USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

FINANCIAL AUDIT OF USAID/PHILIPPINES' PESO TRUST FUND FOR OPERATING EXPENSES, FOR THE PERIOD FROM JANUARY 1, 2004 TO DECEMBER 31, 2004

AUDIT REPORT NO. 5-492-06-001-N
November 7, 2005

MANILA, PHILIPPINES

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.

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 7, 2005

MEMORANDUM

TO: USAID/Philippines Director, Jon D. Lindborg

FROM: Acting RIG/Manila, George R. Jiron Jr.

SUBJECT: Financial Audit of USAID/Philippines' Peso Trust Fund for Operating Expenses, for the Period from January 1, 2004 to December 31, 2004; Audit Report No. 5-492-06-001-N

Please find attached one copy of the subject agency-contracted audit report covering USAID/Philippines' Peso Trust Fund account for operating expenses for the period from January 1, 2004 to December 31, 2004. The audit was contracted by USAID/Philippines and was conducted by B.F. Medina & Co.

The USAID Regional Inspector General in Manila reviewed the report and found that the audit was performed in accordance with the *U.S. Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. The auditors disclosed the scope limitations that they did not comply with GAS pertaining to a continuing professional education program and external quality control reviews.

On April 27, 1951, the Governments of the United States and the Philippines entered into an Economic and Technical Cooperative Agreement. One of the provisions of the agreement was for the United States Government to notify the Government of the Philippines of its requirements for administrative expenditures in pesos under this agreement and for funds needed to furnish technical assistance. The Government of the Philippines, therefore, would make funds available to a Special Account in a manner requested by the United States Government. This Special Peso Trust Fund account for operating expenses is managed by USAID/Philippines. The audit covered trust fund receipts of $34,480 and costs of $1,146,291 for the period from January 1, 2004 to December 31, 2004.

The objectives of the audit were to: (1) express an opinion on whether the Fund Accountability Statement for the Peso Trust Fund was presented fairly, in all material respects; (2) evaluate USAID/Philippines' internal control structure; (3) determine whether USAID/Philippines complied with trust agreement terms and applicable laws and regulations; and (4) determine whether USAID/Philippines has taken adequate corrective action on prior audit report recommendations, if any.

U.S. Agency for International Development
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Manila, Philippines
www.usaid.gov

B.F. Medina & Co. concluded that the Fund Accountability Statement presented fairly, in all material respects, inflows and outflows of funds for the Peso Trust Fund account. The auditors did not identify any questioned costs, reportable or material internal control weaknesses, or material instances of noncompliance. The auditors noted that there were no outstanding prior audit recommendations.

Based on our review of the report, we are not making any recommendations for inclusion in the USAID's Consolidated Audit Tracking System (CATS). We appreciate the cooperation and assistance USAID/Philippines extended to the auditors during the course of the audit.

Attachment: a/s

AGENCY CONTRACTED FINANCIAL AUDIT OF USAID/PHILIPPINES

PESO TRUST FUND ON OPERATING EXPENSES

FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2004

USAID/PHILIPPINES PESO TRUST FUND

TABLE OF CONTENTS

	Page
Background	1
Audit Objectives	2
Audit Scope	3
Results of Audit	4
Report of Independent Accountants	5
Fund Accountability Statement – Operating Expenses	7
Details of Approved Budget & Expenditures	8
Notes to the Fund Accountability Statement	9
Auditors' Report on Internal Control Structure	10
Auditors' Report on Compliance	13
Independence of the Accountant	15
Management's Statement of Responsibility	16

B. F. Medina & Co.
Certified Public Accountants
Cavite City

September 30, 2005

Mr. Homi Jamshed
Regional Controller
U.S. Agency for International Development
8/F PNB Financial Center, Roxas Blvd., Pasay City

Sir:

We are pleased to submit this report covering the financial audit of the USAID/Philippines Peso Trust Fund on Operating Expenses for the period January 1, 2004 to December 31, 2004. We started the fieldwork on August 4, 2005.

Background

On April 27, 1951, the Government of the United States of America and Government of the Philippines signed an Economic and Technical Cooperation Agreement. One of the provisions of this Agreement was that the Government of the United States of America shall from time to time notify the Government of the Philippines of its requirements for administrative expenditures in pesos incident to operations under this agreement and for expenditures incident to the furnishing of technical assistance hereunder, and the Government of the Philippines will make sums available in the Special Account in the manner requested by the Government of the United States of America in notification.

An Operating Expense Agreement was entered into on August 1, 1989, between the Government of the Philippines (GOP) and the Government of the United States of America through the Agency for International Development (AID), who agreed, among other things, that pesos made available to implement the provisions of the Economic and Technical Cooperation Agreement shall be provided by the GOP to AID for deposit into the U.S. Disbursing Officer's Account No. 5/513407/035 at CITIBANK, Metro Manila, or such other account as AID by notice may designate the "Account". At present, these funds are still deposited with the CITIBANK, Manila under Account Nos. 5/602184/023 (for Operating Expense), and 5/602184/031 (for Investment Account).

It was also agreed that the amount of pesos deposited in this account shall be used by AID to pay administrative and operating costs of AID's Mission to the Philippines, including, to the extent such costs are incurred and are payable in pesos:

a. Personnel costs, such as salaries and benefits, personal services contracts, educational allowance and travel.

b. Rent, utilities, furniture and equipment.

c. Other support costs, such as communications, printing and expendable supplies.

ADS 601 (Funding Source Policy) provides guidance in determining the appropriate funding source (program or operating expenses) to be used to fund salary and support costs of Agency personnel.

Audit Objectives

The specific audit objectives are as follows:

1. Express an opinion on whether the fund accountability statement for the USAID-Trust Fund presents fairly, in all material respects, revenues received, costs incurred, and commodities directly procured by USAID for the period audited are in conformity with the terms of the Trust Fund Agreement and generally accepted accounting principles of other comprehensive basis of accounting.

2. Evaluate and obtain a sufficient understanding of USAID/Philippines internal control structure related to the Trust Fund, assess control risk, and identify conditions, including material internal control weaknesses.

3. Perform tests to determine whether USAID/Philippines complied, in all material respects, with the Trust Fund Agreement terms and applicable laws and regulations. All material instances of noncompliance and all indications of illegal acts that have occurred or are likely to have occurred should be identified.

4. Determine if USAID/Philippines has taken adequate corrective action on prior Trust Fund financial audit recommendations, if any.

As part of our audit, we made a study and evaluation of relevant internal controls in the area of execution of transactions and events, separation of duties, supervision and access to and accountability for resources within USAID/Philippines.

Audit Scope

Specifically, we conducted the following:

1. Reviewed **all** the bank accounts/statements and bank reconciliation reports for the period covered by the audit.

2. Reviewed procurement procedures to determine that sound commercial practices were used. The Mission followed the procurement procedures contained in the Federal Acquisition Regulation (Part 13 – Simplified Acquisition Procedures) and AID Acquisition Regulation.

3. Reviewed direct salary charges to determine that salary rates are in accordance with the FSN Pay Plan.

4. Reviewed the personnel (salary and fringe) policies and procedures (Volume 3 of the Foreign Affairs Manual and the Handbook for Filipino Employees) and its implementation in the organization.

5. Reviewed travel and transportation charges to determine whether they were adequately supported and approved.

6. Reviewed the travel policies and procedures and their implementation in the organization.

7. Reviewed 95% of the payments (1,843 check vouchers and journal vouchers out of 1,935 vouchers) made during the audit period to determine if payments have been made in accordance with the terms of the agreement.

8. Reviewed commodities procured by the recipient. We traced the list of procured commodities with the records of the GSO to verify that commodities exist or were used for intended purposes and in accordance with the terms of the agreements.

9. Assessed inherent risk and control risk, and determine the combined risk.

Results of Audit

Fund Accountability Statement

The fund accountability statement for the USAID/Philippines Operating Expense Peso Trust Fund covered in this report presents fairly in all material respects, all inflows and outflows of funds.

Review of Internal Controls

Our review and evaluation of the internal control structure of USAID/Philippines financial management disclosed no matters involving the Trust Fund management that we consider to be material weaknesses.

Review of Compliance with Agreement Terms, Applicable Laws and Regulations

The results of our tests of compliance indicate that with respect to items tested, USAID/Philippines complied, in all material respects, with the provisions of the grant agreements and applicable laws and regulations, and with respect to items not tested, nothing came to our attention that caused us to believe that USAID had not complied, in all material respects, with those provisions, laws and regulations.

Audit Follow-up (Status of Prior Audit Reports)

There are no audit findings on the audit report dated November 19, 2004 of the Peso Trust Fund for Calendar Year ending December 31, 2003.

Very truly yours,

Benjamin F. Medina
Managing Partner

B. F. Medina & Co.
Certified Public Accountants
Cavite City

September 30, 2005

Mr. Homi Jamshed
Regional Controller
United States Agency for International
Development/Philippines
8/F PNB Financial Center
Roxas Boulevard, 1308, Pasay City

Sir:

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of the United States Agency for International Development/Philippines Peso Trust Fund Account on Operating Expenses for the period from January 1, 2004 to December 31, 2004. The fund accountability statement is the responsibility of USAID/Philippines. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

Except as explained in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards in the Philippines and U.S. Government Auditing Standards issued by the Comptroller General of the United States. These 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.

We do not have a continuing education program that fully satisfies the requirements of the U.S. Government Auditing Standards. However, we have attended seminars in accounting and taxation during the past year.

We did not have an external quality control review by a non-affiliated auditing organization because no such program is available from professional organizations in the Philippines.

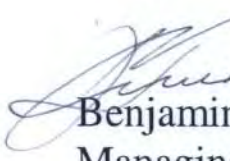
An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, the inflows and outflows of funds for the USAID/Philippines Peso Trust Fund Account for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 3 to the Fund Accountability Statement.

In accordance with Government Auditing Standards, we have also issued a report dated September 30, 2005 on our consideration of USAID/Philippines internal control structure and a report dated September 30, 2005 on its compliance with applicable laws and regulations.

This report is intended for the information of the United States Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Very truly yours,



Benjamin F. Medina
Managing Partner

USAID/PHILIPPINES PESO TRUST FUND
Fund Accountabilty Statement - For Operating Expenses
For the period January 1, 2004 to December 31, 2004

	In Peso	In U.S. Dollar	Questioned Costs Ineligible	Questioned Costs Unsupported	Notes
RECEIPTS:					
Funds Received from GOP	0	0	0	0	
Bank Interest	1,930,537.77	34,480.00	0	0	
Total Receipts	1,930,537.77	34,480.00	0	0	
DISBURSEMENTS:					
Salaries (Local Staff)	33,439,782.00	597,246.00	0	0	
Benefits (Local Staff)	3,492,245.00	62,373.00	0	0	
Travel (Domestic)	1,328,418.00	23,726.00	0	0	
Utilities & Communications	8,587,457.00	153,375.00	0	0	
Equipment	96,436.00	1,722.00	0	0	
Operating Supplies	3,891,315.00	69,500.00	0	0	
Repairs & Maintenance	1,778,630.00	31,767.00	0	0	
Security Guard Services	2,642,787.00	47,201.00	0	0	
Contracted Services, Printing	8,927,512.00	159,448.00	0	0	
Total Disbursements	64,184,582.00	1,146,358.00	0	0	
ADVANCES	(3,750.00)	(67.00)	0	0	
EXCESS OF (DISBURSEMENTS/ ADVANCES OVER RECEIPTS)	(62,250,294.23)	(1,111,811.00)	0	0	
Fund Balance, Beginning	123,761,359.25	2,210,419.00			
Fund Balance, End	61,511,064.62	1,098,608.00			

USAID/PHILIPPINES PESO TRUST FUND
For Operating Expenses
Details of Approved Budget and Expenditures

For the period from January 1, 2004 to December 31, 2004

	Budget	Expenditures
Salaries (Local Staff)	P21,307,961	P17,961,381
Benefits (Local Staff)	7,600,043	2,549,954
Travel (Domestic)	1,270,258	1,234,719
Utilities & Communications	8,299,599	7,020,726
Equipment	553,686	96,436
Operating Supplies	3,492,565	3,020,477
Security Guard Services	2,925,267	695,013
Repairs and Maintenance	2,024,355	1,135,777
Contracted Services, Printing	4,554,255	4,140,341
Total	P52,027,989	P37,854,824

USAID/PHILIPPINES PESO TRUST FUND

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1:

The reconciliation between Cash in Bank Balance and Fund Balance is as follows:

	In Phil. Peso	In U.S. Dollar
Cash in Bank per Bank Statement, Dec. 31	63,564,168.83	1,135,277
Less: Reconciling Items, U106, Jan. 31, 2005	2,053,104.21	36,669
Cash in Bank, U111, December 31, 2004	61,511,064.62	1,098,608

NOTE 2:

An annual average exchange rate of P55.99 per U.S. 1 Dollar was used in the conversion of Philippine peso to the US Dollar.

NOTE 3:

The Peso Trust Fund Accountability Statement is prepared using the cash basis of accounting, whereby revenues are recognized when received, and costs are recorded when paid, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of preparation is in line with the practice of USAID/Philippines and is permitted to be used under the Trust Fund Agreement terms with USAID/Philippines.

NOTE 4:

The reconciliation between the Disbursements/Advances per the Fund Accountability Statement with Expenditures for Calendar Year 2004 is as follows:

Disb./Advances per Fund Accountability Statement –	P64,180,832.40
Less: Related to Calendar Year 2003 Obligations	26,326,008.26
Expenditures for Calendar Year 2004	P37,854,824.14

B. F. Medina & Co.
Certified Public Accountants
Cavite City

September 30, 2005

Mr. Homi Jamshed
Regional Controller
United States Agency for International
Development/Philippines
8/F PNB Financial Center
Roxas Boulevard, 1308, Pasay City

Sir:

AUDITORS' INDEPENDENT REPORT ON THE INTERNAL CONTROL STRUCTURE

We have audited the fund accountability statement of the United States Agency for International Development/Philippines Peso Trust Fund on Operating Expenses for the period from January 1, 2004 to December 31, 2004, and have issued our report thereon dated September 30, 2005.

Except as explained in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards in the Philippines and U. S. Government auditing standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We do not have a continuing education program that fully satisfies the requirements of the U. S. Government Auditing Standards. However, we have attended seminars in accounting in the past year.

We did not have an external quality control review by a non-affiliated auditing organization because no such program is available from professional organizations in the Philippines.

The management of USAID/Philippines 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 policies and procedures. The objectives of an internal control structure are:

1. To provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition;

2. That transactions are executed in accordance with fund management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the cash receipts and disbursements method of accounting. 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.

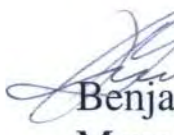
In planning and performing our audit of the fund accountability statement of the USAID/Philippines Peso Trust Fund for the period from January 1, 2004 to December 31, 2004, we obtained an understanding of the internal control structure over execution of transactions and events, separation of duties, supervision and access to and accountability for resources. With respect to the internal control structure in these areas, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation.

We also assessed the control risk in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure in the aforementioned areas 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 condition in which the design or operation of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. We noted no material weaknesses involving the internal control structure in the aforementioned areas.

This report is intended for the information of the United States Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Very truly yours,



Benjamin F. Medina
Managing Partner

B. F. Medina & Co.
Certified Public Accountants
Cavite City

September 30, 2005

Mr. Homi Jamshed
Regional Controller
United States Agency for International
Development/Philippines
8/F PNB Financial Center
Roxas Boulevard, Pasay City

Sir:

AUDITORS' INDEPENDENT REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the fund accountability statement of the United States Agency for International Development/Philippines Peso Trust Fund on Operating Expenses for the period January 1, 2004 to December 31, 2004, and have issued our report thereon dated September 30, 2005.

Except as explained in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards in the Philippines and the U. S. Government Auditing Standards issued by the Comptroller of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We do not have a continuing education program that fully satisfies the requirements of the U. S. Government Auditing Standards. However, we have attended seminars in accounting during the past year.

We did not have an external quality control review by a non-affiliated auditing organization because no such program is available from professional organizations in the Philippines.

Compliance with laws, regulations, contracts, and grants applicable to USAID/Philippines is the responsibility of USAID/Philippines. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of USAID/Philippines' compliance with certain provisions of laws, regulations, contracts, and grants. The objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express an opinion.

The results of our test disclosed no instances of noncompliance that are required to be reported here under U.S. Government Auditing Standards.

This report is intended for the information of the United States Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Very truly yours,

Benjamin F. Medina
Managing Partner

B. F. Medina & Co.
Certified Public Accountants
Cavite City

September 30, 2005

Mr. Homi Jamshed
Regional Controller
United States Agency for International
Development/Philippines
8/F PNB Financial Center, Roxas Blvd, Pasay City

Sir:

REPORT ON THE INDEPENDENCE OF THE ACCOUNTANT

In connection with my examination of the USAID/Philippines Peso Trust Fund, I hereby represent that:

1. That I have fully met the requirements of independence as provided under the Code of Professional Ethics for CPAs;

2. That in the conduct of the audit, I have complied with the generally accepted auditing standards promulgated by the Board of Accountancy; in case of any departure from such standards or any limitation in the scope of my examination, I shall indicate the nature of the departure and the extent of the limitation, the reasons therefore and the effects thereof on the expression of my opinion; and

3. That relative to the expression of my opinion on the said Trust Fund Accountability Statement, I have not committed any acts discreditable to the profession as provided under the Code of Professional Ethics for CPAs.

Benjamin F. Medina
CPA Certificate No. 16794

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT/PHILIPPINES
8/F PNB Financial Center, D.Macapagal Blvd.
Pasay City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENT

September 30, 2005

The Regional Controller of USAID/Philippines is responsible for all information and representation contained in the Trust Fund Accountability Statement as of December 31, 2004. The Trust Fund Accountability Statement has been prepared in conformity with generally accepted accounting principles.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded.

Homi Jamshed.

Homi Jamshed
Regional Controller