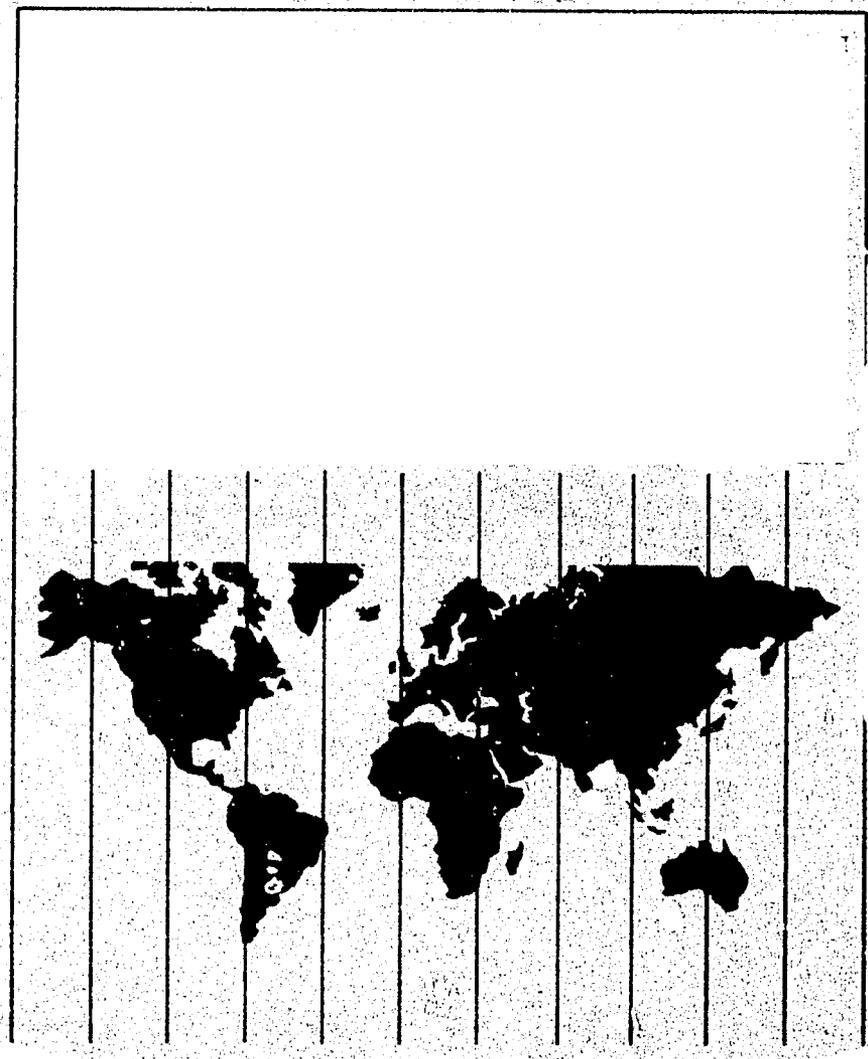


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
MANILA

PD-ABC-461

ISA 70346

Audit of Disaster Assistance to the Philippines

**Audit Report No. 2-492-90-10
September 5, 1990**

Although the objective of providing emergency relief and short-term rehabilitation assistance to disaster victims was achieved, improvements are needed in USAID/Philippines' monitoring of this program.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

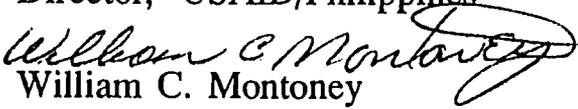
UNITED STATES POSTAL ADDRESS
USAID/RIG/A/M
APO SAN FRANCISCO 96528

INTERNATIONAL POSTAL ADDRESS
c/o AMERICAN EMBASSY
MANILA, PHILIPPINES

DATE: September 5, 1990

MEMORANDUM

TO: Mr. Malcolm Butler
Director, USAID/Philippines

FROM: 
William C. Montoney
Regional Inspector General

SUBJECT: Audit of Disaster Assistance to the Philippines
Audit Report No. 2-492-90-10

The Office of the Regional Inspector General for Audit/Manila has completed its Audit of Disaster Assistance to the Philippines. Five copies of the audit report are provided for your action.

The draft report was submitted to you for comment and your comments are attached to the report. The report contains three recommendations, which are resolved and can be closed when actions in process are completed.

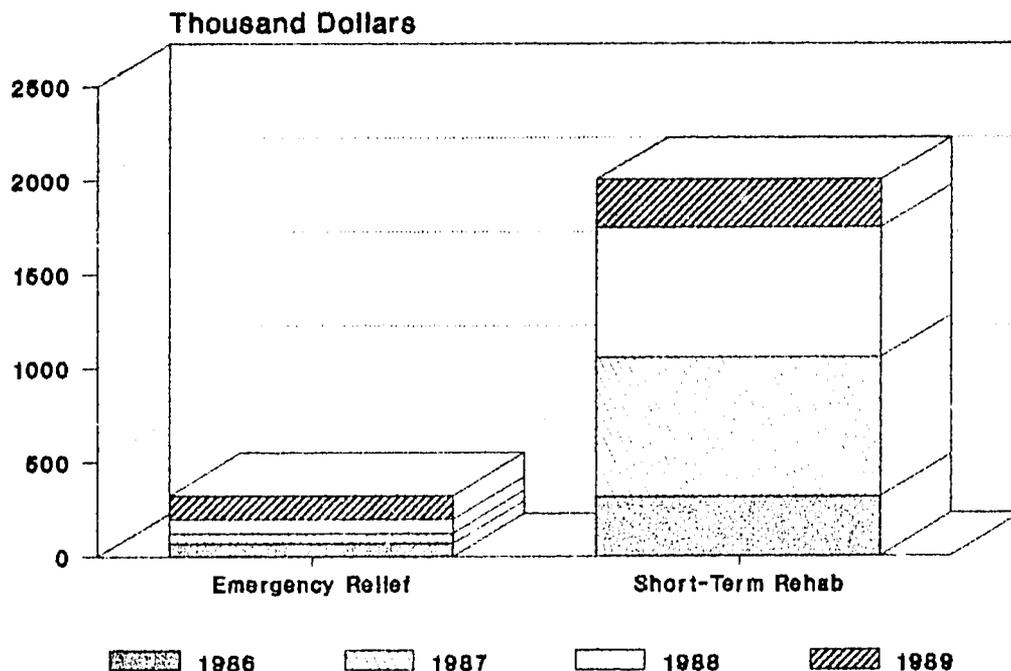
I appreciate the courtesy and cooperation extended to my staff during the audit.

Background

Since 1986, the Philippines has been damaged by seven typhoons, two floods and two major fires. The United States responded by providing disaster assistance as an expression of humanitarian concern. In providing immediate assistance, A.I.D.'s primary disaster assistance objective--alleviation of suffering and reaching beneficiaries least able to survive without outside assistance--was achieved.

When a disaster occurs, the U.S. Ambassador is responsible for declaring that a disaster exists and for determining the type of disaster assistance needed. The A.I.D. Office of U.S. Foreign Disaster Assistance (OFDA) is the focal point for disaster relief activities and the primary funding source for relief assistance. Funding provided by OFDA can be for emergency disaster relief (60 days duration) or short-term rehabilitation assistance (90 days duration).

USAID/Philippines DISASTER RELIEF PROGRAM



A.I.D. provided the Philippines with approximately \$4.1 million in disaster assistance grants during the four years ending September 30, 1989. About \$2.3 million was for emergency disaster relief and short-term rehabilitation assistance and \$1.8 million was P.L. 480 Title II food assistance. The non-food assistance included 14 emergency disaster relief grants and ten short-term rehabilitation assistance grants.

Audit Objectives

In auditing the disaster assistance provided to the Philippines we answered the following audit objectives:

1. Was the disaster assistance used for authorized purposes in accordance with A.I.D. policies and procedures?
2. Did USAID/Philippines effectively monitor the implementation and progress of disaster relief efforts?
3. Were A.I.D. publicity requirements met?
4. Was the disaster assistance accounted for in accordance with the grant agreements and A.I.D. regulations?

To answer the audit objectives, we tested whether USAID/Philippines (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, and grant agreements. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. Because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Philippines followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. When we found problem areas, we performed additional work

- to conclusively determine that USAID/Philippines was not following a procedure or not complying with a legal requirement,
 - to identify the cause and effect of the problems and
 - to make recommendations to correct the condition and cause of the problems.
-

Audit Findings

Was the disaster assistance used for authorized purposes in accordance with A.I.D. policies and procedures?

For the items tested, USAID/Philippines generally followed A.I.D. policies and procedures, but OFDA approved funding for items not normally provided with disaster assistance funds. Emergency relief and short-term rehabilitation assistance was used to restore disaster victims to self-sufficiency. Such assistance included seeds, agricultural and construction hand tools, housing materials and food assistance. However, some assistance went beyond restoration of self-sufficiency and actually improved the stricken community from its pre-disaster state. Normally, such assistance is considered long-term rehabilitation and should be provided from bilateral funding sources. However, OFDA approved the funds for health and safety reasons, indicating that all items were legitimate rehabilitation expenses necessary to restore disaster victims to self-sufficiency.

Of the \$491,461 in short-term rehabilitation assistance tested during the audit, about \$170,000 appeared to be long-term rehabilitation assistance which was used to train participants, purchase equipment and construct buildings, pathways and flood canals. For example, the following short-term disaster relief activities were completed by USAID/Philippines and seem to parallel assistance normally provided under long-term development projects:

- Constructing five evacuation centers at a cost of \$58,000. The

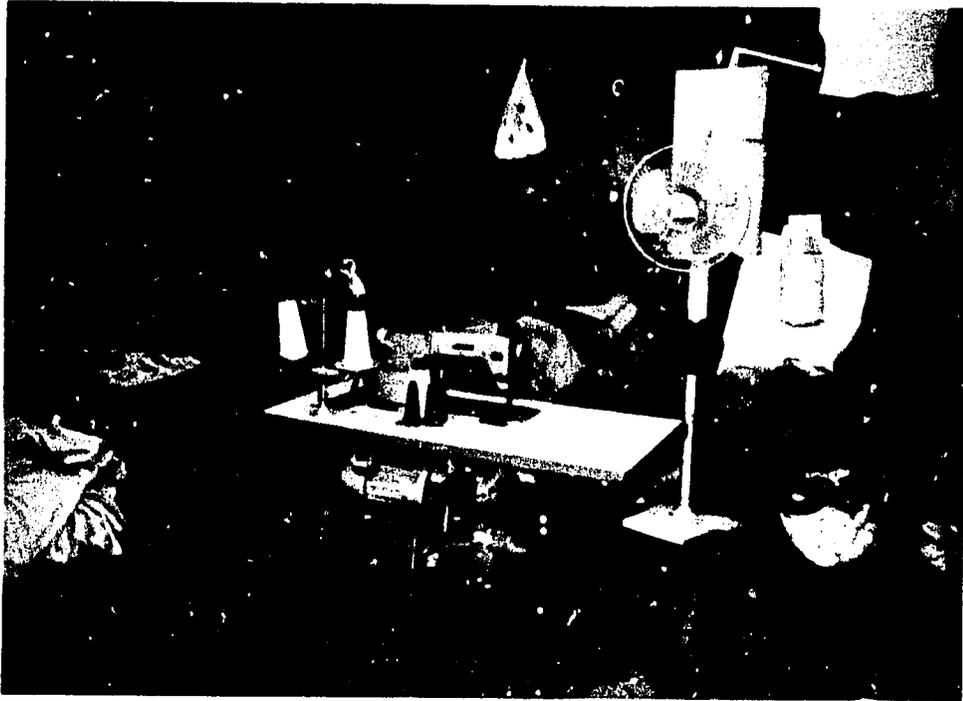
centers were built in an area that previously contained residential homes. They are permanent multi-purpose structures and are being used by residents for meetings and other activities.

- Completing 4.3 kilometers of interconnecting pathways at a cost of \$69,000. The pathways are elevated and made of concrete. Previously, there were only dirt footpaths.
- Building 670 meters of concrete canals at a cost of \$28,000. The canals were constructed to prevent the accumulation of flood water within the community. Previously, water drainage was achieved through natural runoff.
- Providing carpentry, marketing and sewing training for 71 participants at a cost of about \$9,500. None of the recipients had previous training in these skill areas.
- Purchasing about \$9,000 in office equipment. Items purchased include manual typewriters, calculators, electric fans, wall clocks, and sewing machines. Previously, none of these items were available to beneficiaries.

Evacuation Center Constructed



Sewing Machines Provided



Chapter 1 of A.I.D. Handbook 8 requires that particular attention be paid to the concepts of emergency disaster relief, short-term rehabilitation assistance, and long-term rehabilitation because the funding authorities differ. Emergency disaster relief and short-term rehabilitation assistance are provided by OFDA and are not intended to supplement long-term development or technical assistance projects. On the other hand, long-term rehabilitation is subject to normal A.I.D. programming requirements and cannot be funded from the OFDA account. The Handbook also makes a clear distinction between short-term and long-term rehabilitation assistance. Short-term rehabilitation is limited assistance needed to restore disaster victims to self-sufficiency; long-term rehabilitation is assistance which aims to bring the stricken community to a state beyond self-sufficiency.

In September 1989, USAID/Philippines requested OFDA funding for the immediate and urgent needs of flood victims in Metro Manila. Assistance was to be used for the rehabilitation of community infrastructure and

personal properties damaged by the flood. The request contained sufficient detail to show that evacuation centers, pathways and canals were to be constructed using OFDA funds. OFDA authorized relief assistance as requested. Because some of these activities did more than restore recipients to a level of self-sufficiency, it would have been more appropriate if this assistance had been provided from long-term rehabilitation or technical assistance sources. Accordingly, in March 1990 we asked OFDA to address the appropriateness of authorizing short-term funds for long-term rehabilitation activities.

OFDA responded that it was aware that the five evacuation centers and the cemented pathways and canals were to be constructed. Funding was approved for health and safety reasons and because the people would not move away from the disaster setting. OFDA was not aware of the carpentry training and the purchases of sewing machines, typewriters, fans, calculators and cabinets, but it concluded that these items were legitimate rehabilitation expenses. In its opinion, such activities are necessary to restore disaster victims to self-sufficiency. OFDA had hoped its efforts would encourage USAID/Philippines to pursue additional development activities in the disaster areas.

Management Comments and Our Evaluation

USAID/Philippines agreed that some of the disaster assistance activities did more than restore self-sufficiency. However, this information was revealed to OFDA in USAID's request for assistance. The decision to authorize assistance was made by OFDA.

We believe that some of the assistance provided was long-term in nature and should not have been funded as short-term rehabilitation assistance. In our opinion, use of OFDA funding for these activities was not warranted. Accordingly, Audit Report No. 2-492-90-11 addresses this problem and recommends that OFDA review its criteria for approving disaster assistance to ensure that it complies with A.I.D. policy and procedures.

Did USAID/Philippines effectively monitor the implementation and progress of disaster relief efforts?

The monitoring system established by USAID/Philippines did not respond to unplanned changes in project outputs, identify poor quality work or document site visits, as required by A.I.D. guidance. As a result A.I.D.'s disaster assistance activities were less effective than planned. Accordingly, USAID/Philippines needs to improve its monitoring of project outputs to ensure that planned accomplishments are achieved.

Recommendation No. 1: We recommend that USAID/Philippines improve its disaster assistance monitoring activities by establishing

- 1.1 procedures for the timely review and approval/disapproval of proposed revisions to planned outputs and**
- 1.2 a requirement that site visits by USAID personnel be made and documented to verify the quality and extent that disaster assistance efforts have been implemented.**

According to A.I.D. Handbook 3, Chapter 11, project monitoring is the tracking of activities to observe implementation progress. Monitoring involves gathering information concerning inputs, outputs and actions critical to project success and comparing the information gathered with project plans and time schedules. The Project Officer is responsible for monitoring all aspects of project implementation and site visits should be made as frequently as possible to review project accomplishments.

Regulations require that grant agreements be amended when funding is reallocated and if line items are adjusted by more the 15 percent. However, substantive changes were made to a short-term rehabilitation grant during project implementation which affected planned project outputs. After OFDA authorized grant funds for a flood disaster in September 1989, the grantee

revised its original proposal. The revised proposal contained numerous changes to planned outputs and was used by the grantee as the basis for assessing accomplishments even though A.I.D. did not agree to modify the grant agreement. Although such changes may be warranted, they were made without A.I.D. approval. Significant changes in output included

- deleting a sanitary waste improvement program,
- increasing the budget for construction of evacuation centers by 168 percent,
- deleting the rehabilitation of severely damaged electrical posts and wiring and
- deleting the construction of seven water cisterns and substituting a water line and faucet.

Although A.I.D. was made aware of these changes by the grantee, the grant agreement was not amended. Even though the funds were spent for disaster-related activities, written justification should have been obtained for significant line-item deviations.

Not only were project outputs changed without A.I.D. approval, some outputs were not completed as planned, some were of poor quality, and the status of others was undocumented. For example:

- One grant agreement called for the rehabilitation of 130 houses. Although the building materials were purchased and apparently provided to beneficiaries, there were no records to show how many houses were rehabilitated. It was not feasible to determine the number of houses actually rehabilitated during our site visit.
- Even though 100 sanitary waste disposal bowls were to be installed at the project site, only 62 were. Our visit to the site confirmed that the bowls had not been installed as planned and

that several bowls were not functional.

- The project was to provide permanent concrete drainage canals, but the canals observed during our site visit were poorly constructed. Several canals had already caved in and were useless less than one month after they had been built.

Sanitary Waste Disposal Bowl Not Installed



Poorly Constructed Drainage Canal



Although A.I.D. officials stated that they made site visits and were aware of implementation problems, they had not prepared reports documenting these visits. In fact, A.I.D. relied on grantees to report on the status of project progress. According to an A.I.D. official, monitoring efforts were less than satisfactory because the Project Office is understaffed and has a heavy workload. As a result, project outputs were changed without A.I.D. approval, planned accomplishments were either not completed or were of poor quality, and A.I.D. monitoring efforts were undocumented.

Management Comments and Our Evaluation

USAID/Philippines agreed with our finding and recommendation. It issued internal instructions establishing new monitoring procedures, which will be incorporated in the revised Disaster Relief Plan. Further, the services of a local firm will be utilized to supplement and intensify monitoring of disaster assistance activities.

These actions by USAID/Philippines are responsive to the audit recommendation. Accordingly, Recommendation No. 1 is resolved and can be closed once the actions in process are completed.

Were A.I.D. publicity requirements met?

For the grants tested, A.I.D.'s publicity requirements were not met. A.I.D. regulations require that equipment and construction sites be prominently marked so that the public of the recipient country is made aware that the resources provided were donated by the people of the United States. Almost all of the AID-funded equipment purchased for disaster assistance activities did not display A.I.D. emblems and several of the activity sites did not display signs indicating participation by the United States. Publicity goals were not being attained because USAID/Philippines had not effectively monitored this aspect of the project. Accordingly, the public relations potential that could have been realized from this assistance was not achieved.

Recommendation No. 2: We recommend that USAID/Philippines adopt procedures for

- 2.1 instructing implementing agencies about A.I.D.'s publicity requirements and the need for them to comply with these requirements and**
- 2.2 issuing emblems to the implementing agencies to be attached to AID-financed commodities.**

Section 641 of the Foreign Assistance Act of 1961, as amended, requires that all programs carried out under the Act be identified overseas as "American Aid". The purpose of the requirement was to ensure that the public of the recipient country was made aware that the resources were donated by the people of the United States. Chapter 22 of A.I.D. Handbook 1 states that all AID-financed equipment and materials must be suitably marked and that project construction sites and other locations must display signs indicating

participation by the United States.

A.I.D.'s publicity requirements were not met by USAID/Philippines for the sites visited during the audit. For example:

- None of the five evacuation centers permanently constructed at the Smokey Mountain site had a sign or plaque to indicate that the centers were built by A.I.D. A grantee official said that they considered displaying a banner at the inauguration.
- None of the AID-financed equipment purchased under the Smokey Mountain or Marikina Heights grant had A.I.D. emblems attached to them. This equipment included an electric generator, a concrete mixer, a water pump, sewing machines, typewriters, calculators, fans and clocks. A grantee official indicated that they were not aware of A.I.D. regulations requiring markings.

Our visits to the Smokey Mountain and Marikina Heights sites confirmed that A.I.D.'s publicity requirements had not been met. We interviewed residents to determine if they had knowledge of A.I.D.'s participation in the project. At one site, a signboard was constructed early during implementation, but it was blown away by the wind. No efforts were made to re-erect the board. Residents generally were unaware of A.I.D.'s participation. They thought the assistance had been provided by the grantee.

Publicity requirements were not attained because USAID/Philippines had not effectively monitored this aspect of the project. As a result, recipients were not aware that the assistance had been provided by the people of the United States and the corresponding public relations benefits were not realized.

Management Comments and Our Evaluation

USAID/Philippines agreed with the finding and recommendation. The need to comply with A.I.D. publicity requirements will be highlighted in the main body of disaster relief grant agreements and will be included in the compliance check list for on-site monitoring. These requirements, along with

the need to issue A.I.D. decals for attachment to AID-financed commodities, will be incorporated into the revised Disaster Relief Plan.

These actions by USAID/Philippines are responsive to the audit recommendation. Accordingly, Recommendation No. 2 is resolved and can be closed when the actions in process are completed.

Was the disaster assistance accounted for in accordance with the grant agreement and A.I.D. regulations?

Tests of one emergency relief grant and two short-term rehabilitation grants showed a need for improved monitoring of financial activities, especially at the sub-grantee level. Grantees and sub-grantees generally did not (a) maintain good accounting records, (b) provide an adequate accounting for the receipt and use of funds, and (c) purchase equipment and materials using competitive procedures. Because USAID did not properly monitor these organizations, it did not know that some disaster assistance provided was not utilized in accordance with the provisions of the grant agreements.

Recommendation No. 3: We recommend that USAID/Philippines improve its monitoring of grantee accountability for the disaster assistance program by adopting procedures for instructing grantees about A.I.D.'s financial management requirements and by developing a simplified financial management and operations manual for grantees that would include financial reporting guidelines and standardized procurement forms.

A.I.D. regulations require that project financial management practices be monitored to ensure that goods and service are properly accounted for and effectively utilized. Handbook 13 and 19 recommend procedures for effective financial management. Further, A.I.D. policy and the grant agreement provide that some form of price or cost analysis be made in connection with procurement actions. For disaster assistance grants, standard provisions in the grant agreement call for the maintenance of records for procurement in

excess of \$10,000, which identify the basis for contractor selection and justify any lack of competition.

In reviewing the financial monitoring of the grants, we identified several control weaknesses. Some examples include:

- None of the sub-grantees maintained ledgers or receipt and disbursement records even though the grant agreement requires that records and documents be kept to substantiate charges. A sub-grantee official explained that they were not instructed to keep records.
- Grant funds were commingled with other accounts and not deposited into interest bearing accounts as required by A.I.D. regulations.
- Some small grant disbursements were clearly unallowable. These included a contribution to a basketball team and housing materials diverted to non-disaster beneficiaries. Also, there was some double recording of disbursements on liquidation statements.
- About \$215,000 in construction materials and equipment were purchased without competition. One sub-grantee claimed that purchases were made without competition for expediency because the items were needed immediately for disaster purposes. He said he was not familiar with A.I.D. procurement regulations. Another sub-grantee claimed that the grantee did not provide them with a copy of the grant agreement.

USAID officials agreed that some disaster assistance funds may not have been used effectively. Although monitoring of these grant agreements is a USAID responsibility, a USAID official said that monitoring of sub-grantees is generally left to the grantees. Because USAID does not have sufficient staff resources, it was felt that the grantees were in a better position to monitor sub-grantee actions and to act quickly in a disaster situation.

Since financial monitoring was not effective, controls over financial disbursements were weak and procedures for competitive procurement were not complied with. Because of the irregularities noted during the audit, USAID agreed to review two additional disaster assistance grants to determine if the problems identified in our audit were common throughout the disaster assistance program. The results of that review indicate that these are recurrent problems requiring USAID actions aimed at strengthening the management and implementation of the disaster assistance program.

Management Comments and Our Evaluation

USAID/Philippines agreed with our finding and recommendation. In response to the recommendation, a two day financial management seminar was conducted for potential PVO recipients of disaster assistance. In addition, a comprehensive but simplified financial management manual is being developed. The manual will be used at future seminars and as a handout to all future recipients of disaster assistance grants.

These actions by USAID/Philippines are responsive to the audit recommendation. Accordingly, Recommendation No. 3 is resolved and can be closed on issuance of the new financial management manual.

SCOPE AND METHODOLOGY

Scope

We audited the disaster assistance provided to the Philippines in accordance with generally accepted government auditing standards. Audit field work was conducted from January through March 1990.

We tested \$491,461, or about 21 percent, of the \$2.3 million in grant funds provided by A.I.D. from fiscal year 1986 through fiscal year 1989. This included one emergency relief grant of \$25,000 and two short-term rehabilitation grants totaling \$466,461.

Methodology

We interviewed officials from USAID/Philippines, and the following Philippine implementing agencies: Tulay Sa Pag-unlad, Inc.; XVD Foundation, Inc.; Morning Star Ministries, Inc.; Philippine Business for Social Progress; and selected recipients who received assistance. Visits were made to the Smokey Mountain and Marikina Heights disaster sites located in Metro Manila. The methodology for each audit objective follows.

Audit Objective One

To accomplish this objective we determined if disaster assistance funds were used for activities that were short-term in nature and restored individuals to self-sufficiency. To achieve these results we reviewed applicable A.I.D. policy; examined grant agreements, project implementation reports and site inspection

reports; and visited the project sites. We also held discussions with project officials and residents of the disaster sites.

Audit Objective Two

To accomplish this objective we determined whether USAID/Philippines had an effective system for determining the status of the project. We relied on grant agreements and site inspection reports to identify planned accomplishments and whether implementation activities were progressing as planned. We also visited the sites to inspect the completed work.

Audit Objective Three

To accomplish this objective we relied primarily on site visits and discussions with officials and residents of the project sites. We reviewed purchase orders, inventory lists and custodial records to identify items that require marking. Items were then inspected to determine if they were marked as required.

Audit Objective Four

To accomplish this objective we examined financial records at USAID's Food for Peace and Voluntary Cooperation Office and Controller's Office. At the implementing agencies we determined whether (1) records were properly maintained to ensure accountability, (2) reported expenditures were allowable and (3) internal controls were adequate.

REPORT ON INTERNAL CONTROLS

We have audited the disaster assistance to the Philippines and have issued our report dated September 5, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer the audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/Philippines, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be

used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government". According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified significant internal control policies and procedures applicable to the audit objective. We obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation--and we assessed control risk. In doing this work, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Philippines' ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

Audit Objective One

This objective relates to whether disaster assistance was used for authorized purposes as prescribed by A.I.D. policy and guidance contained in A.I.D. Handbooks 1 and 8, respectively. We did not identify any control weaknesses in USAID/Philippines use of disaster assistance funds. Some funds were used for long-term rehabilitation, but their use for these purposes was approved by the Office of U.S. Foreign Disaster Assistance.

Audit Objective Two

This objective concerns A.I.D.'s monitoring of disaster relief efforts. Based on the monitoring requirements contained in A.I.D. Handbook 3, Chapter 11, we identified two reportable conditions:

- USAID/Philippines did not respond to unplanned changes in project outputs and
 - USAID did not identify or document poor quality work during site visits.
-

Audit Objective Three

This objective relates to whether A.I.D.'s publicity requirements were met. The purpose of this requirement of Section 641 of the Foreign Assistance Act of 1961, as amended, is to ensure that the public of the recipient country is made aware that the resources provided were donated by the people of the

United States. We noted one reportable condition:

- Most of the AID-financed equipment purchased for disaster assistance activities did not display A.I.D. emblems and several of the activity sites did not display signs indicating participation by the United States.

Audit Objective Four

This objective concerns the USAID's accounting for disaster assistance. We considered the applicable control policies and procedures cited in A.I.D. Handbooks 3 and 19. We noted two reportable conditions:

- grantees and sub-grantees generally did not maintain adequate accounting records for the receipt and use of AID-provided funds and
- grantees and sub-grantees generally did not purchase equipment and materials using competitive procedures.

These deficiencies resulted in a lack of effective project oversight and some funds may have been spent for non-project activities.

A material weakness is a reportable condition in which the design or operation of the specified internal control 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 financial reports on projects funds being audited may occur and not be detected within a timely period by employees in the

normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described under audit objectives one, two and three are material weakness.

REPORT ON COMPLIANCE

We have audited the disaster assistance to the Philippine and have issued our report dated September 5, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws

and regulations.

Compliance with laws, regulations, contracts, and grants applicable to the project is the overall responsibility of USAID/Philippines. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Philippines, and certain provisions of Federal laws, regulations and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Our tests revealed one significant instance of noncompliance:

- the marking requirements of Section 641 of the Foreign Assistance Act of 1961, as amended, were not complied with.

Although some disaster assistance funds were used for long-term rehabilitation purposes, their use was approved by A.I.D.'s Office of U.S. Foreign Disaster Assistance.

Except as described the results of our tests of compliance indicate that, with respect to the items tested, USAID/Philippines, grantees, and sub-grantees complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that USAID/Philippines, grantees and sub-grantees had not complied, in all significant respects, with those provisions.

UNITED STATES GOVERNMENT

APPENDIX IV

Memorandum

TO : Mr. William Montoney
Regional Inspector General
RIG/A/M

DATE: AUG 13 1990

FROM : John A. Patterson, Acting Deputy
Director, USAID/Philippines

SUBJECT : Draft Report: Audit of Disaster Assistance to the Philippines

REF. : (A) Stanford/George memo dated 05/30/90
(B) Smith/Butler memo dated 05/24/90
(C) George-Stanford/Montoney memo dated 04/24/90

The following are our comments on the subject audit report.

I. INTRODUCTION

USAID concurs generally with the draft report on the "Audit of Disaster Assistance to the Philippines." USAID also appreciates the audits overall conclusion that, while there were some anomalies, "USAID/Philippines generally followed A.I.D. policies and procedures" and that "Emergency relief and short-term rehabilitation assistance was used to restore disaster victims to self-sufficiency."

II. OVERVIEW

While USAID takes no exception with any of the audit findings or recommendations, we do wish to lend more perspective to the Disaster Assistance Program so that such irregularities as were identified can be better understood. It should be noted, for instance, that USAID/Philippines has one of the most active Disaster Assistance Programs in Asia. Most disasters in the Philippines are caused by typhoons which normally occur between July and November. Thus, many if not most, disasters occur during the last quarter of the FY during which time the Mission is already stretched to its limits with its regular programs.

Secondly, is the fact that disaster assistance cannot be programmed far in advance, but must be dealt with on short notice, promptly and with the limited resources at hand. This necessity rarely affords the stringent project development and monitoring accorded other projects. While the most expeditious and effective mode of delivering disaster assistance in the Philippines has proved to be PVOs, the best of these PVOs are not always able or willing to take on such projects. Thus, we must seek out such modes of delivery as are available. Obviously, this often involves

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a fairly high degree of risk since the PVOs and their subgrantees or the GOP agencies or the Red Cross available at a given disaster site may not be fully familiar with AID's statutory requirements, regulations, procedures, etc. even though these are set forth in grant agreements and the attachments thereto.

Finally, we believe it noteworthy that, despite the discrepancies identified by the subject audit, OFDA Washington has repeatedly made known its views that USAID/Philippines' Disaster Assistance Program is one of the most responsive of its type and has lauded our "Disaster Relief Plan" as one worthy of emulation by other missions. Our response to the audit recommendations have been carefully crafted to overcome any shortcomings in our program so as to maintain its integrity and reputation.

III. Recommendations and Comments

A. Recommendation No. 1: We recommend that USAID/Philippines improve its disaster assistance monitoring activities by establishing

- 1.1 procedures for the timely review and approval/disapproval of proposed revisions to planned outputs and
- 1.2 a requirement that site visits by USAID personnel be made and documented to verify the quality and extent that disaster assistance efforts have been implemented.

The Mission Disaster Relief Officer (MDRO) has issued the following internal instructions to OFFPVC:

1. that any grantee requests for changes in disaster relief grant budgets and outputs must be given a written response within 72 hours;
2. that all future disaster assistance grant agreements will specify and highlight the requirement that neither the budget nor the outputs may be changed without the written approval of USAID; and
3. that site visits will be made and documented by USAID personnel to verify the quality and extent that disaster assistance efforts have been implemented.

These measures will also be incorporated in the revised Disaster Relief Plan scheduled for issuance in August 1990. Monitoring of disaster assistance projects will also be supplemented and intensified by utilizing the services of the local firm monitoring PVO Co-Financing projects and the grantee submitting to USAID upon completion of the grant the "Grantee Certification for USAID/Philippines Disaster Assistance" (See Attachment C of Reference C).

Based on the above, we believe that Recommendation No. 1 can be considered resolved upon issuance of the final audit report.

B. Recommendation No. 2: We recommend that USAID/Philippines adopt procedures for:

1. instructing implementing agencies about A.I.D.'s publicity requirements and the need for them to comply with these requirements and
2. issuing emblems to the implementing agencies to be attached to AID-financed commodities.

Although publicity requirements are already covered in the standard provisions annex to disaster relief and other PVO grants, the necessity to comply with this requirement will be highlighted in the main body of disaster relief grant agreements and be included in the compliance check list for on-site monitoring. This along with Attachment C of Reference C and the need to issue AID decals for attachment to AID-financed commodities will also be incorporated into the revised Disaster Relief Plan.

Based on the above, we believe that Recommendation No. 2 can be considered resolved upon issuance of the final audit report.

C. Recommendation No. 3: We recommend that USAID/Philippines improve financial monitoring and grantee accountability for the disaster assistance program by adopting procedures for instructing grantees about A.I.D.'s financial management requirements and by developing a simplified financial management and operations manual for grantees that would include financial reporting guidelines and standardized procurement forms.

USAID's experience with both Disaster Assistance and the PVO Co-Financing Program indicates that compliance with AID's financial management requirements is a nagging problem among many of the newer and/or weaker PVOs. Late last year OFFPVC in conjunction with OFM decided to conduct a series of financial management seminars for our client PVOs including one 2-day seminar (July 7 - 8, 1990 in Bacolod) devoted exclusively to potential PVO recipients of disaster assistance throughout the Philippines. In conjunction with this seminar a comprehensive, but simplified financial management manual is being developed under the guidance of OFM and OFFPVC by a local firm familiar with AID's Financial Management requirements. This financial management manual will be used both at future seminars and as a handout to all future recipients of disaster assistance grants. We expect to be able to issue the simplified financial management manual in July 1990.

Based on the above, we believe that Recommendation No. 3 can be considered resolved upon issuance of the final audit report.

We expect to close all 3 recommendations upon issuance of the revised Disaster Relief Plan.

Attachments: Refs A - C

cc: IG/PPO, AID/W
Mr. Robert Henrich, ANE/DP/F, AID/W

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2. Grantees and subgrantees made some efforts to comply with USAID's publicity requirement, but seem inadequate. Many Grantees and subgrantees were hesitant to place USAID markings on items funded by USAID supposedly for security reasons. In certain cases, beneficiaries recall being told that the assistance came from USAID but forgot the donor's name three months later.

The following were discovered during the review of some grantees but were not generally recurrent:

1. For some Grantees, records and reports of the physical outputs and requirements were inadequate. In limited instances, documents showing that the beneficiaries received the goods and materials due to them under the grant were incomplete.
2. Some sub-grantee agreements were not submitted to USAID for review and approval. This resulted to deviations in the operating guidelines adopted by some subgrantees.
3. One subgrantee used disaster relief funds as loan funds, collected processing fees and administrative charges, and instituted a capital build up scheme among the beneficiaries. This particular subgrantee applied a common strategy among NGOs for development assistance program.

USAID/Manila has taken actions on this by asking the main-grantee to instruct all subgrantees to amend and/or rescind any agreement which require the beneficiaries to repay any portion of the disaster assistance. Please see attached George/Garilao letter dated 03/12/90 (Attachment A).

4. In one case, relief supplies and materials procured appeared to have been used for long term rehabilitation such as construction of multi-purpose halls and a drainage system. This included items purchased such as electric generators, sewing machines, concrete mixer and water pump which are not the usual items envisioned by Disaster Relief Grants. OFDA approved the above rehabilitation activities on March 9, 1990. Please see attached Natsios/Montoney memo dated 3/9/90 (Attachment B).
5. Some Grantees: (1) did not deposit the disaster relief funds in an interest bearing account; (2) did not remit the interest earnings to USAID; and (3) comingled the disaster funds with their other funds.
6. Some Grantees had inadequate awareness of the USG regulations for disaster assistance funds management. For example; separate books of accounts for the project were not maintained, check/cash vouchers were not fully supported, some disbursements (although insignificant) were unallowable, and financial records were not properly filed. Further, the Grantees review of the subgrantees' financial systems and liquidation reports were limited.

7. In one case, the financial and the progress reports showed minimal disagreements and insignificant losses due to breakages that were not reported.
8. Some valid expenditures were not charged to proper budget line items. In one case, actual costs exceeded budget without prior USAID approval.

PROPOSED ACTIONS:

USAID/Manila proposes to take the following actions to strengthen the management and implementation of its Disaster Relief Program:

1. Request future Grantees to submit a "Grantee Certificate of Compliance" (Attachment C) with the Final Completion Report" upon completion of the project. This certification will be thoroughly discussed by USAID/Manila with the Grantees prior to release of funds and implementation of the project;
2. USAID/Manila will visit all Grantees (for \$150,000 or more) at the start of project implementation to discuss/explain in great detail the provisions of the Grant Agreement, the "Grantee Certificate of Compliance", specific regulations for Disaster Relief Programs, and any subgrant agreements;
3. USAID/Manila, in cooperation with a Contractor, will conduct a seminar for potential PVO Grantees under the Disaster Relief Program (Attachment D). The seminar will cover financial management and internal control systems, project implementation and management, and specific regulations for Disaster Relief Programs; and,
4. A simplified Financial Management and Operations Manual for Grantees of the Disaster Relief Programs will be developed and put to use. The manual will include standard procurement forms (Attachment E)) and project reporting guidelines.

Attachments: as stated

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Manila, Philippines

Ramon Magsaysay Center
1680 Roxas Boulevard

Telephone: 521-71-16

March 12, 1990

Mr. Ernesto Garilao
Executive Director
Philippine Business for Social Progress
Philippine Social Development Center
Magallanes corner Real Sts.
Intramuros, Manila

Subject: Grant No. AID 492-0425-G-SS-7125-00

Dear Mr. Garilao:

USAID review of the above-captioned disaster grant to PBSP for the "Typhoon Sisang Housing and Livelihood Rehabilitation Project" disclosed that some participating subgrantee organizations extended a portion of the "Livelihood Assistance" to the beneficiaries in the form of loans. This is a violation of AID's Disaster Grant Agreements which stipulate that the assistance will be given as grants to the victims of the typhoon. This is a world wide policy of AID. This is not a matter for discussion nor can it be waived by any officer of the United States with whom I am familiar.

Our agreement specifically states that no funds under a Disaster Relief grant can be loaned, everything must be granted, as it was granted to PBSP. I remind you that your Ms. Repollo and I had extended conversations about this matter from time to time before the grant was implemented and I had assumed that the matter was resolved. Our OFM people tell me that it was not, that loans were made. Now we have come to the unfortunate part, we have to rectify the error after the fact: no loans can be made under a United States Government Disaster Relief grant. I must now ask you to act.

To correct this error I ask that PBSP instruct all subgrantees under this disaster project to amend and/or rescind any agreement between PBSP and the subgrantees and/or between the subgrantees and the beneficiaries which require the beneficiaries to repay any portion of this disaster assistance. If payments have been made, these must be returned to the beneficiaries by PBSP and/or all the subgrantees as quickly as possible.

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We appreciate it very much if PBSP will implement this corrective action immediately. What none of us want is an extended audit of this matter and related matters and this action once taken should close this door. Please inform USAID in writing (mark envelope addressee only please) of the actions undertaken and the results of such action within 30 days after receipt hereof. If you have any questions, please do not hesitate to call.

Best wishes,

Bryan George
Chief, Office of Food for
Peace and Voluntary Cooperation

bcc: OFM:JCStanford
CSO:SHeishman
OFFPVC:CBillings
OFFPVC:LdelaCruz

Agency for International Development
Washington, D.C. 20523

March 9, 1990

TO : William C. Montoney
Regional Inspector General

FROM : OFDA/Director, Andrew S. Natsios *Barry L. Heyman for*

SUBJECT: Disaster Relief Grant to Tulay SA PAG-UNLAD in the
Philippines

This is in reply to your FAXed memo of March 1, 1990. OFDA responded to an 11 August 1989 flood disaster declaration in Manila (Manila 25860 and State 257990). A series of situation reports followed from the Mission which reported primarily on the flood impact in the Smokey Mountain and Marikina areas of Metro-Manila. This reporting prepared us for a much more detailed request for assistance from the Mission (Manila 28511) on 1 September 1989. Among many other assistance contributions discussed in that cable were the need for five evacuation centers as shelter against flood and typhoons, as well as five kilometers of interconnecting cement pathways.

Our funding cable (State 284418) specifically authorized relief and rehabilitation activities as discussed in Manila 28511. We had no question about the need for the shelters, given the detail provided by the Mission reporting. Regarding the walkways, we had received both photographs and a video tape on the extent of flooding and stagnant water on the muddy route which passed for foot paths. The Mission also discussed the health hazard in its reporting (Manila 28295). Considering the fact that the people could not be moved away from this terrible setting, the cement foot paths and evacuation centers appeared to be genuine health and safety benefits and we approved of them.

We also approved cottage level income generation projects in this urban setting as the rough equivalent of livelihood rehabilitation projects (pigs, seeds, farm implements) which have, on occasion, been provided in the wake of typhoon disasters in predominately rural areas. It is true that we did not specifically approve carpentry training, materials for embroidery, sewing machines, an electric generator, typewriters, fans, calculators and cabinets, but we believe that they may

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well have been used for legitimate rehabilitation purposes. We assume that these inputs provided the most feasible means of rebuilding basic housing, electric and other necessary facilities while providing temporary employment to residents assisting in these tasks. They also could have served to reestablish means of subsistence for the affected populations, including the sewing activities previously engaged in by many of the women and destroyed by the floods. It is also true that in previous disasters we have not routinely approved expenditures for either livelihood or cottage level projects. However, disaster assistance policy guidance provides for such activities when necessary to restore disaster victims to self-sufficiency, and the reporting cables described such conditions of hardship and hopelessness that rehabilitation of physical structures alone did not seem adequate. We had hoped to encourage significant development contributions by the Mission for these unfortunate people (Manila 282654). At this time, we are not aware of the extent to which the Mission has developed such follow-on activities.

GRANTEE CERTIFICATION FOR USAID/PHILIPPINES DISASTER ASSISTANCE

NAME OF GRANTEE: _____
 GRANT NO. _____
 GRANT PERIOD: From _____ To _____

The undersigned hereby certifies that:

1. The target outputs have been completed in accordance with the grant agreement;
2. Grant funds were not given as loans nor were processing or other fees collected from the beneficiaries;
3. Relief supplies and materials procured were used for restoration of self-sufficiency or for short-term rehabilitation of disaster victims as specified in the grant agreement and not for long-term development assistance;
4. Grant funds were fully expended within the period specified in the grant agreement (i.e. 60 days for emergency relief and 90 days for short-term rehabilitation and disaster preparedness activities);
5. The requirements for adequate publicity and markings indicating that the relief was furnished by the people of the United States of America to the extent practicable were complied with;
6. Goods and services were procured in accordance with the Optional Standard Provision No. 5 "Procurement of Goods and Services" and Optional Standard Provision No. 6 "AID Eligibility Rules for Goods and Services" of the grant agreement;
7. Grant disbursements are allowable, allocable, reasonable, properly accounted for and charged to the appropriate line items. Adjustments among budget line items in excess of the allowable limit were approved in writing by USAID;
8. Subgrant agreements, if any, were submitted to USAID for approval. We reviewed and approved subgrantee project reports. The financial management, monitoring and procurement system of the subgrantee were determined to be adequate;
9. Project monitoring during implementation was adequate. Documentation showing that the beneficiaries received all the benefits due to them under the grant are adequate; and
10. USAID funds were kept in a separate bank account and books of accounts were maintained separately.

CERTIFIED BY: _____

TITLE: _____

DATE: _____

NOTE: Any exceptions to the above certification should be supported by an explanation/justification attached to this document.

IV . PVOS ENGAGED IN DEVELOPMENT AND DISASTER RELIEF
(BACOLOD - NEDF)

P V O	
1. ACTUATOR FOR SOCIO ECON.PROGRESS	3
2. ADVENTIST DEVT. AND RELIEF AGENCY	3
3. CARE. PHILIPPINES	3
4. CATHOLIC RELIEF SERVICES	3
5. FEED	3
6. JVOFI	3
7. NEDF	3
8. PBSP	3
9. RAMON ABOITIZ FOUNDATION	3
10 SAINT JAMES FOUNDATION	3
11.SLU-EISSEF	3

TOTAL	33
	=====
USAID/CPA FIRM	
1. PVO STAFF	3
3. CPA FIRM	2
4. OFM STAFF	2

TOTAL	7
	=====
TOTAL DISASTER	40
	=====

FN: SEMINAR
DD D:VIRGIE

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ABSTRACT OF TELEPHONE BIDS

EXHIBIT B-1

Note: This form shall be used only when RFQ (exhibit B) can not be used under justifiable circumstances.

NAME OF GRANTEE: _____
 ADDRESS: _____

		(1)	(2)	(3)
Item No.	NAME Address Quoted by			
1	Unit Price Total Price			
2	Unit Price Total Price			
3	Unit Price Total Price			
4	Unit Price Total Price			
5	Unit Price Total Price			
Time of Delivery: Discount: Terms of payment:				

I certify that the above is a correct tabulation of telephone bids solicited on _____, 19____
 for furnishing the materials identified herein.

 (Signature)
 Date: _____
 Requisition Order No: _____

REQUEST FOR QUOTATIONS
(This is not an Order)

Date Issued	Deliver by: (date)
Issued by: (Name of Grantee)	
To: (Name and Address of Supplier)	Destination (consignee and address)

Please furnish quotations to the issuing office on or before close of business (date).

Supplies are of domestic origin unless otherwise indicated by quoter. This is a request for information and quotations furnished are not offers. If you are unable to quote, please indicate on the form and return it. This request does not commit the company to pay any costs incurred in the preparation or the submission of this quotation or to procure or contract for supplies or services.

Description	Quantity	Unit	Unit Price	Amount
(Description, Quantity and unit should be filled up by the issuer while the unit price and amount is filled up by the quoter)				

Signature of person authorized to sign the quotation

(signers name and title)

Date of Quotation

SBC
1459C(112)

PURCHASE ORDER

NAME OF GRANTEE _____
 Address _____

Issued to: _____ (Suppliers Name)
 Address: _____ (Suppliers Address)

Date: _____
 Purchase Order No. _____
 AID Grant No. _____

Item No.	Quantity	Description/Specification of commodities	Unit Price	Total Price

Note: The Grant Agreement under which this transaction is financed does not permit the use of USAID funds to finance any taxes, tariffs, duties, or other levies imposed by any laws in effect in the Philippines. Taxes should be billed separately and paid out of counterpart funds.

Terms of Delivery _____
 Point of Delivery _____
 Total Delivery Charge _____

This order is subject to the terms and conditions above.

Purchaser by: _____

PLEASE SIGN AND RETURN ACKNOWLEDGEMENT COPY PROMPTLY

ACKNOWLEDGEMENT: The undersigned acknowledges receipt of this purchase order and agrees to supply the above described items in accordance with the terms and conditions herein.

 (Name and Title)

Signature _____
 Date: _____

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