REPORT ON THE AUDIT OF PROJECTS FUNDED BY OFFICIAL DEVELOPMENT ASSISTANCE (ODA) LOANS FOR THE YEAR 2000

EXECUTIVE SUMMARY

Background

1. The report contains the results of audit of two hundred seventy-three (273) projects funded by three hundred four (304) ODA loan accounts conducted by the Commission on Audit pursuant to Section 8 (b) of Republic Act No. 8182, dated June 11, 1996, also known as The ODA Act of 1996. The List of Ongoing ODA Loans in the Philippines as reported by NEDA had one hundred eighty-five (185) projects financed by two hundred three (203) loans. NEDA's list did not include the eighty-eight (88) completed projects. Out of the two hundred seventy-three (273) ODA projects implemented by various government agencies, 38.83% or one hundred six (106) are completed, 5.13% or fourteen (14) are new having started the implementation in year 2000 only, while 56.04% or one hundred fifty-three (153) are ongoing. Of the one hundred six (106) completed projects, eighteen (18) were in NEDA's list as ongoing including the MERALCO Distribution Project implemented by a private entity.

2. The primary objectives of the audit were to evaluate the efficiency of the implementing agencies in the areas of foreign loan availment and project implementation; to determine compliance with the provisions of the Loan Agreement, Subsidiary/Project Agreement, or any equivalent report or document, and applicable rules and regulations; to assess whether the agency has exercised due regard for economy and efficiency in the achievement of project goals/objectives; to determine whether project goals and objectives were attained; and to determine whether project assets were accounted for, properly recorded, adequately controlled, safeguarded, maintained and properly issued.

3. Audit procedures and techniques performed were review, examination, verification, confirmation, comparison, and evaluation of pertinent loan/project documents. Interview with project officials and ocular inspections of selected project sites were also conducted.

Audit Scope

4. This year's audit which focused on consulting services, training and honoraria covered project transactions on a sampling basis from inception up to their completion (for completed projects) or December 31, 2000 (for ongoing projects) except the six (6) projects of the Department of Health (DOH) and the two (2) of the Department of Education, Culture and Sports (DECS) which were up to June 30, 2000 only.

5. The Public Debt Audit Office (PDAO) conducted the audit for fifteen (15) selected ODA-funded projects of eight (8) implementing agencies. The audit of other ODA-funded projects of the selected agencies not included for audit by PDAO together with those implemented by other agencies was conducted by the respective Resident Auditors.

Sources of Funds

6. As of December 31, 2000, there are three hundred four (304) ODA loan accounts with a total cumulative net commitment of US$19.035 billion or ₱950.795 billion. The main source of this commitment is the Japan Bank for International Cooperation (JBIC), formerly the Overseas Economic Cooperation Fund (OECF) at 53.39% or US$10.163 billion equivalent to ₱507.625 billion. Second and third largest sources of ODA loans are the Asian Development Bank (ADB) and International Bank for Reconstruction and Development (IBRD) at 21.37% or US$4.068 billion equivalent to ₱203.204 billion and 19.91% or US$3.789 billion equivalent to ₱189.260 billion, respectively. The remaining percentage of 5.33 is shared by other creditors.

7. Out of the total cumulative net commitment of US$19.035 billion or ₱950.795 billion, cumulative loan availments as of December 31, 2000 amounted to US$9.482 billion or ₱473.614 billion (49.81%) which was 5.9% higher compared to December 31, 1999 figure of US$8.950 billion. Again, the main source was JBIC (44.28%) at US$4.198 billion or ₱209.694 billion, followed by IBRD (26.40%) at US$2.503 billion or ₱125.041 billion and third by ADB (23.18%) at US$2.198 billion or ₱109.797 billion.

8. In terms of availment efficiency rate by creditor, however, the Government availed more from IBRD considering that 66.06% or US$2.503 billion has been withdrawn out of its total loan commitment of US$3.789 billion. Apparently, the Government considers the fact that IBRD charged commitment fees from the total unwithdrawn balance of the loan commitments which is probably the reason why IBRD topped the list. Equally interesting to note is that the Government registered the lowest on availment efficiency rate with JBIC having only 41.31% or US$4.198 billion out of US$10.163 billion. Unlike IBRD and ADB, JBIC does not charge any commitment fee on the undrawn amount of the loan. This somehow explains why the country's biggest loan commitment is with JBIC and at the same time the lowest in availment efficiency rate.

9. By sector, the Infrastructure received the largest funding at 67.15% or US$6.367 billion of the total cumulative availment. Under this sector are the following sub-sectors with their respective share of the total cumulative availment:

Energy, Power and Electrification	26.76%
Transportation	24.63%
Water Resources	9.40%

Communication	4.82%
Social Infrastructure	1.53%

10. It follows, therefore, that the first three implementing agencies which received the biggest part of ODA loan proceeds were also from the Infrastructure sector with the National Power Corporation (NPC) leading at total cumulative availment of USS$1.868 billion or 19.70%. The next largest recipient was the Department of Public Works and Highways (DPWH) at 18.41% or US$1.746 billion. The Department of Transportation and Communication (DOTC) ranked third at 6.98% or US$0.662 billion.

11. The ODA loans still had an undrawn balance of about US$9.553 billion or ₱477.181 billion or 50.19% as of December 31, 2000. For CY 2000 alone, total availment amounted to US$927.243 million or ₱46.316 billion. Included in this total availments were capitalized interest, commitment fees and service charge from ADB of US$23.215 million, US$5.311 million and US$1.066 million, respectively, front-end fees from IBRD in the amount of US$2.775 million and capitalized service charges from JBIC of US$0.618 million or a total of US$32.985 million or 3.56% of the total availments.

12. On the other hand, total debt service for the CY 2000 amounted to US$534.369 million or ₱23.871 billion consisting of principal repayments of US$234.911 million or ₱10.191 billion or 42.69%, interest of US$293.856 million or ₱12.620 billion or 52.87%, commitment fees/charges of US$5.602 million or ₱263.744 million or 1.10% and service fees and other charges of ₱796.477 million or 3.34%.

13. As noted, the Government paid more for interest, commitment charges and service fees and other charges than for principal amortization as 57.31% or ₱13.680 billion was applied to these various charges by the ODA creditors and only 42.69% or ₱10.191 billion went to principal amortization. In fact, these charges will be even bigger if capitalized charges (interest and commitment fees during construction and service charges from ADB, front-end fee from IBRD and service charges from JBIC) which formed part of the total availments would be added.

14. Of the ODA creditors, the Other Creditors applied a bigger portion of debt service to principal repayment at 60.30% than to interest, commitment and various charges at 39.70%. Contrary to the common belief however, that borrowing from IBRD is more costly, debt service records for CY2000 proved otherwise because out of its debt service of ₱9.110 billion, ₱4.078 billion or 44.77% was for principal amortization and the remaining ₱5.031 billion or 55.23%, for interest and other related charges compared to JBIC's principal repayment of 40.09% only and 59.91% for interest and related charges as well as ADB's principal repayment and interest and related charges of 39.88% and 60.12%, respectively.

15. As of December 31, 2000, the total outstanding balance of ODA loans was US$8.437 billion or ₱421.317 billion. The major borrower with total loans equivalent to 68.26% of the total loan portfolio was the National

Government while the Government-Owned and Controlled Corporation's (GOCC's) share was 31.74%.

Findings and Recommendations

16. Highlights of the findings and recommendations on the forty-eight (48) projects implemented by sixteen (16) agencies classified by audit areas which were audited by PDAO and COA Resident Auditors Concerned are as follows:

Civil Works

17. Non-conformity of Bills of Quantities/Materials, with Approved Plans and Specifications/lack of quality controls in two (2) projects.

18. We recommended and management agreed to review Bills of Quantities and Materials and conduct necessary test on all the materials and concrete used for the building.

19. Non-compliance with the provisions of Administrative Order (AO) No. 129 and late releases of funds among others, resulting to delayed implementation of civil works by four (4) projects.

20. We recommended and management agreed to adhere strictly with the provisions of AO 129 and make representation with DBM for the release of funds

21. Delayed construction of 36 Project Centers

22. We recommended and management agreed to strengthen planning including the suitability of the design for future projects and advise LGUs to set aside funds for their construction.

23. Inappropriate and costly design of health facilities in one (1) project.

24. We recommended and management agreed to adopt a simple and economical design of ramps and railings appropriate for rural setting.

25. Poor workmanship of health station/non-utilization of health facilities for the purpose for which they were intended.

26. We recommended and management agreed to coordinate immediately with the Benguet Provincial Health Office and decide on the best use of the constructed facilities.

27. Unapproved/without assessment and erroneous review of variation orders by three (3) projects resulting to violation of the conditions of the contract and overquantified and overpriced items amounting to ₱1.430M.

28. We recommended and management agreed to enforce variation of works only when properly reviewed, assessed and covered with an approved variation orders.

Consulting Services

29. Unnecessary hiring of consultant resulting to additional expenditure totaling ₱5.956M in two (2) projects.

30. We recommended and management agreed to study the possibility of terminating the services of the consultant to avoid waste of government funds which should be utilized in more productive project components.

31. Disadvantageous/onerous terms and conditions of consulting services contracts in three (3) projects.

32. We recommended that management should: a) study the possibility of renegotiating with the consultant for better terms; and b) refrain from entering into disadvantageous/onerous consulting services contracts.

33. Violation of Budget Circular 11 relative to payment of 13th month pay, cash gift and other benefits/allowances to consultants in two (2) projects.

34. We recommended that consultant should only be entitled to benefits specified in the contract.

35. Double claim/overpayment of FOREX differential and per diem to DECS-TEEP and PTA-BEIP consultants, respectively

36. We recommended and management agreed to exercise due care in the review and payment of transactions especially on FOREX differential to the consultant and deduct from the subsequent claim the overpayment. Further, stop the practice of allowing double payment of per diem and instead, study the possibility of providing long term consultants with housing allowance in future consulting services.

37. Hiring of consultants to perform functions of personnel holding plantilla positions but detailed elsewhere

38. We recommended and management agreed to refrain from hiring additional consultants to perform the functions of personnel holding plantilla positions but detailed elsewhere in future projects.

39. Loss due to issuance of notice of extension pending renewal/approval of the contracts of service of consultants.

40. We recommended and management agreed to stop the practice of issuing Notice of Extension of the contract and adhere strictly with the provisions of Section 211 of GAAM in order to avoid incurrence of ineligible expenditures and to prevent additional loss on the part of the government.

41. Loss of ₱1.340 M due to adjustments in the consultants' rates some of which were within one year from date of the initial contract/non-compliance with NEDA Guidelines

42. We recommended and management agreed to adhere strictly to the provisions of the NEDA guidelines pertaining to escalation of the rates of Consultants to avoid loss on the part of the government.

43. Non-compliance with NBC No. 433 relative to payment of remuneration of not more 120% of the basic salary resulting to excessive expenditures for salaries

44. We recommended that management should adhere strictly with the provisions of NBC No. 433 to avoid incurrence of excessive expenditures.

45. Non-compliance with AO 129 resulting to delayed hiring of consultants for the project

46. We recommended and management agreed to strictly adhere to the provisions of AO 129.

47. Non-compliance with the Community Partnership for Health Implementation Plan by the Consultant of DOH-UHNP

48. We recommended that management suspend the processing of future payments to the consultant specifically the remaining 35% of the contract cost and facilitate the refund of overpayment amounting to ₱1.256 M. Further, study the possibility of contract pre-termination.

49. Non-implementation of Institutional Development Component

50. We recommended that management require the PMO to adhere with the plans and targets set forth in the Staff Appraisal Report (SAR).

51. Disadvantageous/omissions of contract provisions resulting to additional project cost/expenses of ₱7.940 M in two (2) projects

52. We recommended and management agreed that in future contracts, the percentage of work to be accomplished as basis for payment and penalty clause should be included in the contract.

Goods

53. Incurrence of additional cost of ₱17.933M in three (3) projects due to among others excessive cost of medical equipment and incinerator, non-awarding of the supply contract to the lowest complying and responsive bidder etc.,

54. We recommended and management agreed to require the supplier to refund maintenance cost of ₱1.67M, conduct competitive bidding, etc.,

55. Non-compliance with the provisions of Supply Contract/Memorandum of Undertaking/Credit Facility Agreement/Staff Appraisal Report in four (4) projects.

56. We recommended and management agreed to comply strictly with the provisions of contracts/loan documents.

57. Non-compliance with Executive Order (EO) No. 302 relative to the processing time for bidding and award of Supply Contracts in two projects resulting to delayed implementation of the projects.

58. We recommended and management agreed to adhere/observe strictly the provision of EO 302.

59. Incurrence of 5% contract fee amounting to ₱1.04M due to contracting the procurement of goods to the consultants

60. We recommended that management stop the practice of contracting the services of the consultant for procurement of furniture, equipment and vehicles.

61. Unauthorized purchase and unutilized overhead projectors/computers in two (2) projects

62. We recommended and management (DECS-TEEP) agreed to refrain from purchasing equipment which were not included in the WFP and GAA. Distribute all the overhead projectors to the different district offices in order to maximize their use. Follow-up with the DBM the approval of the request for realignment.

63. Relative to the computers, we recommended that management (DAR-ARCP) should pay only for items/goods delivered in accordance with the requirement/s in the Contract/Purchase Order (PO) to avoid over procurement.

Training

64. Training not directly related to the attainment of project objectives totaling ₱5.011M depleting funds for project implementation.

65. We recommended that management approve only trainings which are in accordance or related with project activities/objectives and ensure that participants are bonafide beneficiaries of the project. Further, refund the cost of foreign training because participants were not the target beneficiaries per Loan Agreement and Provincial Training Plan.

66. Excessive training expenditures totaling ₱25.397M incurred by the project due to delayed construction of training building and facilities.

67. We recommended that PMOs should adhere to the provision of Sec. 2 of PD 1445.

68. Overpayment to suppliers by ₱2.13M representing excess man days for local training incurred by DOH-WWTP depleting project funds by the same amount.

69. We recommended and management agreed to require the supplier to refund the ₱2.13M. However, management requested for additional time to compute expenses incurred by Supplier.

70. Preventive maintenance works for NAIA 2 being handled by personnel not trained for the purpose.

71. We recommended and management agreed to hire on a permanent basis personnel who could be given training on preventive maintenance.

Honorarium

72. Payment of honoraria estimated at ₱9.679M by implementing agencies to various officials/employees not in accordance with provisions of NCC No. 75

73. We recommended and management agreed to require the refund of honoraria paid to concerned officials (Secretaries, Undersecretaries and Assistant Secretaries, etc..), personnel who performed regular functions and set a policy limiting payment of honoraria to those directly involved in the project. Strictly adhere to provisions of NCC No. 75.

Project Implementation

74. Delayed implementation/non-completion/attainment of project activities/goals, etc. in eight (8) projects. Reasons/causes among others are as follows:

- Unsustained and ineffective Community Partnership sub-projects by NGOs resulted to waste of borrowed funds estimated at ₱ .800 M

  We recommended that management require the Committee-in-charge of the review and approval of sub-project proposals to adhere to and enforce the criteria on sustainability of sub-projects.

- Poor monitoring of project activities – objective of providing direct support for illiterate adults and out-of-school youth (OSY) was not attained.

We recommended that management design and implement in future projects a monitoring system that would allow/require verification of submitted reports to closely monitor all activities of the Project.

- Weak coordination, non-consultation/involvement of concerned offices/department

  We recommended and DECS-PNFEP agreed to require the PMO to adhere to its role and functions as stated in the ADB Report and Recommendation of the President (RRP) in the implementation of all project activities and to take necessary steps to improve the flow of communications.

  We recommended and LBP- RASCP agreed to require the PMO to consult the Systems Implementation Department (SID) regarding the additional scope of work of the consultant. This will ensure that deficiencies noted in the systems and necessary revisions/improvements will be incorporated. SID's proposal that will help reduce the cost of systems' implementation would be considered. LBP, in future similar undertakings, would involve the SID for computer systems development to avoid the occurrence of design problems and save on unnecessary costs to LBP.

- Lack of interest/commitment of local executives to invest in maintenance program, time constraints and poor/absence of efficient monitoring system of the program

  We recommended that for future Maintenance Program or similar projects, management should conduct a thorough study/consultation with LGU officials in order to get their interest and commitment to invest in maintenance program. Efficient monitoring system of the program should also be considered/established.

- Failure of the contractor to provide immediately the necessary construction materials, equipment and manpower for the project resulted to project extension and additional consulting fees of ₽13.156M and construction cost of ₽ 11.650 M.

  We recommended and management agreed to ensure that PHESCO Inc. finishes the project within the third time contract extension to avert further incurrence of costs and delay in the delivery of the benefits that can be derived from the project by the targeted beneficiaries. No further contract time extension must be granted to the contractor.

75. Cash advances granted to various individual/officials in three (3) projects totaling ₽78.740 M remained unliquidated as of December 31, 2000.

76. We recommended and management agreed to adhere strictly to the provisions of Section 89 of P.D. 1445 and monitor closely the liquidation of cash advances.

77. Utilization of funds amounting to ₱ 2.207 M not related to the Project

78. The team recommended that management utilize the funds allotted for future projects solely for purposes related to said projects and for which the same were intended.

79. Non-enforcement of/non-compliance with the Memorandum of Agreement (MOA)

80. We recommended and management agreed to strictly enforce/amend the MOA in order to avoid delay in the recovery of the project cost.

81. Database and template developed not utilized and reports not generated and submitted

82. We recommended and management agreed that the RO should be instructed to coordinate with the RASCP PMO regarding appropriate action to be taken on the non-functional database and template. Users of the same who will generate and submit the required reports should also be identified. After the problems have been resolved, request for another training from the consultant or personnel who had been previously trained may be considered in the selection of the users. Otherwise, have the said personnel reecho their trainings to those who will be assigned to use the database and template.

83. Incurrence of cost overrun due to Right-of-Way problem, change in technical design, etc.,

84. We recommended and management agreed to see to it that the right-of-way problems/site acquisitions and the like are settled first before entering into a loan agreement as provided for in Executive Order No. 1035. However, if indeed unavoidable, include them in project design as a distinct component and accordingly provide for their cost in the budget in order to avoid delays in project implementation which may result in increased project cost.

85. Double/excessive representation allowances

86. We recommended that management require the LGA Executive Director and Assistant Director to refund excess representation allowances received from the Project. In the future, extend to concerned officials only the benefits allowed under existing regulations.

Availment

87. Incurrence of commitment fees in six (6) projects due to delay in project implementation totalling ₱ 175.120 M

88. We recommended and management agreed to comply strictly with the availment schedule, improve/strengthen planning during project development stage and resolve land acquisition/resettlement/right-of-way issues/problems and other related issues before entering into loan negotiation/agreement, fast track the withdrawal/availment of the remaining amount within the scheduled tranche to avoid further incurrence of commitment fees.

89. Non-compliance with bank guidelines on eligible expenditures

90. We recommended and management agreed to comply strictly with the Bank's Disbursement Guidelines and to charge other expenditure not related to the project against its corporate funds.

91. Improper loan allocation for Consultant's services, studies and training

92. We recommended that management evaluate loan category allocations in relation to the total loan and revised allocations of other categories to determine whether allocations are relatively proportionate to related categories and the loan as a whole.

Financial Recording and Reporting

93. Unrecorded Fixed Assets amounting to ₱775.010M understated the Fixed Asset Account and violated the provisions of Section 54 of GAAM Vol. I.

94. We recommended and management agreed to take up the equipment in the books of account and comply strictly with the provisions of Section 54 of the GAAM.

95. Completed projects totaling ₱9.560B still under Construction in Progress account thus understating the Fixed Asset account.

96. We recommended and management agreed to reclassify the account to its proper fixed asset account.

97. Erroneous accounting treatment for accommodation expenditure resulting to understatement of Accounts Receivable and overstatement of disbursements.

98. We recommended and management agreed to stop the practice of debiting 0-83-000 for charges other than those for ARCP.

99. Schedule of cash advances not prepared and subsidiary ledgers not maintained thus account balances not readily determined.

100. We recommended and management agreed to maintain SL to monitor cash advances and prepare schedule of cash advances for reconciliation with the GL balances.

101. Honoraria amounting to ₱0.137M charged to Other Services thus overstating the said account.

102. We recommended that honoraria should be charged to Personal Services.

Asset Management

103. Various equipment and books totaling ₱75.939M remained unused/unutilized by the Project due to non-compliance with the provisions of supply contract, overstocking and obsolescence.

104. We recommended and management agreed to: a) re-evaluate the current capacity of the beneficiary concerned hospital in complying with the requirements of the radiological/ medical equipment and other items; b) require the Property Custodian to distribute immediately to recipient schools the books and instructional materials; and c) coordinate with concerned LBP offices/branches to facilitate repair of non-functional equipment.

105. Memorandum Receipts were not issued thus accountability for the equipment could not be established in case of loss, improper disposition or destruction.

106. We recommended and management agreed to require the Property officer to issue MRs to persons accountable for property issued to them

107. No Physical Inventory of Fixed Assets thus, accountability of the property could not be established/determined.

108. We recommended and management agreed to conduct physical inventory in compliance with Sec. 490 of GAAM Vol. 1.

109. Vehicles purchased out of loan proceeds used by personnel not involved in project implementation thus, mobility of project staff is difficult

110. We recommended and management agreed to give first priority to the PTA project staff in the use of the said vehicles since the construction/ implementation of the BEIP is still ongoing

111. Purchased lands for the project are still without Transfer Certificate of Titles

112. We recommended and management agreed to follow-up the approval of the documents with the Register of Deeds/ Bureau of Lands.

General Recommendations

113. In view of the significance of the observations on the forty eight (48) projects implemented by sixteen (16) agencies we recommend the following:

114. For the Implementing Agencies:

- Continuous capacity building for project personnel
- More realistic project planning and programming
- Strict compliance of the processing timeframes for bidding and award setforth in Administrative Order No. 129 (Infrastructure/Consulting Services), Executive Order No. 302 (Goods) and P.D. 1594 to minimize incurrence of commitment fees, additional cost, delays, etc.
- Strict compliance with NEDA Guidelines and National Compensation Circular (NCC) No. 75 relative to consulting services/honoraria fees/rates to avoid excessive payments and disallowance in audit
- Strict and close monitoring of project activities and consultants' deliverables to ensure completion of project on time
- Continuous project assessment to immediately address problems encountered in project implementation thus, avoid delay and cost overruns

115. For the NEDA:

- Amend the provisions of AO 129 to reconcile with P.D. 1594 as amended on May 24 & July 05, 2000 specially on the processing timeframe & activities
- Enforce strictly Section 4 – Sanctions of AO 129 & Section 5.11 – Administrative Sanction of EO 302
- Review policy on hiring of international and local consultants including sanctions for setting exorbitant rates chargeable to the loans
- Formulate consultancy rates for foreign consultants

116. For the Congress:

- Amend P.D. 1594 to include not only procurement for civil works but also the procurement for consulting services and procurement of goods
- Facilitate approval of bills which are preconditionalities of loan agreements

117. For the Department of Finance:

- Establish effective networking among participating agencies such as the Department of Environment and Natural Resources, local government units and DBM to ensure/facilitate full compliance with preconditions on loan effectiveness and completion of the project activities within target dates

- Institute a system informing implementing agencies of commitment fees incurred for each FAP
- Require proponent agency to support any provision in the proposed loan agreement that would require the procurement of vehicles with an inventory of existing vehicles and their corresponding allocation
- Make representation with the foreign funding institutions (FFIs) to provide funding for cost of audits performed by the auditors of the Commission on Audit for audits required/requested by said FFIs, and to conduct state of the art trainings/updates for project personnel and COA auditors
- Review policy of FFIs on charging of commitment fees on undrawn balance of the loan and capitalization of interest, commitment fees, service charges and other related charges which increase the debt service
- Review/clarify policy/guidelines on exemption from payment of taxes
- Refrain from entering into loan agreements having preconditionalities which would require legislative action

118. For the Department of Budget and Management

- Timely releases of funds for FAPs