



## OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

### MEMORANDUM

**DATE:** February 14, 2022

**TO:** USAID/Philippines Mission Director, Ryan Washburn

**FROM:** USAID OIG Asia Regional Office USDH NFA Coordinator, James C. Charlifue /s/

**SUBJECT:** Financial Audit of the Strength CTIP Project Managed by Partnership for Development Assistance in the Philippines, Inc., Cooperative Agreement 72049219CA00011, October 1, 2019, to March 31, 2021 (5-492-22-010-R)

This memorandum transmits the final audit report on the Strengthening Local Systems and Partnership for More Effective Sustainable Counter-Trafficking in Persons (Strength CTIP) project managed by Partnership Development Assistance in the Philippines, Inc. (PDAP), for October 1, 2019, to March 31, 2021. PDAP contracted with the independent certified public accounting firm Isla Lipana & Co. to conduct the audit. The audit firm stated that it performed the audit in accordance with generally accepted government auditing standards (GAGAS) and the USAID Financial Audit Guide for Foreign Organizations. However, the audit firm disclosed that it did not have (1) a continuing professional education program that fully complies with the GAGAS requirements, and (2) an external quality control review because this is not offered in the Philippines. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on PDAP's schedule of expenditures of USAID awards; the effectiveness of its internal control; or its compliance with the agreement terms, laws, and regulations.<sup>1</sup>

The audit objectives were to (1) express an opinion on whether PDAP's schedule of expenditures of USAID awards for the period audited was presented fairly, in all material respects; (2) evaluate PDAP's internal controls; and (3) determine whether PDAP complied with the award terms, and applicable laws and regulations. To answer the audit objectives, the audit firm stated that it reviewed project documents and applicable USAID guidelines; examined the schedule of expenditures of USAID awards and related supporting documentation; obtained

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<sup>1</sup> 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.

an understanding of PDAP's internal controls system, and evaluated its control environment, the adequacy of the accounting system and control procedures in place; tested compliance with agreement terms and applicable laws and regulations; and assessed the status of pre-award audit recommendations. The audit covered expenditures of \$1,090,749 in USAID funds for the audited period.

The audit firm concluded the schedule of expenditures of USAID awards presented fairly, in all material respects, revenues received, and costs incurred by the recipient for the period audited. The audit firm did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance. However, the audit firm reported in its management letter that 3 of the 12 PDAP's grantees (25% of the grantees) did not comply with the Philippine labor law, which requires payment to employees of additional compensation, plus overtime premium for work performed during holidays, and exceeding regular work hours (page 20 of the audit report). Although the audit firm did not consider this issue as an instance of material noncompliance, we believe this is worthy of your attention because (1) noncompliance with local labor laws may have a qualitative significance given the nature of the project (Strength CTIP) and associated reputational risks, and (2) noncompliance at a 25% level is quantitatively significant. OIG makes recommendations based on what the audit report identifies as material; therefore, we are not issuing a recommendation.

During our desk review, we noted issues that the audit firm will need to address in future audit reports. We presented these issues to the mission in a memorandum to the controller dated February 14, 2022.

The report does not include any recommendations.

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