



MEMORANDUM

DATE: May 29, 2019

TO: USAID/Philippines Mission Director, Lawrence Hardy II

FROM: USAID/OIG Asia Regional Office Acting Audit Director, Michael Hutchinson /s/

SUBJECT: Financial Audit of Philippine Business for Social Progress, Inc., under Multiple USAID Agreements, October 1, 2015, to September 30, 2016 (5-492-19-037-R)

This memorandum transmits the final audit report on the multiple USAID awards managed by the Philippine Business for Social Progress, Inc. (PBSP). PBSP contracted with the independent certified public accounting firm Ramon F. Garcia & Company, CPAs, to conduct the audit. The contract required the audit firm to perform the audit in accordance with the U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

Ramon F. Garcia & Company, CPAs, stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Ramon F. Garcia & Company, CPAs, is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the recipient's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

The audit objectives were to (1) express an opinion on whether PBSP's fund accountability statement for the periods audited was presented fairly, in all material respects; (2) evaluate PBSP's internal controls; (3) determine whether PBSP complied with agreement terms (including cost-sharing contributions) and applicable laws and regulations; (4) perform an audit of the indirect cost rate; and (5) determine whether PBSP has taken corrective actions on prior

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, was initiated before that date and follows the Guidelines.

² We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

audit report recommendations. To answer the audit objectives, the audit firm examined the fund accountability statement; evaluated the internal control system and assessed all related risks; tested compliance with agreement terms and applicable laws and regulations; determined the actual indirect cost rate for the year ended September 30, 2016; and assessed status of prior audit recommendations. The audit covered project revenues and costs of \$6,656,321 and \$5,474,872 respectively, from October 1, 2015 to September 30, 2016.³

Ramon F. Garcia & Company, CPAs, concluded that, except for the effects of the questioned costs amounting to \$24,529 (ineligible), the fund accountability statement presented fairly in all material respects, project revenues and costs incurred under the two awards for the periods audited. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the mission determine the allowability of the \$24,529 in questioned costs and recover any amount determined to be unallowable.

The audit firm did not identify any material weaknesses in internal control. However, it identified one material instance of noncompliance related to the shortfall of cost-sharing contributions amounting to \$40,142 for MIDAS. Nonetheless, we are not making a questioned costs recommendation on the shortfall because the audit firm reported that (1) the recipient had fully satisfied the cost-sharing requirement based on the peso equivalent and the shortfall was due to the increase in exchange rate, and (2) the USAID agreement officer approved the recipient's request for reconsideration to allow the shortfall. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that the mission determine if the recipient addressed the issues noted. The audit firm also issued a management letter to the recipient identifying other internal control matters and nonmaterial instances of noncompliance.

Regarding the review of cost-sharing contributions, the audit firm reported that PBSP contributed \$725,118 for IMPACT and \$594,144 for MIDAS for the periods audited. The audit firm did not report any questioned costs on these contributions but reported a shortfall of cost-sharing contributions amounting to \$40,142 for MIDAS as discussed above.

Regarding indirect costs, the audit firm reported that the schedule of the computation of the indirect cost rate was fairly stated in all material respects. For the twelve prior audit findings, four findings had not been satisfactorily addressed: (1) three findings were reported again in the current audit report under Finding I on pages 36-37 of the report and management letter (Observations B.1 and B.2 on pages 45 and 46 of the report, respectively); and (2) one finding was a management letter issue in the prior audit that we did not consider to be a significant item.

³ The audit covered two projects: (i) Innovations and Multi-Sectoral Partnerships to Achieve Control of Tuberculosis (IMPACT) under Cooperative Agreement AID-492-A-12-00014, for the period from October 1, 2015 to September 30, 2016 and (ii) Micro-Enterprise Disaster Assistance (MIDAS) Fund for Resiliency Program under Cooperative Agreement AID 492-A-14-00002, for the period from October 1, 2015 to September 21, 2016 (closeout audit). The Water Security for Resilient Economic Growth and Stability (Be Secure) project under Subcontract 893-S14-003 was not covered by this audit because it is a fixed-price subcontract.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We also made several suggestions to the mission. We presented these issues and suggestions in a memorandum to the controller dated May 29, 2019.

To address the issues identified in the report, we recommend that USAID/Philippines:

Recommendation 1. Verify that the Philippine Business for Social Progress, Inc., corrects the one material instance of noncompliance identified in the report on compliance on pages 26-27 and detailed in Finding 2 on page 38 of the report.

We ask that you provide written notification of actions planned or taken to reach management decisions. We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").

Attachment: a/s