AUDIT OF
ASEAN COASTAL RESOURCES MANAGEMENT
PROJECT, PHILIPPINES
Project No. 498-0286

Audit Report No. 2-498-89-03
November 2, 1988

BEST AVAILABLE

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

UNITED STATES POSTAL ADDRESS
USAID/RIG/A/M
APO SAN FRANCISCO 96528

INTERNATIONAL POSTAL ADDRESS
c/o AMERICAN EMBASSY
MANILA, PHILIPPINES

DATE: November 2, 1988
RIG/EA-89-

MEMORANDUM

TO: Karl J. Schwartz
ASEAN Regional Development Office

FROM: William C. Montoney
RIG/A/Manila

SUBJECT: Audit of the ASEAN Coastal Resources Management Project, Manila, Philippines - Project No. 498-0286 Audit Report No. 2-498-89-03

This report presents the results of audit of the Association of South East Asian Nations (ASEAN) Coastal Resources Management Project conducted in the Philippines. The report contains two recommendations which will require action by your office. Please advise me within 30 days of any actions taken or planned to implement the recommendations in this report.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

The purpose of the ASEAN Coastal Resources Management Project was to help develop improved technical and institutional approaches for managing living coastal resource systems in the ASEAN countries. The project's main components were resource assessment, planning and research and information dissemination and training. The International Center for Living Aquatic Resources Management (ICLARM) was designated as the agency responsible for coordinating and technically supporting the project by receiving and channeling grant funds to each implementing agency for approved activities. ICLARM is a private, not-for-profit, scientific agency based in Manila.

The A.I.D. grant to ICLARM was signed on August 30, 1985 and specified a Project Assistance Completion Date of December 31, 1989. A.I.D. provided $5 million in grant funding for the development of site-specific coastal management plans, training and information dissemination and technical support to regional activities. Through April 1988, A.I.D. had expended approximately $2.6 million. The ASEAN counterpart contribution was to be $1.8 million, primarily for operating and support costs.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Manila made a program results audit of the ASEAN Coastal Resources Management Project. The specific objectives of the audit were to determine whether (1) project objectives would be achieved and (2) management monitoring practices were adequate.

The audit included a review of project files and financial records maintained at the ASEAN Regional Development Office and at ICLARM, both located in Manila, Philippines. Visits were made to the Department of Science and Technology, the implementing agency responsible for coordinating the Philippine project component, and four of its operational sites. We tested $136,188 in project expenditures, primarily equipment and furniture purchases, salaries, travel and per diem. We also verified the incremental transfer of over $2.6 million in A.I.D. funds to ICLARM and subsequent release to the project implementing organizations.

The audit scope was reduced after the audit team reviewed management responsibilities at ICLARM and one implementing agency located in the Philippines. Factors considered in reducing the audit scope included (1) an A.I.D. mid-term evaluation report dated February 8, 1988, which favorably reported on the project's ability to attain project objectives and praised the full and active participation of all ASEAN countries and (2) the results of our testing of ICLARM's monitoring responsibilities which indicated strong project management. The audit was performed from May through July 1988 and was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit determined that the project had proceeded as planned and that it was reasonable to assume that project objectives would ultimately be attained. ICLARM has provided strong project management, and internal controls appeared to be adequate, except as discussed below.

Despite strong project management and adequate accountability, some management areas, such as financial monitoring, compliance with procurement procedures and inventory practices, could be strengthened to provide better control of project assets. Accordingly, ICLARM should take steps to establish separate bank accounts for A.I.D. funds disbursed in the Philippines, remit to A.I.D. over $2,700 in interest earned and establish procedures for remitting any subsequent interest earned. Also, A.I.D., ICLARM and the Philippine Department of Science and Technology should establish procedures for improving project accountability and for documenting management actions relating to procurement and inventory practices and procedures.

Controls Over Financial Monitoring, Procurement Procedures and Inventory Practices Need to be Strengthened and Better Documented - Since 1985, A.I.D. and ICLARM have managed and coordinated the use of over $2.6 million in accordance with the terms and conditions of the project grant agreement. Although management has been strong, some areas of fund control needed to be improved. Project funds had been commingled with other grantee owned funds and over $2,700 in interest earned had not been remitted to A.I.D.; over 50 percent of a $10,000 advance was not properly accounted for by the Philippine implementing agency; counterpart funding was much less than planned and had not been validated; procurement procedures were not properly documented nor did they show evidence of competition; and inventory records were incomplete. Most cases of non-compliance were the result of failure to closely adhere to existing regulations and fully document management actions. As a result, funds were not always spent in the most efficient manner.

Discussion - Since 1985, A.I.D. and ICLARM managed and coordinated the use of over $2.6 million in project funds. Project funds were allocated by ICLARM to each of the participating ASEAN countries for the design and implementation of pilot site activities.

Audit tests showed that ICLARM was a responsible organization and that project funds were well managed. For example, reimbursement vouchers totaling $158,376 for various goods and services were correctly paid by A.I.D. Although one voucher in the amount of $829 was paid twice, ICLARM immediately identified the discrepancy and corrected the erroneous payment. ICLARM also took advantage of purchase discounts, obtained waivers for goods and services not having their source and origin in the United States or in an ASEAN country, verified that taxes and customs duties were not paid from project funds and ensured that international air travel was done on American carriers when

available. Because project management appeared to be strong, additional audit work was not considered necessary.

Despite strong project management and adequate accountability, some management areas, such as financial monitoring, compliance with procurement procedures and inventory practices, could be strengthened to provide better control of project assets.

The Project Grant Agreement provided that A.I.D. funds should not be commingled with other grantee owned or controlled funds. The Grantee was to deposit funds in a separate non-interest bearing bank account and make all disbursements from this account. However, Office of Management and Budget Circular A-110 recently changed this provision and required that grant recipients maintain A.I.D. funds in interest bearing accounts and refund to A.I.D. interest earned.

During 1987, $555,350 in project funds were deposited into two ICLARM interest bearing savings accounts. These accounts included funds from other sources and were used by ICLARM to pay for various project expenditures in the Philippines, including peso disbursements. Project expenditures from these accounts during 1987 were $370,981, leaving an unused balance of $184,369. Because expenditures did not keep pace with deposits, a build up of funds occurred toward the end of 1987. We estimated that about $2,720 in interest, based on the applicable 3 percent rate, was earned from the unused funds during the first 6 months of 1988 and not remitted to A.I.D. This oversight was caused by A.I.D. not being aware that project funds were flowing through an interest bearing account.

ICLARM officials agreed with our observations and indicated that in July two new accounts would be opened - a peso checking and a dollar savings account. The accounts would be for the exclusive use of project funds. ICLARM also agreed with the estimate of interest earned on the commingled funds and planned to issue a check for $2,720 to A.I.D.

Accountability of funds disbursed by the Philippine implementing agency needed to be improved. A.I.D. Handbook 19 prescribes procedures for managing the disbursement of A.I.D. funds. Because these procedures were not carefully followed, project funds were spent without proper accountability. In 1986, $10,000 in project funds were released to the Philippine Department of Science and Technology, which was responsible for initial project implementation. The funds were deposited in a non-interest

bearing account that served as a revolving fund for project use. Expenses incurred thereafter were to be reimbursed by ICLARM on a continuous basis. From the original $10,000, project officials were able to provide documentation to substantiate the expenditure of only $4,600, even though the entire amount had been disbursed. Project officials indicated that at various times several persons had served as National Coordinator for the project and, as a result, records of project disbursements were not retained. Also, a bank fire in 1986 may have destroyed some of the documents.

ICLARM officials agreed that the in-house capacity of the Philippine implementing agency to perform financial management functions was weak, although it had been assumed during project design that each country would have this capability. In responding to our observation, the ICLARM Director of Administration and Finance stated that the in-country financial staff should have been trained, supervised and audited by the executing agency using project funds.

According to the grant agreement, participating ASEAN countries were to provide counterpart contributions in the amount of $1.75 million to the project. The Philippine and other participant counterpart contributions were set at $395,000 each, or an average of $79,000 per year. However, actual Philippine contributions for 1986 and 1987 were $11,036 and $9,648, respectively, or 13 percent of the agreed upon amount.

Officials from the Philippine implementing agency were unable to provide the audit team with documentation supporting any additional contributions. There was some evidence that Philippine counterpart funding was not being provided in the amount agreed upon in the grant agreement and that A.I.D. was absorbing some of these costs. For example, A.I.D. funds were used to purchase a vehicle for the project site while vehicle maintenance was to be provided by the Philippine government. Vehicle maintenance costs could then be categorized as Philippine counterpart funding. However, the government organization that maintained the vehicle made those who used it pay 100 pesos per day for maintenance. As a result, the project staff chose not to utilize the vehicle for commuting purposes since the cost of public transportation was reimbursable while the maintenance fee was not. In another example, a xerox machine was purchased for the project site with A.I.D. funds, but the Philippine government was to be responsible for maintenance. A maintenance fee was charged to anyone who used the machine, including project personnel. Finally, the project paper specifically provided for the purchase of a motorboat with Philippine counterpart funds; however,

A.I.D. purchased the boat on September 25, 1987, at a cost of $6,377. An ICLARM official said the purchase was a matter of expediency as the counterpart funding was not available.

The ICLARM Director of Administration and Finance indicated that counterpart contributions had not been monitored or validated by ICLARM and was unsure as to who had this responsibility. Responsibility for assuring that counterpart contributions were provided was not specified in the project agreement or other implementing documents.

The majority of the purchase orders used for the purchase of project equipment and furniture were not properly completed and did not show evidence of competition. Numerous regulations exist governing the procurement of A.I.D. goods and services. A.I.D. Handbook 13 prescribes that procurement transactions be conducted in a manner that results in open and free competition. ICLARM regulations also require competition and encourage price and cost analyses for every procurement action in excess of $50.

Forty-two purchase orders, 25 prepared by ICLARM and 17 by the Philippine implementing agency were examined. The following conditions indicated a need for improved procurement practices:

-- Purchase requisitions were not prepared for 39 of 42 purchase orders. Purchase requisitions, when prepared, are used to provide the information needed to justify and analyze a specific procurement.

-- Overall, 27 of 42 purchase orders, and 23 of the 25 ICLARM purchase orders, were completed without evidence of open and free competition.

-- Eight of nine ICLARM furniture purchase orders were issued to the same vendor - Focolare Carpentry Shop. There was no evidence that other vendors were considered or that the most reasonable price was obtained.

-- In one of the two ICLARM purchase orders where there was evidence of competition, the purchase order was awarded to the highest bidder because of management preference.

ICLARM officials believed that they obtained the best prices available based on their previous experience of having purchased equipment and furniture from the same vendors. They acknowledged that documentation of these transactions

BEST AVAILABLE

was poor and that procurement procedures were circumvented for expediency. As a result, A.I.D. had no assurance that the most reasonable prices were obtained. ICLARM officials agreed with our analysis of procurement practices and indicated that they would exert extra effort to properly document all future procurement transactions. Also, ICLARM plans to revise its regulations to require competitive procurement for all transactions in excess of $100.

Inventory records and maintenance of property were generally in accordance with property management standards specified in A.I.D. Handbook 13. All equipment appeared to be properly maintained, marked with A.I.D. insignia and well utilized. There were specific persons assigned and held accountable for items at each location and the more expensive items were kept under lock and key.

The audit team, however, identified 17 items of equipment that were not on inventory lists. These items cost $18,131 and included scientific equipment valued at $4,670. Other items included beds, a stove, a range, cabinets, and diving, camping and camera equipment. Officials from the Philippine implementing agency indicated that the equipment was misclassified as supplies and not recorded on any of the inventory lists issued to project officials. Equipment not properly controlled could be misused or misplaced and lost to the project.

Recommendation No. 1

We recommend that the AID/ASEAN Regional Development Office ensure that the International Center for Living Aquatic Resources Management A) remits to A.I.D. $2,720 for interest earned through June 20, 1988, B) establishes a procedure for remitting any subsequent interest earned, and C) establishes separate bank accounts for A.I.D. funds disbursed in the Philippines.

Recommendation No 2

We recommend that the AID/ASEAN Regional Development Office ensure that the International Center for Living Aquatic Resources Management and the Philippine Department of Science and Technology establish procedures for improving project accountability and for documenting management actions relating to procurement and inventory practices and procedures. These actions should address, as a minimum:

-- improved accountability of disbursements at the project implementation level;

BEST AVAILABLE

-- a system for accumulating and validating counterpart contributions;

-- procurement practices designed to assure free and open competition; and

-- identification of all equipment misclassified as supplies and the designation of individuals responsible for its care.

The AID/ASEAN Regional Development Office representative agreed with these recommendations. Also, ICLARM refunded $2,720 to A.I.D. on July 20, 1988; therefore, Part A of Recommendation No. 1 is closed on issuance of this report.

Other Pertinent Matters

A.I.D. Handbook 3 highlights the importance of budget planning during project implementation and defines budgeting as essentially a forecast of expenditures expected to be made in a given future period. Budgeting involves actions which need to be planned, implemented and monitored. Project Implementation Letter No. 3 established the need for an annual financial plan which uniformly summarized the anticipated financial requirements for each country as set forth in the approved workplans.

Budgetary plans were not closely adhered to by project officials, especially in the purchase of equipment and furniture. Purchases were made for non-budgeted items and some budgeted items were never purchased, as shown below:

-- Planning documents did not appear to be logically developed, and there was no relationship between planned and actual purchases. For example, the project paper specified that $30,000 in equipment and furniture purchases would be made for the Philippine site. The grant agreement did not provide for any equipment and furniture purchases. Yet, the 1986 annual work plan proposed a budget of $138,425 for these items. The actual amount spent in 1986 was $4,698.

-- The project paper did not identify any equipment or furniture purchases for ICLARM; yet, the grant agreement specified that $22,300 was needed. Annual work budgets for ICLARM equipment and furniture purchases were never prepared even though items were purchased each year.

-- A motorboat and a photocopying machine in the amount of $6,377 and $3,300, respectively, were

purchased for the Philippine site even though these items were not identified in the project paper or grant agreement.

-- A $10,000 computer and an $8,000 vehicle were budgeted for ICLARM in the grant agreement but never purchased.

-- Instead of purchasing a $10,000 computer, ICLARM purchased seven computers and five printers at a cost of $19,295 - enough to provide each of the CRM staff with a computer.

The ASEAN Regional Development Office (RDO) stressed the difficulty in budgeting for regional projects and the fact that purchases were made as the need for the item was established. A lack of adherence to budgetary planning, however, negates the intent of effective project management and monitoring.

Although the amounts expended for equipment and furniture purchases were small for the ASEAN Coastal Resources Management Project, they might be quite significant under other ASEAN projects funded by A.I.D. The ASEAN Desk should be aware of the manner in which purchases are made under ASEAN grants and instruct the ASEAN RDO of the need to more closely adhere to budgetary guidelines.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

August 29, 1988

MEMORANDUM

TO: RIG/A/Manila, William C. Montoney

FROM: A/RDO, Karl Schwartz, Karl Schwartz

SUBJECT: Audit of the ASEAN CRM Project: Audit Report No. 2-498-88-11 (Draft)

I find the recommendations contained in the subject report reasonable and I understand that Harry McPherson of your Office has been in direct contact with ICLARM on how to best close the recommendations as soon as possible.

APPENDIX 2

Report Distribution

	No. of Copies
ASEAN Regional Development Office, Manila	5
Assistant Administrator, Bureau for Asia and the Near East (AA/ANE)	1
Philippines/ASEAN Desk	1
Office of East Asian Affairs (ANE/EA)	1
Office of Development Planning (ANE/DP)	1
Audit Liaison Office (ANE/DP)	1
Bureau for External Affairs (AA/XA)	2
Office of Press Relations (XA/PR)	1
Office of Legislative Affairs (LEG)	1
Assistant to the Administrator for Management (AA/M)	2
Office of Financial Management (M/FM/ISD)	2
PPC/CDIE	3
Office of the Inspector General	
IG	1
D/IG	1
IG/PPO	2
IG/LC	1
IG/ADM/C&R	12
IG/PSA	1
IG/II	1
Regional Inspectors General	
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1
RIG/I/Manila	1