate gain the issue

[2] The "peg" rate is the exchange rate used by USAID for fund commitment and is not intended for billing purposes.

should be closed. The exchange rate problems previously identified by DCAA were subsequently corrected by ARD/GOLD. However, we do not feel that the use of any rate other than the official exchange rate should be used in billing situations and feel the decision should be reviewed for the following reasons.

First, RIG/Manila would like to express its concern that the previous USAID/Philippines Contracting Officer did not respond clearly and decisively in response to an initial inquiry from ARD about the exchange rate issue per FAR 52.226-7 requirements. As a result, the contractor was later able to interpret these instructions received from USAID in a way that was favorable to their position and ultimately cause the U.S. Government to expend significant funds that could have been put to better use.

Secondly, we are concerned that the Contracting Officer's May 26, 2000 instruction to the contractor could be viewed as a precedent, allowing for similar exchange rate gains by other contractors in other situations. We are therefore recommending that the USAID/Philippines Contracting Officer revisit the DCAA findings on the ARD/GOLD review.

Recommendation No. 1: We recommend that USAID/Philippines: 1) obtain from the Contracting Officer a final determination on the allowability of the over $150,000 in costs billed by the two ARD/GOLD subcontractors during the period reviewed by DCAA, and subsequent to that period, 2) take appropriate steps to recover any windfall gains, and 3) review a sample of current billings to ensure that the problem has been corrected.

Premature Billings for Costs Incurred

In addition, during their second Agreed-Upon Procedures review, the DCAA auditors stated, among other things, that the cognizant DCAA audit office should require ARD to correct its billing practices concerning USAID billings. For example, DCAA reviewed selected ARD/GOLD vouchers with subcontract costs from USAID's voucher files and noted the ARD home office billing and USAID payment dates. The payment and check clearance dates were obtained from ARD/GOLD. The payment records indicated that the ARD home office pays its major subcontractors *after* it bills USAID. Therefore, the ARD home office does not comply with FAR 52.226-7, which requires in part, that the contractor should request for reimbursement based on costs paid by cash, check, or other form of payments. (The ARD/GOLD office in Manila pays the local subcontractors *before* it bills USAID/Philippines.)

In initially responding to the DCAA review, ARD headquarters stated that its subcontracts state that the subcontractors' invoices shall be payable within five days after ARD's receipt of reimbursement from USAID. Further, ARD noted that since the subcontracts were approved by the USAID/Philippines Contracting Officer its billing and payment practices are in accordance with the USAID approved subcontracts. Thus, ARD concluded that it does not consider its billing and payment practices inappropriate.

On April 4, 2000, the payment and billing matter was referred to the cognizant DCAA office in Burlington, Vermont, where ARD is headquartered. In referring the matter, the DCAA auditors performing the Agreed-Upon Procedures review made a suggestion that the cognizant DCAA office: 1) require ARD to take corrective actions, and 2) consider whether ARD should refund to USAID interest resulting from the premature billings, especially if it is ARD's common practice. As well, on May 26, 2000, the USAID/Philippines Contracting Officer asked ARD to inform him of any actions taken or being taken on this matter. ARD subsequently informed the Contracting Officer that it is now their policy to pay subcontractors prior to billing USAID.

RIG/Manila believes that the USAID/Philippines Contracting Officer's approval of subcontract agreements does not relieve ARD's responsibility for complying with the prime contract clauses at FAR 52.226-7. ARD should refund to USAID the interest resulting from its premature billings. It is estimated that the gain to ARD for the premature billings would amount to approximately $5,685 for the OIDCI subcontract, and $460 for the HERS subcontract. Therefore, we are making the following recommendation:

Recommendation No. 2: We recommend that USAID/Philippines determine the allowability and recover, as appropriate, an estimated $6,145 in interest gained by the Associates in Rural Development, Inc. resulting from premature contract billings, as defined by Federal Acquisition Regulation 52.226-7.

I appreciate the cooperation and assistance provided to the auditors. Please advise me within 30 days of the actions planned or taken to implement the recommendations.

Attachments: a/s

DEFENSE CONTRACT AUDIT AGENCY

REPORT NO. 4201-2000F17740002

31 January 2000

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SUBJECT: Follow-Up Report on Status of Action Taken on Recommendation and Suggestions for Improvement Previously Reported in Report No. 4201-99F17740016

REFERENCES: USAID: Delivery Order No. 3, PASA No. 492-P-00-98-00041-00
DCAA: Chronological Report No. 055

CONTRACTOR: Associates in Rural Development, Inc.
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REPORT RELEASE RESTRICTIONS: See Page 8

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SUBJECT OF APPLICATION OF AGREED-UPON PROCEDURES

As requested in Delivery Order No. 3 of the Participating Agency Service Agreement of 15 September 1998 between USAID and DCAA, we applied agreed-upon procedures to the Associates in Rural Development, Inc.'s Governance and Local Democracy Project (ARD/GOLD) accounting and billing systems. The purpose of our engagement was to evaluate whether ARD/GOLD has taken adequate corrective action on the prior report (4201-99F17740016) recommendation and suggestions for improvement of the accounting and billing systems.

SCOPE OF APPLICATION OF AGREED-UPON PROCEDURES

We have performed the mutually agreed-upon procedures enumerated below solely to assist you in evaluating whether ARD/GOLD has taken adequate corrective action on the prior report (4201-99F17740016) recommendation and suggestions for improvement of the accounting and billing systems. The sufficiency of the procedures is solely the responsibility of the requestor. Consequently, DCAA makes no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The following agreed-upon procedures were applied, as required:

- Evaluated status of corrective action taken on prior report recommendations and suggestions for improvement of the accounting and billing systems.

RESULTS OF APPLICATION OF AGREED-UPON PROCEDURES

This report pertains only to the performance of agreed-upon procedures to evaluate whether ARD/GOLD has taken adequate corrective action on the prior report (4201-99F17740016) recommendation and suggestions for improvement of the accounting and billing systems. We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the subject matter of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The application of the agreed-upon procedures disclosed the following:

- ARD/GOLD has implemented our recommendation. However, we recommend ARD/GOLD's subcontractors refund the exchange rate gain to the USAID.

- Of our suggestions, the following items need additional effort and attention:

- Some employees do not fill out timesheets daily, and some employees do not follow the company procedures on correcting timesheet errors. ARD/GOLD should continue reinforcing the timekeeping policies and procedures.

- ARD/GOLD should require the staff to follow the Chief of Party's 7 April 1999 memo to attach the travel request form to the cash advance request or the travel expenses report (if no advance is made).

- We suggest that the Chief of Party's travel request be approved by someone other than himself.

Details of our findings are presented in Appendix 1, "Statement of Conditions and Recommendations", and Appendix 2, "Suggestions for Improvement".

We discussed the results at the 24 November 1999 exit conference with Paul Lundberg, Chief of Party; Philip Schwehm, Deputy Chief of Party; and Rosario "Rosan" Paguia, Administration Officer. ARD/GOLD agreed to continue its effort in implementing our suggestions. We recommend that USAID monitor the implementation of the aforementioned open items, or we will perform another follow-up evaluation if requested.

OTHER MATTERS TO BE REPORTED

At your request, we obtained the following information:

USE OF PROJECT VEHICLES:

According to ARD/GOLD, its policy is that the project vehicles are used for official business only. However, ARD/GOLD has no written policies and procedures on the use of project vehicles. We interviewed the Chief of Party, Motor Pool Scheduler, and a driver. They stated that GOLD does not allow use of the project vehicle for personal purposes. The scheduler assigns vehicle for official business only. Review of vehicle logs disclosed no evidence of personal use.

SUBCONTRACT COST FOR PROJECT EXTENSION:

ARD/GOLD did not obtain subcontractor's proposal and cost estimates for the project extension. The subcontract costs for the extension are based on ARD/GOLD's estimates.

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As of September 1999, HERS subcontract has a budget balance of $51,733. This budget balance has not offset the estimated subcontract costs for the extension because as of 30 September 1999, the GOLD project has exceeded the total estimated costs.

SUBCONTRACT PAYMENT:

We selected ARD/GOLD vouchers with subcontract costs from USAID's voucher file and noted the ARD billing and USAID payments dates. We obtained the payment and check clearance dates from ARD/GOLD. The payment records indicate that the ARD home office pays the major subcontractors *after* it bills USAID, and the ARD/GOLD project office in Manila pays the local subcontractors *before* it bills USAID. ARD home office does not comply with FAR 52.216-7, which requires, in part, that the contractor should request for reimbursement based on costs paid by cash, check, or other form of payments. We will refer the issue to the cognizant DCAA office at ARD in Burlington, Vermont. We will suggest the DCAA office (i) require ARD to take corrective actions, and (ii) consider whether ARD should refund the Government for the interest resulting from the premature billings, especially if it is ARD's common practice.

CONTRACTOR ORGANIZATION AND SYSTEMS

ORGANIZATION:

Associates in Rural Development, Inc. (ARD) was founded in October 1977, and the corporate office is located in Burlington, Vermont. ARD provides services to public and private sector clients throughout the world, working with U.S. Agency for International Development (USAID); the World Bank, the Asian Development Bank, the United Nations Development Programme, and federal, state, and city governments.

The ARD/GOLD Project Office was established in Manila to perform the subject contract. The ARD/GOLD office has approximately 40 long-term staff, and engages subcontractors and consultants for project activities.

ACCOUNTING AND BILLING SYSTEMS:

ARD/GOLD receives operating funds from the ARD home office. ARD/GOLD uses a computerized accounting system called Financial Management System (FMS).

Staff and consultants maintain monthly timesheets. ARD/GOLD requires timesheets to be filled out daily and in ink. The project administrator approves staff timesheet. In addition to the timesheet, consultants are also required to submit monthly activity reports to support the monthly invoices. The senior technical staff approves consultants' invoices. All technical staff are required to send a weekly report by e-mail to the Chief of Party. This report identifies their accomplishment of the previous week and provides him with their schedule for the coming week.

The purchase order for supplies are initiated by the executive secretary and approved by the project administrator. The payment is made after the invoice, purchase order and receiving report are matched.

Costs are charged by PAR (program activity record) code and by account code. Vouchers are input on a daily basis.

The PAR system was established in September 1998. The PAR system segregates and accumulates costs by project activity (formerly called project protocol). The PAR code provides the segregation of cost by provinces, by program (e.g., environmental management, development investment, etc.), and by job (protocol).

On a monthly basis, ARD/GOLD submits disbursements and cash reconciliation (voucher register, advance journals, bank reconciliation, etc.) to the ARD home office in Burlington. All supporting documents are also sent to the home office. The home office inputs the cost into ARD's general and job cost ledgers. Other costs incurred for the GOLD project at the home office are also recorded in the job cost ledger. The monthly job status report is the basis for the monthly invoice billed to the USAID. Indirect costs are billed based on the provisional billing rates agreed to between ARD and USAID/Washington.

The local expenses (except for major subcontract costs) are paid in pesos. ARD/GOLD records the local expenses in U.S. dollars using monthly actual exchange rate. However, ARD does not require its subcontractors to bill costs based on the actual exchange rate; instead, it provides a predetermined exchange rate to them for billing purposes.

COST/SCHEDULE MONITORING SYSTEM:

ARD plans to implement an earned value analysis technique to control and monitor costs by activity (formerly called protocol). The activity costs are recorded and accumulated under the Program Activity Record (PAR) system.

ARD introduced the PAR system in September 1998, and started inputting the PAR cost into the accounting system in January 1999. The PAR system segregates and accumulates costs by location, by program, and by activity.

The program activity record contains details of the activity such as:

- Program area
- Activity title
- Purpose and end results
- Justification
- Strengths and weaknesses
- Approach
- Performance indicators
- Communication strategy
- Activity progress
- Budgeted cost
- Local government contribution
- Implementation schedule by task

The activity is further broken down by task, and each task has a start/finish date and estimated level of effort.

The earned value analysis technique is a program cost/schedule control system, as follows:

- Comparing the budgeted cost of work performed (BCWP) and the actual cost of work performed (ACWP) to compute the cost variance,
- Comparing the budgeted cost of work performed (BCWP) and the budgeted cost of work scheduled (BCWS) to compute the schedule variance.

A monthly variance report by activity will be submitted and reviewed by the chief of party and deputy chief of party. The program managers are responsible for monitoring the cost and schedule variances, and taking necessary corrective actions. Budget increases require project management's approval.

ARD states it will implement the cost/schedule monitoring system when the new activity starts.

VOUCHER SYSTEM:

ARD/GOLD plans to introduce a voucher system in the contract extension phase. The voucher system is designed to institutionally prepare the local government unit (LGU) to directly contract with the voluntary and private sectors for services.

ARD/GOLD piloted the technical assistance voucher system on selected GOLD sites in August 1998. Under the arrangement, ARD/GOLD allocated funds, in the form of a credit, to the LGU. The LGU can select a service provider from a pre-qualified pool provided by

ARD/GOLD. ARD/GOLD will enter into a purchase order with the selected service provider and apply the payment against the credit upon satisfactory performance. As the LGU takes ownership of the credit, it often tries to use the funds more efficiently and effectively.

ARD/GOLD plans a full voucher system in the contract extension phase. If implemented, the voucher system will work as follows.

- ARD/GOLD assists the LGU to enter into a service contract with the service provider, and ARD/GOLD enters into a payment contract with that service provider.
- The service provider provides services to the LGU in accordance with the service contract.
- The service provider submits invoices to ARD/GOLD for payment in accordance with the payment contract.
- ARD/GOLD evaluates the claims against the terms of the contracts.
- LGU provides evaluation/certification to serve as an authorization for payment.
- ARD/GOLD makes payments to the service provider upon the receipt of LGU's satisfactory comments.

As the LGU takes ownership of the fund, it is likely that the LGU will share the responsibility of monitoring the service provider's performance.

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REPORT DISTRIBUTION AND RESTRICTIONS

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4. This report was prepared using procedures agreed-upon by the identified recipients. The reported findings do not include an audit opinion. The information contained in this report is intended solely for the use of the identified recipients, and should not be used by them or by others for any purpose other than that for which the procedures were established.

STATEMENT OF CONDITION AND RECOMMENDATION

a. <u>Condition:</u> ARD/GOLD does not require its subcontractor to bill cost based on actual exchange rates or in local currency.

ARD/GOLD does not require its subcontractors to bill costs based on actual exchange rate or in local currency; instead, ARD home office provides a predetermined exchange rate to the subcontractor for billing purposes.

A major subcontractor, Orient Integrated Development Consultants, Inc. (OIDCI), is a local firm and bills cost in U.S. dollars. The comparison of OIDCI's billing exchange rate (using the ARD predetermined rate) to the actual exchange rate (used by ARD GOLD Project Office for accounting) is as follows:

Month/Year	OIDCI Billed Rate	ARD/GOLD Actual Rate
Jul-97	$1 to P25.00	$1 to P26.39
Aug-97	25.00	28.24
Sep-97	25.00	31.27
Oct-97	25.00	33.44
Nov-97	25.00	34.26
Dec-97	25.00	33.66
Jan-98	29.00	38.54
Feb-98	29.00	43.32
Mar-98	29.00	40.11
Apr-98	29.00	36.74
May-98	29.00	39.92
Jun-98	33.00	38.86
Jul-98	33.00	41.55
Aug-98	33.00	42.20
Sep-98	33.00	43.72
Oct-98	35.00	44.33
Nov-98	35.00	40.06
Dec-98	35.00	38.77
Jan-99	35.00	37.16

We estimate that OIDCI has an exchange rate gain of approximately $150,000 for the period of July 1997 through January 1999.

Another subcontractor, Human Environmental Resources Services, Inc. (HERS) has the similar exchange rate gain since HERS uses the same exchange rate as OIDCI. HERS is a U.S. based firm but hires a local employee for ARD/GOLD. The impact of the exchange rate at HERS is less significant than that of OIDCI since the HERS subcontract billing is significantly less and only partial cost (i.e., the local salary) is impacted.

Both OIDCI and HERS subcontracts are cost-reimbursable and contain the clause at FAR 52.216-7, which requires reimbursing cost based on actual payment. In addition, according to generally accepted accounting principles (GAAP), OIDCI should use pesos as functional currency for recording and reporting cost because it is a Philippine firm, and HERS should use the current exchange rate to record and report the actual costs.

b. <u>Recommendation:</u> ARD should require its subcontractors to bill costs based on the actual exchange rates or in pesos in accordance with FAR 52.216-7 and GAAP.

c. <u>ARD/GOLD's Response:</u> ARD/GOLD states that the exchange rate gain issue is not relevant because of the following reasons. First, both the OIDCI and HERS subcontracts were approved in U.S. dollars. Second, the guidance received from USAID contracting officer regarding this exchange rate issue was that it should not have a problem because the subcontracts were in dollars, but ARD/GOLD should monitor the situation. ARD/GOLD monitored the situation and adjusted the exchange rate used for billing on three occasions using the USAID "peg" rate. However, ARD/GOLD states that if USAID feels that these two subcontracts should be denominated in pesos for the extension period, ARD/GOLD would be happy to convert them. For details of ARD/GOLD's response, please refer to Appendix 3, page 2 and 3.

d. <u>Auditor's Rejoinder:</u> The subcontracts with OIDCI and HERS are cost reimbursable subcontracts. As such, the subcontractors should bill ARD for "those recorded costs that, at the time of the request for reimbursement, the Contractor has paid by cash, check, or other form of actual payment for items or services purchased directly for the contract", in accordance with FAR 52.226-7, which is incorporated into these subcontracts. The subcontractors should be paid at actual cost incurred. If ARD and the subcontractors prefer to use U.S. dollars for billing and payment, then the actual cost should be converted to dollars at actual exchange rate. Since the subcontracts are cost reimbursable agreements, the hourly rates stated in the subcontracts are for provisional billing purposes and are subject to the final incurred cost audit. If the subcontractors do not adjust the exchange rate on its billings periodically, they may have a significant over- or under-billed amount at the end of the subcontract.

The USAID approval on the subcontracts was granted because USAID found the subcontracts to be in compliance with, and technically responsive, to the prime contract. The subcontracts are in compliance with the contract term. However, the subcontractors appear not to be in compliance with the subcontract term.

ARD asked the contracting officers whether the peso to U.S. dollar devaluation would have any impact on the subcontracts. The contracting officer stated that if the subcontract is in dollars, then there should not be any problem. See Appendix 3, page 8. However, we did not find evidence indicating that the *impact* or *problem* stated in these e-mail messages is related to subcontract billings.

The use of "peg" rate for billings is inappropriate. The "peg" rate is the exchange rate used by USAID for fund commitment, and is not intended for billing purposes.

The exchange rate gain issue is relevant, as it is a billing system deficiency. The subcontracts with OIDCI and HERS are cost reimbursable subcontracts. Accordingly, the subcontractors should bill and be paid at ***actual*** costs incurred. A ***cost-reimbursable*** contract or subcontract should ***not*** have an exchange rate gain. ARD, as a prime contractor, has the responsibility for managing its subcontracts.

e. **Status:** In OIDCI subcontract Modification No. 4 for the GOLD project extension, the subcontract amount is expressed in Philippine Peso. In addition, the modification requires OIDIC bill cost in peso for cost incurred after 1 May 1999.

f. **Auditor's Comments:** In OIDCI subcontract Modification No. 4 for the GOLD project extension, the subcontract amount is expressed in Philippine Peso. In addition, the modification requires OIDIC bill cost in peso for cost incurred after 1 May 1999.

SUGGESTIONS FOR IMPROVEMENTS

Suggestion 1. We suggest ARD/GOLD reinforce the ARD timekeeping policy and procedures; especially, as they require staff to fill out timesheets daily and make corrections in accordance with the ARD procedures (by drawing a single line through the wrong entry, entering the correct entry, and initialing the change).

Status: After an interim discussion during our initial field visit, ARD/GOLD's Chief of Party issued a memorandum on 7 April 1999 which reinforced the company timekeeping policies and procedures. The memo requires the staff to fill out timesheet daily in ink and correct timesheet error properly. Our follow-up visit disclosed that some of the staff do not follow these procedures. ARD/GOLD should continue reinforcing its timekeeping policies and procedures.

Suggestion 2. We suggest ARD/GOLD formalize the leave system and require leave forms to be approved by authorized personnel and be attached to the timesheet.

Status: ARD/GOLD established procedures requiring written request for leave be approved in advance. We reviewed payroll vouchers for first half of November 1999 and found that all leave request forms are attached to the timesheets. Action taken is adequate.

Suggestion 3. We suggest ARD/GOLD strengthen control on the overtime approval process as some overtime incurred significantly exceeds the approved limit. We further suggest ARD control the amount of overtime in compliance with FAR 22.103.2, which states "Contractors shall perform all contracts, so far as practicable, without using overtime, particularly as a regular employment practice, except when lower overall costs to the Government will result or when it is necessary to meet urgent program needs. Any approved overtime, extra-pay shifts, and multi-shifts should be scheduled to achieve these objectives." For CY 1998, the overtime incurred for the supporting staff is 27 percent of the regular pay.

Status: ARD/GOLD established policies and procedures stating that (i) the overtime is strongly discouraged, and (ii) overtime hours worked beyond those approved will not be paid. We reviewed payroll vouchers for first half of November 1999 and found that all overtime charged are within the approved limit. Action taken is adequate.

Suggestion 4. Due to the difficulty of surveillance and monitoring the consultant time charges, the cost reimbursable type consultant agreement/subcontract (payment based on labor hours charged) may not be suitable under the circumstances. We suggest ARD/GOLD increase the use of fixed price purchase order and the voucher system to the extent possible. Cost reimbursable type consultant delivery orders may be used when there is a reasonable assurance that the hours charged could be and would be monitored. In addition, we suggest ARD train the LGU participating in the voucher system to differentiate the risks between the fixed-price and cost-reimbursable type of contracts, and thereby monitor the service provider's performance accordingly.

Status: ARD/GOLD's manual for the project extension (GOLD Cooperative Assistance Program General Manual of Operation) encourages the use of firm-fixed price contract. It states "A firm-fixed price contract, which best utilizes the basic profit motive of business enterprise, shall be used whenever the risk involved is minimal or can be predicted with an acceptable degree of certainty." Mr. Philip Schwehm stated that the number of fixed price contract would be significantly increased when the project rollout is in full operation (currently in a proposal evaluation process). In addition, ARD/GOLD plans to involve the local government units in the post-payment examination process. The action taken is adequate if the policies and procedures are implemented as stated.

Suggestion 5. We suggest ARD/GOLD expand the PAR charge code to record cost by task, when required. In the planned earned value analysis technique, the program manager compares the budgeted cost of work performed (BCWP) and the actual cost of work performed (ACWP) to compute the cost variance. The program manager is required to take corrective actions when the cost is significantly overrun and the schedule is significantly underrun. Under the current PAR system, the ACWP are charged at the activity level. In an activity with a long duration, multiple tasks, and multiple consultants, it will be difficult for the program manager to identify any problem.

Status: We verified that the FMS (Finance Management System, ARD/GOLD's computerized accounting system) is capable to have a charge code at task level. The action taken is adequate.

Suggestion 6. We suggest the payment to the travel agency for the airplane ticket be supported by the approved travel request (or the travel agency's invoice is verified by someone other than the one making air travel arrangements). Currently, the finance officer prepares the voucher and check after the travel clerk matches the travel agency invoice and the airplane ticket. The travel clerk also makes the air travel arrangement. Consequently, there is no adequate control to ensure the airplane tickets are purchased for authorized travels.

Status: The Accounting Department verifies the travel agency's Statement of Account to the used ticket and to the Travel Arrangement Request Form when prepares the check voucher. The action taken is adequate.

Suggestion 7. We suggest the use of a combined travel form which includes: Purpose of the travel, destination, PAR code, and authorization for the air travel and car rental. The combined travel form can serve as a basis for air travel arrangement, car rental, request for advance, and liquidation.

Status: ARD/GOLD revised the Travel Arrangement Request Form to include purpose of the travel, destination, PAR code (FMS code), and authorization for the air travel and car rental. In addition, after an interim discussion during our initial field visit, ARD/GOLD's Chief of Party issued a memorandum on 7 April 1999 requiring that copies of signed Travel Request forms should be attached to all Cash Advance Requests. However, our review of transaction indicates that this procedure has not been followed. As a result, the purposes on some travels are not readily available since the Travel Request Form is not in the file (because no air travel was required) and the travel advance and travel advance liquidation forms do not require purpose of travel be stated.

The action taken on the use of combined travel form is adequate. However, ARD/GOLD should require that the staff following the Chief of Party's memo to attach the travel request form to the cash advance request or the travel expenses report (if no advance is made).

Suggestion 8. We suggest ARD/GOLD require prior approval on travel (i) by air, (ii) needing car rental, and/or (iii) exceeding one workweek.

Status: ARD/GOLD revised the travel policies and procedures to require prior approval on travel by air, needing car rental, and/or exceeding one workweek. Our transaction test disclosed that the staff obtained the approvals when required. The action taken is adequate.

Suggestion 9. We suggest ARD/GOLD require approval on all staff travel requests. Currently, the senior technical staff and project management personnel approve their own travel. Approval should be granted from other than one's self.

Status: ARD/GOLD revised the travel policies and procedures to require all staff obtain prior approval on travel by air, needing car rental, and/or exceeding one workweek. Our transaction test disclosed that senior technical staff and project management personnel obtained proper approvals. However, the Chief of Party continues to approve his own travel request.

The action taken is generally adequate. However, we suggest that the Chief of Party's travel request should be approved by someone other than himself.

Suggestion 10. We suggest ARD/GOLD require approval on all travel liquidations.

Status: ARD/GOLD revised the liquidation form to provide a space for approval. Our transaction test disclosed that the staff obtained approvals on travel liquidation. The action taken is adequate.

Suggestion 11. We suggest the activity budget outline be approved before the advance is made.

Status: After an interim discussion during our initial field visit, ARD/GOLD's Chief of Party issued a memorandum on 7 April 1999 which require that an advance for activity budget must be approved. Our transaction test disclosed that the staff obtained approvals before the advance is made. The action taken is adequate.

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