



**Republic of the Philippines
COMMISSION ON AUDIT
Department of Labor and Employment
Regional Office No. VII
Cebu City**

March 3, 2020

SALOME O. SIATON
Regional Director
Department of Labor and Employment
Regional Office No. VII
3rd & 4th Floors, DOLE Building
General Maxilom Ave., corner Gorordo Ave.,
Cebu City

Dear Director Siaton:

**Management Letter on the Audit of the
Department of Labor and Employment,
Regional Office No. VII
For the period January 1 to December 31, 2019**

I. INTRODUCTION

1. Pursuant to Section 2, Article IX-D of the Constitution of the Philippines and Section 43 of the Government Auditing Code of the Philippines (PD No. 1445), we have audited the accounts and operations of the Department of Labor and Employment, Regional Office No. VII (DOLE-RO VII), for the period ended December 31, 2019. The standards of audit should be in accordance with applicable legal and regulatory requirements, and International Standards of Supreme Audit Institutions (ISSAI). Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.
2. The audit was conducted to: (a) verify the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.
3. The Agency's Statements of Financial Position, Financial Performance, Cash Flows, Changes in Net Assets/Equity, Comparison of Budget and Actual Amounts and Notes to Financial Statements for the calendar year 2019 compared with that of the preceding year are shown in the attached audited financial statements. (*Annexes A to G*)

4. Deficiencies observed in the course of the audit were earlier communicated through Audit Observations Memoranda (AOM) and discussed in an exit conference conducted on March 02, 2020 with concerned DOLE-RO VII officials and employees. Their comments were incorporated in this letter, where appropriate. The significant audit observations and the recommendations shall be incorporated in the Consolidated Annual Audit Report (CAAR) of Department of Labor and Employment (DOLE) for CY 2019.

II. BACKGROUND INFORMATION

Agency's Mandate

5. The Department of Labor and Employment stands as the national government agency mandated to formulate policies, implement programs and services, and serve as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The agency and functions of the Department of Labor and Employment are in accordance with the provisions of Executive Order No. 126 dated January 31, 1987, the Labor Code of the Philippines, as amended, and other relevant and pertinent legislations.

The Department has exclusive authority in the administration and enforcement of labor and employment laws and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

Personnel Complement

6. As of December 31, 2019, DOLE-RO VII has the following personnel complement:

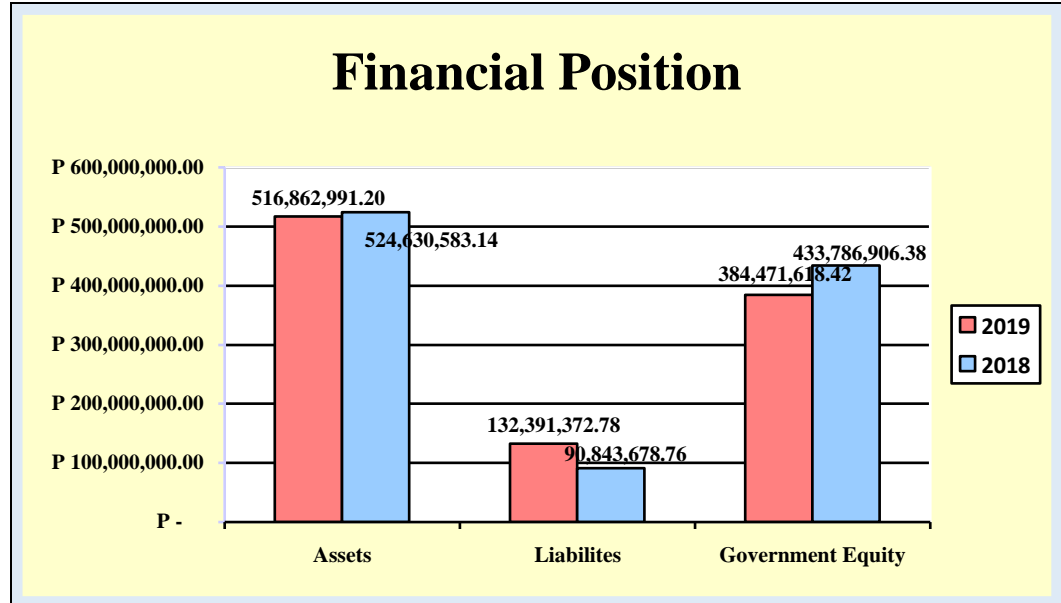
| | No. of Personnel |
|--|------------------|
| Permanent Personnel | 98 |
| Contractual Personnel | 30 |
| Job Order (LBPSC) | 15 |
| Contract of Service/Project-Based Individual | 36 |
| TOTAL | 179 |

Major Accomplishments

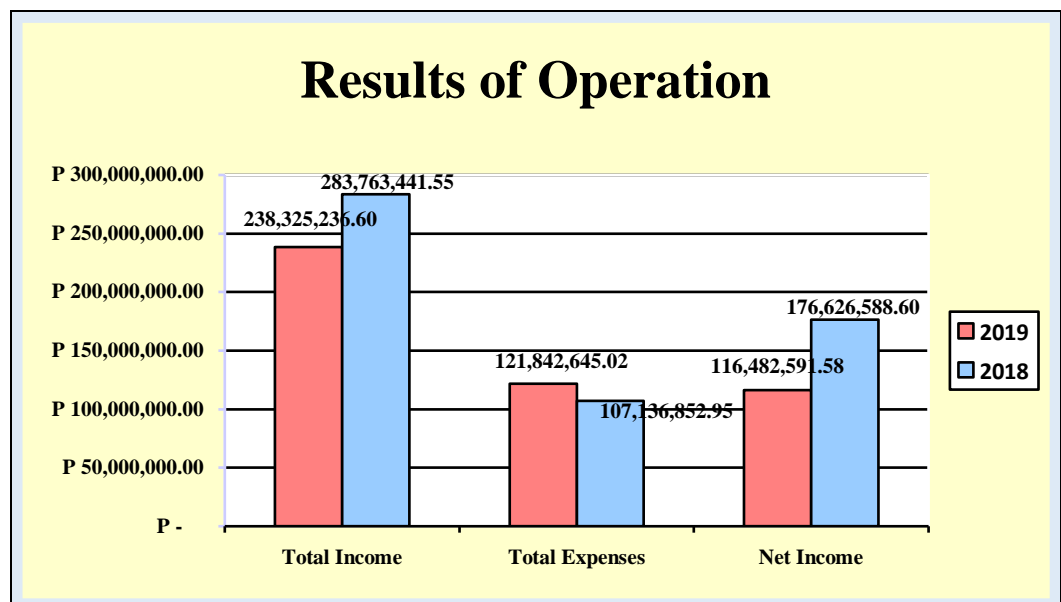
7. For CY 2019, the major accomplishments of DOLE-RO VII are presented in Annex H.

Financial Profile

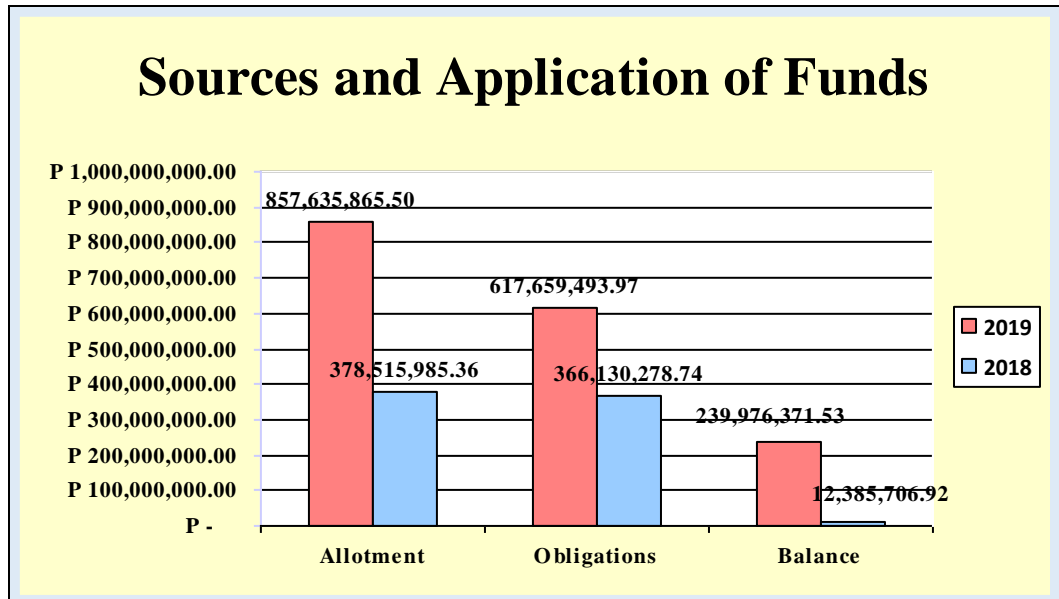
8. The financial condition, results of operation and sources and application of funds of DOLE-RO VII for CY 2019 with comparative figures for CY 2018 are as follows:



| <i>Particulars</i> | <i>CY 2019</i> | <i>CY 2018</i> | <i>Increase/ (Decrease)</i> |
|--------------------|------------------|------------------|-----------------------------|
| Assets | ₱ 516,862,991.20 | ₱ 524,630,583.14 | ₱ (7,767,591.94) |
| Liabilities | ₱ 132,391,372.78 | ₱ 90,843,678.76 | ₱ 41,547,694.02 |
| Government Equity | ₱ 384,471,618.42 | ₱ 433,786,904.38 | ₱ (49,315,285.96) |



| <i>Particulars</i> | <i>CY 2019</i> | <i>CY 2018</i> | <i>Increase/ (Decrease)</i> |
|--------------------|------------------|------------------|-----------------------------|
| Total Income | ₱ 238,325,236.60 | ₱ 283,763,441.55 | ₱ (45,438,204.95) |
| Total Expenses | ₱ 121,842,645.02 | ₱ 107,136,852.95 | ₱ 14,705,792.07 |
| Net Income | ₱ 116,482,591.58 | ₱ 176,626,588.60 | ₱ (60,143,997.02) |



| <i>Particulars</i> | <i>CY 2019</i> | <i>CY 2018</i> | <i>Increase/ (Decrease)</i> |
|--------------------|------------------|------------------|-----------------------------|
| Allotment | ₱ 857,635,865.50 | ₱ 378,515,985.36 | ₱ 479,119,880.14 |
| Obligations | ₱ 617,659,493.97 | ₱ 366,130,278.74 | ₱ 251,529,215.23 |
| Balance | ₱ 239,976,371.53 | ₱ 12,385,706.62 | ₱ 227,590,664.91 |

A total appropriation of ₱857,635,865.50 was provided to the DOLE-RO VII consisting of ₱79,411,403.46 for Personal Services (PS), ₱772,652,462.04 for Maintenance and Other Operating Expenses (MOOE) and ₱5,572,000.00 for Capital Outlay (CO). As of December 31, 2019, the agency incurred a total obligation of ₱617,659,493.97 thereby, leaving an unexpended/extended balance of ₱239,976,371.53 and reverted ₱239,976,371.53 at the end of the year.

III. OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

Unliquidated funds transferred to LGUs and NGOs/POs

9. **Funds transferred to LGUs and NGOs/POs amounting to ₱216,033,488.68 and ₱87,855,237.24, respectively, or a total of ₱303,888,7250.00 remained unliquidated for more than one year as of December 31, 2019, contrary to COA Circular Nos. 94-013 dated December 13, 1994; and 2007-001 dated October 25, 2007; and the Memorandum of Agreement (MOA) with LGUs-NGOs/POs. As a result, the Audit Team had difficulty in ascertaining the propriety of fund utilization; and had doubts on the validity of reported receivables. Further, the expenses were not recorded in the year/s these were incurred, affecting the fair presentation of the financial statements.**

This is a reiteration of a similar audit observation under AOM no. 2019-002(2018) dated March 6, 2019 and received by Management on March 08, 2019; and incorporated in the CY 2018 Management Letter.

Due from LGUs

- 9.1 Section 4.6 of COA Circular No. 94-013 dated December 13, 1994 requires that within ten (days) after the end of each month/end of the agreed period of the project, Implementing Agency (IA) shall submit to the Source Agency (SA), DOLE in these cases, the Report of Checks Issued (RCI) and the Report of Disbursement (RD) to report the utilization of funds. Only actual projects expenses shall be reported and the report shall be approved by the Head of the IA.
- 9.2 The DOLE RO VII transfers funds to LGUs for the implementation of its livelihood programs/projects under the DOLE Integrated Livelihood and Emergency Employment Program (DILEEP).
- 9.3 The fund transfer is subject to liquidation and reporting of disbursements, as specified in the MOA signed by the Local Chief Executive and the DOLE; and mandated under COA Circular no. 94-013.
- 9.4 As of December 31, 2019, unliquidated fund transfers to LGUs had accumulated to ₱256,022,149.41 and a total amount of ₱216,033,488.68 or 84.38% had been outstanding for more than one year. (*See Annex I*)
- 9.5 Management's target to reduce prior years' unliquidated balance of ₱252,621,500.70 resulted in only a 14.48 percent reduction, as presented below:

| Account Balance as of 12/31/2018 | For CY 2019 Transactions | | Account Balance as of 12/31/2019 | Percentage (%) of Liquidation |
|--|--------------------------|-----------------------|--|-------------------------------------|
| | Grant | Liquidation | | |
| Bohol ₱40,781,896.64 | ₱11,160,716.98 | ₱1,656,926.75 | ₱50,285,686.87 | 4.06 |
| Negros Oriental 72,642,398.61 | 2,541,350.00 | 16,889,281.27 | 58,294,467.34 | 23.25 |
| Cebu Province 115,365,116.95 | 13,675,030.00 | 16,877,546.00 | 112,162,600.95 | 14.63 |
| Siquijor 16,519,290.15 | 0.00 | 55,078.00 | 16,464,212.15 | .33 |
| TRI-CITY 7,312,798.35 | 12,611,563.75 | 1,109,180.00 | 18,815,182.10 | 15.17 |
| ₱252,621,500.70 | ₱39,988,660.73 | ₱36,588,012.02 | ₱256,022,149.41 | 14.48 |

- 9.6 The non-liquidation of fund transfers cast doubts on the validity of the reported receivable balance and expenses were not recorded in the year these were incurred.

Due from NGOs/POs

- 9.7 COA Circular No. 2007-001 dated October 25, 2007 provides for the revised guidelines in the granting, utilization, accounting and auditing of the funds released to NGOs/POs for the implementation of government projects. Pertinent provisions of the said circular are as follows:

“Section 5.3. The signing officials of the GO (*Government Organization*) to the MOA shall cause close monitoring and inspection of project implementation and verification of financial records and reports of the NGO/PO, and shall ensure compliance with the provisions of the MOA and of this Circular.

Section 5.4. Within sixty (60) days after the completion of the project, the NGO/PO shall submit the final Fund Utilization Report certified by its Accountant and approved by its President/Chairman to the GO, together with the inspection report and certificate of project completion rendered/issued by the GO authorized representative, list of beneficiaries with their acceptance/acknowledgement of the project/funds/goods/services received. The validity of these documents shall be verified by the internal auditor or equivalent official of the GO and shall be the basis of the GO in recording the fund utilization in its books of accounts. These documents shall support the liquidation of funds granted to NGO/PO.”

- 9.8 The DOLE RO VII transfers funds for the implementation of various livelihood projects under DILEEP, to qualified NGOs/POs through Accredited Co-Partner (ACP) - in a form of financial assistance.

- 9.9. The fund transfers are subject to liquidation and reporting of disbursements or fund utilization report, as specified in the MOA signed by of authorized representative of the ACP (President of the Association or Chairman, if for cooperative -whichever is applicable) and the DOLE; and COA Circular no. 2007-001.
- 9.10. Analysis of the total unliquidated balance of ₱125,905,893.74 as of December 31, 2019, shows that 69.78% or ₱87,855,237.24 have been outstanding for more than one year. (*Annex J*)
- 9.11. Settlement of prior years' unliquidated balance of ₱114,195,839.59 resulted to only 24.02 percent reduction, as presented below:

| Account Balance as of 12/31/2018 | For CY 2019 Transactions | | Account Balance as of 12/31/2019 | Percentage (%) of Liquidation |
|---|--------------------------|-----------------------|----------------------------------|-------------------------------|
| | Grant | Liquidation | | |
| Bohol ₱48,585,612.17 | ₱9,060,875.00 | ₱3,684,490.00 | ₱53,961,997.17 | 7.58 |
| Negros Oriental 25,643,566.77 | 12,415,504.50 | 12,686,608.00 | 25,372,463.27 | 49.47 |
| Cebu Province 17,530,467.02 | 7,393,010.00 | 8,511,684.35 | 16,411,792.67 | 48.55 |
| Siquijor 6,242,207.30 | 7,303,205.00 | 0.00 | 13,545,412.30 | .- |
| TRI-CITY 16,193,986.33 | 2,974,042.00 | 2,553,800.00 | 16,614,228.33 | 15.77 |
| ₱114,195,839.59 | ₱39,146,636.50 | ₱27,436,582.35 | ₱125,905,893.74 | 24.02 |

- 9.12. The Chiefs of Field Offices who are responsible for the over-all management, supervision and coordination of the DILEEP, did not conduct regular monitoring on the project/program implementation. Neither was inspection nor audit conducted by management officials, as required in the above-mentioned rules and regulations. Thus, no periodic reports on the status of utilization of the fund transfers to the recipients were prepared.
- 9.13. Failure of the management to enforce liquidation of current and prior years' fund releases within the prescribed period, based on existing regulations and MOA resulted to very low liquidation rates, difficulty of ascertaining the validity of the reported balances and its fund utilization.
- 9.14. **We reiterated our recommendations for Management to:**
- a) **Enforce the pertinent rules and regulations on the liquidation of funds transferred to LGUs and NGOs/POs and the MOA between the DOLE and the IAs/ACPs upon completion of projects. Identify the cause of delay in the submission of liquidation/utilization documents so that remedial measures can be instituted;**

- b) **Send demand letters to LGUs and NGOs/POs whose accounts are more than one year for them to immediately liquidate their long outstanding obligation;**
- c) **Direct the Chief of Field Offices to closely monitor the program/project implementation and strictly require the IA to submit monthly Report of Disbursements/Report of Check Issued and Fund Utilization Report for IA/ACP;**
- d) **Establish a database system that will monitor the status of utilization of the fund transfers for efficient and effective DOLE program/project implementation.**

9.15 Management commented they have already directed the Heads of Field Offices to closely monitor the various grants or fund transfers from its implementation up to its liquidation.

Field Office Heads committed to give at least five (5) liquidations per month, while the Accounting Section will provide updated list of unliquidated fund transfers every month for monitoring purposes.

Management will also give an award to the field offices that can get the highest liquidation rate for them to be recognized especially on their efforts to address this audit observation that has existed for years.

9.16 As a rejoinder, while the commitment to give at least five (5) liquidations per month will improve the percentage of liquidation, it is imperative for the management to be mindful of the time frame set by the COA Circulars when fund transfers are due for liquidation. Enforcement of COA Circular Nos. 94-013 and 2007-001 is mandatory and not merely discretionary.

Doubtful existence of the Supplies and Materials Inventory

10. **The existence and accuracy of the reported balance of the Inventory accounts amounting to ₱49,575,021.32 is doubtful due to:**

- **failure to adopt the Perpetual Inventory Method;**
- **failure of the Accounting and Supply/Property Office to maintain Supplies Ledger Card (SLC) and Stock Card (SC), respectively;**
- **non-preparation of Report of Supplies and Materials Issued (RSMI); and**
- **failure to conduct semi-annual physical count.**

These are contrary to Sections 6, 9, 13 and 17 (b), (c) (g), Chapter 8, Volume I of the Government Accounting Manual (GAM).

This audit observation is a reiteration of AOM No. 2019-004-(18) dated March 06, 2019; and included in the CY 2018 Management Letter.

10.1 Pertinent provisions of the GAM, Vol. I are as follows:

Adopting the Perpetual Inventory Method

Chapter 8 – Inventories

Section 6, prescribes the use of weighted average method of costing inventories. This method calls for the re-calculation of the average cost of all items in stock after every purchase.

Section 9. Supplies and Materials purchased for inventory purpose shall be recorded using the perpetual inventory system which requires accounting records to show the amount of inventory on hand at all times through the maintenance of the SLC by the accounting Division/Unit and SC by the Supply and/or Property Division Unit for each item in stock. Regular purchases shall be coursed through the inventory account and issues thereof shall be recorded as they take place xxx.

Accounting and Supply Records to be maintained

10.2 Section 17, Chapter 8, Vol. I - Prescribes the Records, Forms and Reports to be prepared and /or maintained as follows:

SC (*Appendix 58*) – shall be used by Supply Officer to record all receipts and issuance of supplies and balance in quantity at any time. The IAR, RIS, PO and DR serve as the original sources of information for making entries on the card.

SLC (*Appendix 57*) – shall be used by the Accounting Section to record materials received, issued, and the balance both in quantity and amount at any time. The IAR, RIS, RSMI, PO and DR serve as the original source s of information for making entries on the card.

RSMI (*Appendix 64*) – shall be prepared by the Property and/or Supply Custodian based on the RIS and shall be used by the Accounting Division/Unit as the basis in preparing JEV to record the supplies and materials issued.

Conduct Semi-annual physical count

10.3 Section 13, Chapter 8 - Physical count/inventory, which is required semi-annually, is an indispensable procedure for checking the integrity of property custodianship. The RPCI shall be submitted to the COA Auditor not later July 31, and January 31 of each year for the first and second semesters, respectively.

10.4 As of December 31, 2019, the balances of the Inventory accounts amounted to ₱50,899,700.57 broken down as follows:

| Inventory Held for Consumption Account | Balance (₱) |
|--|------------------------|
| Office Supplies Inventory | 10,381,067.63 |
| Accountable Forms, Plates and Stickers Inventory | 387,900.00 |
| Fuel, Oil and Lubricants Inventory | 46,941.72 |
| Other Office Supplies and Materials Inventory | 40,083,791.22 |
| | 50,899,700.57 |

10.5 Inventory Held for Consumption balance was misstated because of the following:

- The RISs of prior and current years were not summarized in an RSMI. The latter is the Accounting Unit's basis in recording the office supplies issued.
- Upon receipt of ORs from the National Printing Office, the Supply Officer issues these directly to the Cashier/Cash Section without issuance of an RIS resulting to non-recording of Expense – Accountable Forms.
- In June 2019, an advance payment was made to Carland Caltex Service Station in the amount of ₱194,830.38 for the supply of 1,732 liters of gasoline and 2,173 liters of Diesel fuel for its transportation vehicle was erroneously recorded as Fuel, Oil and Lubricants Inventory. The issue of advance payment of gasoline was raised in AOM No. 2019-015-(19) dated Aug. 20, 2019.
- Prior years' procurement of equipment, tools and materials directly distributed to various beneficiaries of livelihood/kabuhayan project (DILEEP) implementation were erroneously recorded as debit to Other Supplies and Materials Inventory account. The transaction should have been a Debit to the Subsidies – Others (50214990) account since DOLE is not in possession of the above items and it was directly given to recipient/ beneficiaries

10.6 The CY 2018 Management Letter (ML) of DOLE VII included an observation on the doubtful existence of Inventories costing ₱49,258,588.72 due to the:

- failure to adopt the Perpetual Inventory Method;
- failure of the Accounting and Supply Office to maintain SLC and SC, respectively;
- failure to conduct physical count;

- non-preparation of RSMI; and
 - non-submission of a reconciled RPCI.
- 10.7 The Agency Action Plan and Status of Implementation (AAPSI) as of September 2019 for the previous years' audit, stated that the Management commits to adhere to the recommendations. The remarks portion also had the following notation: "Ongoing Compliance" by the Supply Officer together with the Accountant to maintain SC and SLC, preparation of RSMI, conduct physical count and submission of RPCI.
- 10.8 Validation of the AAPSI disclosed that our CY 2018 audit recommendation pertaining to Inventory was not implemented as of date as follows:
- a. For the Accountant and Supply Officer to strictly adopt the Perpetual Inventory Method in the Accounting System through preparation and maintenance of records, forms and reports prescribed under Sec. 17 – Chapter 8, Inventories;
 - b. For the concerned officials to prepare reconciliation statement to correct the Inventory and Expense account balances for supplies and materials issued but not recorded in the books;
 - c. For Accounting Section to summarize all erroneous entries made recognizing equipment, tools and materials purchase for livelihood project as Other Supplies and Materials Inventory and prepare JEV to correct overstatement and
 - d. To Constitute an Inventory Team to conduct physical count every six months and submit reconciled RPCI to the COA Auditor not later than July 31 and January 31 of each year for the first and second semester.
- 10.9 In our verbal inquiry with the Supply Officer, he mentioned that the preparation of SC, RIS and RSMI for CY 2019 and prior years were incomplete due to his designation as a member of the BAC secretariat. The Accountant was not able prepare JEV to correct the misstatement of Inventory account in CY 2019 due to the non-submission by the Supply Officer of RSMIs.
- 10.10 Failure to adopt the Perpetual Inventory Method; failure to maintain SLC and SC for both Accounting and Supply Office; failure to conduct periodic physical count; and non-preparation of RSMI cast doubts on the existence of inventories and accuracy of the reported balance as of December 31, 2019.

10.11 We reiterated our recommendations for Management to:

- a. **Require the Accountant and Supply Officer to strictly adopt the Perpetual Inventory Method in the Accounting System prescribed in Chapter 8 of the GAM for NGAs, Volume I which includes:**
 - **Maintenance of SLC by the Accounting Section;**
 - **Maintenance of SC by the Supply Officer;**
 - **Regular reconciliation of the SLC and SC by the Accountant and the Supply Officer to arrive at actual inventory on hand;**
 - **Preparation of RSMI by the Supply Officer at the end of the day and submission to the Accounting Section by the end of the month for JEV preparation: and**
 - **Recording of all receipts and issuances for each type of supplies and materials held for consumption.**
- b. **Instruct the Accountant to prepare reconciliation statement to correct the Inventory and Expense account balances for supplies and materials issued but not recorded in the books.**
- c. **Direct the Accounting Section to summarize all erroneous entries made recognizing equipment, tools and materials purchase for livelihood project as Other Supplies and Materials Inventory and prepare JEV to correct overstatement.**
- d. **Constitute an Inventory Team to conduct physical count every six months and submit reconciled RPCI to the COA Auditor not later than July 31 and January 31 of each year for the first and second semester.**

Management can enforce the administrative sanctions, including suspension of salaries and other emoluments of the officials and/or employees responsible for the preparation and submission of the physical inventory report, as provided under Sec. 122 and 127 of P.D. 1445

10.12 Management commented that they have already directed the Accountant and Supply Officer to strictly adopt the Perpetual Inventory Method.

The Supply Officer is in the process of creating a system to generate the computerized report on Supply Card (SC) and Report of Supplies and Materials Issued (RSMI) and directly linked it to the Supplies Ledger Card (SLC).

Currently the Accounting Section is tracing/summarizing all erroneous entries made recognizing equipment, tools and materials purchase for

livelihood project as other supplies and materials inventory. As of March 5, 2020, they have already summarized at least three (3) million from the 2017 transactions.

Moreover, the management had constituted an inventory team and conducted physical count last month. It is now for submission this March 2020. The IPCR of accounting and supply officer includes the preparation and submission of these reports.

- 10.13 The audit team will monitor its compliance in each quarter of 2020. Since this is a recurring audit observation, the management should also impose appropriate sanctions to personnel who neglects to do his duty.

Dormant Loans Receivable for more than 20 years

11. **The balance of the Loans Receivable – Others account amounting P3,942,233.22 as of October 31, 2019 have been dormant in the books for over ten (10) years but were not requested for write-off, contrary to Paragraph 27 of International Public Sector Accounting Standard (IPSAS) 1 and COA Circular No. 2016-005.**

- 11.1. Par. 27, of IPSAS 1 – Presentation of Financial Statements explicitly provides: “A fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSAS”.

- 11.2. COA Circular No. 2016-005 dated December 19, 2016 prescribes the guidelines and procedures in reconciling and clearing the books of accounts of NGAs, LGUs, and GOCCs of dormant receivable accounts, unliquidated cash advances, and fund transfers for fair presentation of accounts in the FSs.

Item No. 7 of the said Circular provides for the specific guidelines on the reporting, monitoring and analysis of receivable accounts which is to be performed by the Accountant. Item No. 8 thereof provides for the procedures in requesting for write-off of dormant accounts. The request for write-off shall be supported by documents enumerated in the said COA Circular.

- 11.3 Loans Receivable - Others amounting to P3,942,233.22 (*Annex K*) represents loans granted to NGOs/POs for livelihood projects. These consist of four (4) workers’ union and forty-six (46) associations in the provinces of Cebu, Bohol, Negros and Siquijor. Funds transferred to workers’ union and associations were only partially liquidated and remain uncollected since the dates of release from 1990 to 1998. The unpaid loan balances have been dormant for more than ten (10) years.

- 11.4 The long-outstanding loans receivable cast doubts on the reliability of the ₱3,942,233.22 account balance; and recovery of the amounts loaned.
- 11.5 **We recommended that Management direct the Accountant to initiate request for authority to write-off dormant loans receivable account in accordance with the guidelines and procedures provided in COA Circular No. 2016-005.**
- 11.6 During the Exit Conference, management informed the team that the Accountant has previously requested for authority to write-off for six (6) dormant loans receivable accounts of Negros Oriental Field Office.

The Regional Office is currently waiting for the documents of the other dormant loan accounts from the various field offices. They committed to submit the request for write-off on March 6, 2020.

- 11.7 As a rejoinder, the team returned the request for write-off for six (6) dormant loan receivable account of Negros Oriental Field Office due to the absence of necessary documents as required under COA Circular 2016-005.

B. FINANCIAL AND COMPLIANCE AUDIT

Doubtful validity of PPE accounts

12. **PPE balances as of December 31, 2019 totaling ₱68,396,959.62 is unreliable due to the failure to (a) maintain Accounting and Property records; and (b) conduct the annual physical inventory. These are contrary to Sections 42, 21, and 38, Chapter 10 of the Government Accounting Manual (GAM) Volume I.**

Failure to maintain Accounting and Property records

- 12.1 Section 42, Chapter 10 on Property, Plant and Equipment (PPE), Volume I of the GAM prescribes forms/reports to be maintained by the Accounting and Property Offices, necessary to account the PPE, which are, among others:

Property Plant and Equipment Ledger Card (PPELC, Appendix 70) -this form shall be used for each class of PPE to record the acquisition, description, custody, estimated life, depreciation, impairment, disposal, transfer/adjustment, repair history and other information about the property. It shall be kept and maintained by the Accounting Office/Unit.

Property Card (PC, Appendix 69)-this card shall be used by the Supply and/or Property Division/Unit to record for the description, acquisition, transfer, disposal, and other information about the PPE.

Property Acknowledgment Receipt (PAR, Appendix 71)-this form shall be used by the Supply and/or Property Division/Unit to report the issuance of PPE and the acknowledgement of the end-user

Report on the Physical Count of Property, Plant and Equipment (RPCPPE, Appendix 73) – this form shall be used to report the physical count and condition of PPE by type as at a given date, including those which are unrecorded and those which could not be accounted for. It shows the balance of PPE per property cards and per count and the shortage/overage, if any. It shall be rendered by the Inventory Committee, on its yearly physical count of properties owned by the entity.

Additionally, Section 21 provides that the property custodian shall prepare the Property Acknowledgement Receipt (PAR) (*Appendix 71*) to support the issue of property to end-user. The PAR shall be renewed at least every three years or every time there is a change in accountability or custodianship of the property.

- 12.2 As of December 31, 2019, DOLE VII had a total PPE of ₱68,396,959.62, with total accumulated depreciation of ₱29,677,533.68 or total carrying amount of ₱38,719,425.94 composed of the following:

| Classification of PPE | Amount | Accumulated Depreciation | Carrying Amount |
|--|------------------------|---------------------------------|------------------------|
| Leased Assets, Land | ₱21,683,759.26 | | ₱21,683,759.26 |
| Leased Assets, Building and Other Structures | 21,608,222.31 | 10,560,550.29 | 11,047,672.02 |
| Office Equipment | 2,481,420.15 | 1,866,164.50 | 615,255.65 |
| ICT Equipment | 10,041,990.32 | 8,496,050.14 | 1,545,940.18 |
| Communication Equipment | 363,734.00 | 198,714.18 | 165,019.82 |
| Technical and Scientific Equipment | 2,039,481.00 | 1,547,909.11 | 491,571.89 |
| Other Machinery and Equipment | 383,180.00 | 188,700.12 | 194,479.88 |
| Furniture and Fixtures | 2,478,284.39 | 1,647,994.98 | 830,289.41 |
| Motor Vehicles | 6,710,724.00 | 5,036,141.89 | 1,674,582.11 |
| Other PPE | 387,439.49 | 135,308.47 | 252,131.02 |
| Other Assets | 218,724.70 | | 218,724.70 |
| TOTAL | ₱ 68,396,959.62 | ₱29,677,533.68 | ₱38,719,425.94 |

- 12.3 The Accounting Office failed to maintain PPELC and could only provide a schedule containing list of PPEs which is also used to compute monthly depreciation. However, no data can support the Other PPE and Other Asset account balances. The only data they could provide is the Notes to Financial

Statements for the year 2017 disclosing therein that Other Assets consists of unserviceable PPEs carried on the books without supporting documents.

- 12.4 The Accountant III informed the audit team that there was no formal turn-over of PPE records upon his assumption to office, they were also unsure if there was a PPELC maintained before. They only opt to continue the schedule of PPEs (as described in paragraph 3) as their only monitoring tool for PPEs.
- 12.5 Inquiry with the Property Officer revealed that no PC was maintained by the former Property Officer. He committed that starting March 2020, he will start preparing the PCs for all PPEs. At present, he is on data gathering stage to complete the listings of all PPEs.
- 12.6 Validation of the PARs showed that:
- These are minimal in quantity to support the reported balance of PPE existing PARs were not updated; and
 - PARs of separated employees have not been cancelled.
- 12.7 The failure to maintain property accountability records renders the accuracy, completeness, and existence of PPE accounts doubtful. Moreover, with the absence of updated PARs, PPE items could not be properly monitored and accountability cannot be determined at any given time.
- 12.8 **We recommended that Management require the:**
- **Accountant to prepare and maintain PPELC for all existing PPEs; and**
 - **Property Officer to prepare and maintain PC; and renew PARs for all issued PPEs**

Failure to conduct the annual physical inventory

- 12.9 Section 38, Chapter 10, of GAM Volume I requires the agency to conduct a periodic physical count of PPE, which shall be done annually and presented on the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) (Appendix 73) as at December 31 of each year. This shall be submitted to the Auditor concerned not later than January 31 of the following year. Equipment found at station and losses discovered during the physical count shall be reported to the Accounting Division/Unit for proper accounting/recording.
- 12.10 For several years, the agency failed to conduct a complete physical count of PPE. For the year 2019, no physical count was conducted. The Property Officer stated that he could not find a basis to determine the PPEs to be inventoried; that the accounting office provided a list, but some of these only contained the name of the supplier, thus, the need to validate the PPE involved in the transaction.

- 12.11 The failure to complete the conduct of physical count and to reconcile Accounting and Property records materially affect the assertion of existence and completeness of PPE balances. For effective control of government property, physical inventory-taking is an indispensable procedure to ascertain the existence of the recorded PPE and to check the integrity of property custodianship as well as conforming the balances found in the book of accounts.
- 12.12 **We recommended for Management to create an Inventory Team to conduct the physical count of PPE as of December 31, 2019 and once completed, reconcile the inventoried items with the Property and Accounting records. After reconciliation of records, have the Property Officer prepare the RPCPPE and submit the same to the Office of the Auditor.**
- 12.13 Management commented that they had already directed the Accountant and Property Officer to comply with the preparation of PPELC, PC and PAR. Currently, the Supply Officer is innovating a system to create a database on all existing and future PPE's. Also, the management is in close coordination with the Accounting section with regards to the reconciliation of properties and equipment and submit the RPCPPE to the Office of the Auditor on March 2020.
- 12.14 The audit team will continue to monitor the preparation and maintenance of PPELC, PC and PAR. The team is also expecting that a copy of RPCPPE will be furnished to the Office of the Auditor within the first quarter of the year 2020, especially the management committed to submit to the GSIS and COA Office the list of all insurable assets before April 30, 2020.

C. COMPLIANCE AUDIT

Non-compliance with Property Insurance Law

13. **Of the P5,859,443.54 (net) Property Plant and Equipment (PPE) as of December 31, 2018, ninety percent or P5,263,682.02 were not covered with GSIS property insurance in CY 2019, contrary to RA No. 656 as amended by PD No. 245 dated July 13, 1973 and COA Circular No. 2018-002 dated May 31, 2018, thereby exposing non-indemnification of these assets – in case of damage to, or loss of its properties.**
- 13.1 Section 5 of R.A. No 656 requires every government agency to insure its properties with the Property Insurance Fund of the Government Service Insurance System (GSIS).

- 13.2 COA Circular No. 2018-002 dated May 31, 2018 sets the guidelines prescribing the submission by Agency officials of the Property Inventory Form (PIF) as basis for the assessment of general insurance coverage over all insurable assets, properties and interests of the government with the General Insurance Fund (GIF) of the Government Service Insurance System (GSIS).
- 13.3 Sec. 5.1 thereof states the details on how this will be accomplished.
- 13.4 Verification of the insurance coverage of DOLE RO-7 PPE disclosed that, except for the transportation equipment, all other properties were not insured with the GSIS, contrary to Sec. 5 of R.A. No. 656. The Agency did not also prepare and submit a PIF of its insurable assets to the GSIS contrary to above-mentioned Circular. Details of PPE as of December 31,2018 (the basis of computation of the CY 2019 insurance premiums) are as follows:

| Property, Plant and Equipment | Per Accounting Records (Net) (₱) |
|--|---|
| Machinery and Equipment | |
| Office Equipment | 780,381.30 |
| ICT Equipment | 1,733,792.16 |
| Communication Equipment | 415,686.35 |
| Technical and Scientific Equipment | 601,667.70 |
| Other Machinery and Equipment | 267,284.12 |
| Transportation Equipment | |
| Motor Vehicles | 595,761.52* |
| Furnitures and Fixtures and Books | |
| Furniture and Fixtures | 994,014.67 |
| Other Property, Plant and Equipment | |
| Other Property, Plant and Equipment | 252,131.02 |
| Other Non-Current Assets | |
| Other Assets | 218,724.70 |
| TOTAL | 5,859,443.54 |

**the only PPE with insurance*

- 13.5 The table above will show that 89.83% of the PPE of DOLE RO-7 were not insured. In our Interview with the Property Officer, he stated that he only assumed office as Supply/Property Officer–Designate on January 2019. Since his assumption, no insurance was taken and more so, he is not aware that assets are required to be insured. DOLE Central Office does not also require submission of PIF and there is no centralized payment of insurance premium. Only the transportation equipment has been consistently insured, since this is a pre-requisite for LTO registration.
- 13.6 In our letter to the Management dated November 26, 2018, the audit team attached a copy of COA Circular No. 2018-002 dated May 31, 2018.

However, as of this date, the Management has not yet complied, despite such notice of information.

13.7 On December 14, 2018, Management was able to submit RPCPPE as of November 2018. However, the audit team noted the following deficiencies and communicated these to Management in our letter dated December 17, 2018:

- a.) that the Management failed to invite the audit team to act as witness during the physical count; and
- b.) that the inventory team failed to submit a reconciliation of Property and Accounting records.

As a result, the RPCPPE contains unreliable data. The report includes, among others, semi-expendable items such as printers, desktop and scanners. Further, there is no data on the column for “Unit of Value” which should have been used for the assessment of the insurance. Thus, Management cannot proceed with the insurance of the agency’s assets with GSIS.

13.8 Failure to obtain insurance coverage for the Agency’s assets put these at risk through non-indemnification in case of damage to, or loss of, its properties due to fire, earthquake, storm, or other casualty, to the detriment of the government.

13.9 Pertinent paragraphs under COA Circular 2018-002 dated May 31, 2018 provides for sanctions for non-compliance of Property Insurance Law.

13.10 **We recommended for Management to direct the Property Officer – Designate to:**

- a. Prepare PIF listing for all insurable assets (extracted from Report on Physical Count of Property, Plant and Equipment and Report on the Physical Count of Inventories, excluding impaired properties for disposal);**
- b. Secure insurance of assets listed in PIF with the GIF of the GSIS;**
- c. Submit the same to the Audit Team Leader and the GIF, GSIS not later than April 30 of each year, as required under Sec. 5.1.e of COA Circular No. 2018-002 dated May 31, 2018; and**
- d. Request for funding for the payment of the premiums from the Central Office.**

13.11 The management commented that one of the constraints in complying with the insurance is the failure to account the existence of all their PPEs. Most of the time, they could only start the physical inventory without finishing it

due to work constraints and multiple functions of previous Property Officers.

For this year, they committed to make an effort to finally comply with RA 656. This will be made possible by removing all other functions of the Property Officer so he could focus on his duty. Before April 30, 2020, they are hoping to submit the PIF before GSIS and the Office of the Auditor.

- 13.12 As a rejoinder, the team will monitor its compliance within the period of commitment expressed by the management.

Non-compliance with RA 9184 and Falsification of Procurement documents –

14. **Procurement totaling ₱6,551,005.55 for the DILEEP livelihood project were awarded to a single supplier, using falsified bids/quotations coming from two (2) fictitious suppliers, who allegedly submitted/offered their price quotation. These make the transactions unlawful under Section 3 (e and g) of R.A No. 3019 or the “Anti-Graft and Corrupt Practices Act” and Article 171 (2) of the Revised Penal Code, to the prejudice of the interest of the Government.**
- 14.1 Section 3 (e and g) of the Anti-Graft and Corrupt Practices Act which provides that the following shall constitute practices of any public officer and are hereby declared to be unlawful:
- e. Causing any undue injury to any party, including the Government or giving any private party any unwarranted benefits, advantage or preference in the discharge of his official administrative or judicial functions through manifest partiality, evident bad faith or gross inexcusable negligence.
 - g. Entering, on behalf of the Government, into any contract of transaction manifestly and grossly disadvantageous to the same, whether or not public officer profited or will profit thereby. (Underscoring ours)
- 14.2 Article 171 (2) of the Revised Penal Code describes the act attributable to falsification by public officer or employee, such as causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate.
- 14.3 Falsification of official document is classified as one of the grave offences under **Rule XIV(f) of the Omnibus Rules, Implementing Book V of Executive Order 292** and other pertinent Civil Service laws.

Section 12 (D) of DOLE Department Order No. 173 S. 2017 (Revised Guidelines in the Implementation of DILEEP for Livelihood Assistance under Direct Administration), requires the responsible official to procure

the necessary raw material, equipment, and tools and jigs indicated in the approved project proposal in accordance with government accounting and auditing rules and regulations and RA 9184.(Underscoring ours)

- 14.4 Post-audit of disbursement vouchers revealed that the agency purchased breeding stock, feeds, milled rice and corn, grocery items, raw materials and equipment intended for livelihood projects, through Small Value Procurement supported with three (3) bids/quotations as canvass documents.
- 14.5 Verification of the bidder's quotation submitted by the three (3) suppliers namely Color Acuity International Inc., Ultra Fresh Grow Company and MS Baylon General Merchandise disclosed the following:
- 14.6 In all instances that the three (3) bidders submitted their quotations, Color Acuity International Inc. emerged as the winning bidder, making Ultra Fresh Grow Agri. Company and MS Baylon General Merchandise the constant losing bidders (*Annex L*).
- 14.7 Color Acuity International Inc.'s business category in the organization profile directory registered in the PhilGEPS is that of a manufacturer of Fire Fighting, Rescue and Safety Equipment (*Annex M*).
- 14.8 A review of the quotations submitted by the losing bidders revealed that the business addresses indicated in their submitted quotations do not coincide with their actual address as confirmed by the audit team.
- 14.9 Ultra Fresh Grow Agri. Company's given address in the quotation submitted was at 9023 New York St., Joyous Heights Subd., Hinapa, Brgy. San Jose Antipolo City. What was listed as their address in their PhilGEPs organizational profile was 168 Apo St. Sta. Mesa Heights, Quezon City per our search made with the PhilGEPS website (*Annex N*).
- 14.10 Likewise, an inspection made by the audit team of the stated address of MS Baylon General Merchandise in Unit 8, Labangon Town Center, Katipunan St. Cebu City revealed that a dance arts center studio was found within the stated address, instead of the bidder's store/office. Inquiry made with the manager of the studio revealed that their studio had been there since the year 2017. The following information were obtained by the Audit Team:
 - a search with the PhilGEPs website revealed that the business name MSBaylon General Merchandise was not listed therein (*Annex O*)

- our inquiry with the Department of Trade and Industry RO VII revealed that the said establishment was not registered (*Annex P*).

14.11 It appears that all the quotations submitted by the losing bidders Ultra Fresh Agri. Company and MS Baylon General Merchandise were spurious.

14.12 An interview with Mr. Raymundo E. Belangoy, the previous BAC Secretariat disclosed that the bids/quotations from the suppliers were just placed on his table and that he did not know where it came from. While Mr. Gilbert C. Carredo, the current BAC Secretariat-designate, explained that he only followed Mr. Belangoy's procedure in the conduct of the canvass.

14.13 The forgoing conditions substantiate our observation that the bids/quotations received from the two (2) losing bidders reflected in the Abstract of Canvass were fabricated and that there were no actual canvasses conducted. As a result, this gave due advantage to a single supplier, who was not even qualified to supply for the procured items; and suppressed competition among prospective bidders, which is prejudicial to the interest of the government and the Procurement Law.

14.14 **We recommend for Management to:**

- 1. Require the BAC secretariat to submit an explanation on how they obtained the quotation of the two (2) losing bidders, considering that the BAC Resolution specifically stated that "due canvass shall be conducted to at least three (3) suppliers of known qualifications."**
- 2. Require the BAC members to explain why they allowed the irregularity of canvass in the procurement of goods and equipment intended for the beneficiaries of DILEEP livelihood projects.**
- 3. Create a committee to investigate the matter and take appropriate action against the persons or parties involved in the scheme. If there is a prima facie evidence of collusion, Management should bring the matter to the proper graft investigating body for filing of case.**
- 4. Direct the BAC to exercise due diligence and to make judicious evaluation of all bid documents to prevent the re-occurrence of irregularity in the procurement process.**

14.15 The management stated that a joint reply will be drafted by the BAC secretariat. All issues related to the irregularity of the canvass will be jointly answered. This will be submitted within March 2020.

An independent committee was also created and had already submitted the facts on the investigation to the management.

Moreover, the management have already replaced the previous BAC secretariat and also directed the current BAC chairman and members to carefully evaluate all the bidding documents of the suppliers and not just sign the abstract of canvass and award and BAC resolution recommending to HOPE without validating the completeness and authenticity of all bidding documents.

14.16 The Office of the Auditor received the reply from the BAC Secretariat around the first/ second week of March. The reply however was found to be inadequate in explaining the irregularities. The reply should at least specifically explain the existence of procurement documents, whether it was indeed falsified or not, the parties involved if it was falsified, and the narration of the truth of the matter. And for that, the Office of the Auditor requires a more specific and responsive reply.

15. **DOLE R.O. VII awarded contracts totaling ₱ 4,840,000.00 to a pre-determined supplier by means of falsified canvasses/quotations thus, making it unlawful and punishable under Article 171 of the Revised Penal Code (RPC) and Section 3 (e and g) of Republic Act (RA) 3019 or the “Anti-Graft and Corrupt Practices Act” to the prejudice of the interest of the Government.**

Other violations observed in the procurement process through alternative mode of procurement -Small Value Procurement were the following:

- 1. Procurement was split into nine (9) Purchase Requests (PRs) and Purchase Orders (POs)/contracts to avoid public bidding contrary to Section 54.1 of the 2016 RIRR of RA 9184;**
- 2. Reference of brand name “Ganador” in the Purchase Requests (PRs) and Purchase Orders (POs) contrary to Section 18 of RA 9184; and**
- 3. Claims amounting to ₱ 4,840,000.00 were processed and paid in advance before actual delivery of the 1,936 sacks of rice, contrary to Sec. 88 of P.D. 1445;**

Further, the winning supplier was not a National Food Authority (NFA)-registered retailer, in violation of the Revised Rules and Regulations of the NFA Act.

Falsification of Bidding Documents in the purchase of 1,936 sacks of rice

- 15.1 Pertinent provisions of the following laws are as follows:

Article 171 of the RPC:

Falsification by public officer, employee or notary or ecclesiastic minister.
– The penalty of prison mayor and a fine not to exceed ₱5,000.00 pesos shall be imposed upon any public officer, employee... who, taking advantage of his official position, shall falsify a document by committing any of the following acts:

- a. Counterfeiting or imitating any handwriting, signature or rubric;
- b. Causing it to appear that persons have participated in an act or proceeding statements other than those in fact made by them;

Section 3 (e and g) of RA 3019:

Corrupt practices of public officers. In addition to acts or omissions of public officers already penalized by existing law, the following shall constitute corrupt practices of any public officer and are hereby declared to be unlawful:

- a. Causing any undue injury to any party, including the Government, or giving any private party any unwarranted benefits, advantage or preference in the discharge of his official administrative or judicial functions through manifest partiality, evident bad faith or gross inexcusable negligence.
- b. Entering, on behalf of the Government, into any contract or transaction manifestly and grossly disadvantageous to the same, whether or not the public officer profited or will profit thereby.

15.2 Post- audit of disbursement vouchers totaling ₱4,840,000.00, revealed that DOLE R.O. VII procured 1,936 sacks of Ganador rice through Small Value Procurement with three (3) requests for quotation (RFQ) as canvass documents. This is for the livelihood project of nine (9) barangays in Lapu-Lapu City.

15.3 Review of the quotation submitted by the three (3) suppliers namely MGE's General Merchandise, D'LMR General Merchandise and Cebu D & F Enterprise (*MGE's, D'LMR and CDFE, respectively for brevity*) disclosed the following irregularities:

- a. In the nine (9) instances that the three (3) suppliers submitted quotations for the delivery of 1,936 sacks of Ganador rice, MGE's emerged as the winning bidder. D'LMR and CDFE were always the losing bidders; (*Annex Q*)

b. The audit team inspected the store of MGE's. The business office address turned out to be a residential house located in a narrow alley in Sitio Hoyong-Hoyong, Bacayan, Cebu City (*Annex R*). We also noted the following:

- At the time of the transaction, MGE's was not a licensed grain retailer, as certified by the National Food Authority (NFA). (*Annex S*).
- The residence/store had no storage space/bodega, which was a requirement of the NFA for an application to be a duly-registered retailer; and
- Organization profile of MGE's sourced from the PhilGEPS website revealed the following:
 - i. Registration Type: Red
 - ii. Form of Organization: Single Proprietorship
 - iii. Organization Type: General Merchandise, IT, Services
 - iv. Capitalization: ₱ 100,000.00

Based on the supplier's capitalization, MGE's does not have the contracting capacity to deliver a contract worth ₱ 4,840,000.00.

The supplier acknowledged submitting a quotation for the rice purchased by DOLE. He also acknowledged making delivery of the sacks of rice.

15.4 We visited D'LMR and interviewed Ms. Rosemarie L. Taneo, store in-charge. We also checked the authenticity of her signature in the RFQ. Our interview/verification revealed the following:

- a. Their store did not submit a price quotation for the delivery of 1,936 sacks of Ganador rice to the DOLE R.O. VII;
- b. She categorically disowned the signature appearing in the RFQ by handing over her Identification cards (ID) (*Annex T*) - to prove her identity and her own signature. The signatures showed striking dissimilarities in the RFQ and IDs presented;
- c. She further said that her merchandising business is only engaged in the sale of Office Supplies and office-related services such as photocopying, printing and scanning, among others (*Annex U*).

15.5 In our interview with Ms. Jenny B. Tejano, an outsource employee (LBP Service Corporation) assigned at the supply office in DOLE, she admitted

being ordered to sign on the name of Ms. Rosemarie L. Taneo, as supplier in the alleged RFQ of D'LMR General Merchandise.

- 15.6 As for the CDFE, the audit team requested Mr. Gilbert C. Carredo, BAC Secretariat to give us the site/address of the supplier. We were informed that the establishment is located at the ground floor of Sto. Niño Barangay Hall at P. Burgos St. Cebu City. We went to the said address and found out that sometime in CY 2015 they already moved to Solana residence, San Roque, Cebu City. The audit team proceeded to the new location but we were told by the caretaker of the residence that the CDFE ceased its operation in the early part of CY 2017. The nine (9) RFQs submitted by CDFE were all dated December 14, 2017.
- 15.7 The audit team inquired from Mr. Armando R. Mesa, regarding the address of the CDFE as Mr. Mesa was the one who signed the “canvassed by” portion of the RFQ. We found out that he is not a regular DOLE employee and therefore not qualified to do the canvass. He told the audit team that he has no knowledge of the actual location of the entity. He was only asked to sign the RFQs without doing actual canvass of the three (3) suppliers.
- 15.8 Verification disclosed that the RFQs for the nine (9) procurement were all dated December 14, 2017. On the same date, the Committee on Awards received, opened and recorded all quotations in the Abstract of Bids. In our opinion, it is highly improbable that all these activities could be accomplished within one day.
- 15.9 It appeared that there was collusion between MGE’s General Merchandise and DOLE ROVII officials in the procurement process through:
 - a. falsified RFQs; and
 - b. awarding the contract to a bidder:
 - of doubtful contracting capacity to deliver
 - who is not an NFA-registered retailer
- 15.10 The propriety of the forgoing transactions is highly questionable since the quotations submitted from the two (2) losing suppliers recorded in the Abstract Canvass were fabricated and there was no actual canvass done. Consequently, there is no assurance that the agency was able to obtain the most advantageous price for the government.
- 15.11 Falsification of public document is consummated upon execution of the false document. Erring public officer’s failure to attain their objective is not determinative of their guilt or innocence. The element of gain or benefit on the part of the offender or prejudice to a third party as a result of the falsification, or tarnishing of document’s integrity, is not essential to maintain a charge for falsification of public documents. What is punished in falsification of public document is principally the undermining of the

public faith and the destruction of truth as solemnly proclaimed therein. (Goma and Umali v. Court of Appeals, et al. GR 168437, January 2009)

15.12 **We recommended for Management to:**

- a. **Require the BAC secretariat to submit an explanation:**
 - **on how they were able to obtain the quotation of the two (2) losing bidders;**
 - **why a non-DOLE employee (Mr. Armando Mesa) was made a part of the procurement process (canvassing); and**
 - **why Mr. Mesa was made to sign on the “canvassed by” portion of the RFQ even if he did not do the actual canvassing**

- b. **Conduct an impartial investigation and institute the appropriate sanctions against those erring personnel found responsible in the commission of such unlawful act/s. If there is a *prima facie* evidence of collusion, Management should bring the matter to the proper graft investigating body for filing of case/s;**

- c. **Require the BAC and the program focal person to submit to this office the following documents of MGE’s General Merchandise – to enable us to make a decision in audit:**
 - **Certificate of Registration (BIR form 2303);**
 - **Latest Income/Business Tax Return; and**
 - **Omnibus Sworn Statement; and**
 - **Acknowledgment receipt of the 1,936 sacks of rice from the beneficiaries**

Splitting of nine (9) purchase transactions for the 1,936 sacks of rice:

15.13 Procurement were split into nine (9) Purchase Requests (PRs) and Purchase Orders (POs)/contracts to avoid public bidding

15.14 Section 54 of the 2016 Revised Implementing Rules and Regulations of RA 9184 provides for the terms and conditions for the use of alternative methods in procurement. Among these terms is the following:

“54.1 Splitting of Government Contracts is not allowed. Splitting of Government Contracts means the division or breaking up of GoP contracts into smaller quantities and amounts, or dividing contract implementation into artificial phases or sub-contracts for the purpose of evading or circumventing the requirements of the law and this IRR, particularly the necessity of competitive bidding and the requirements for the alternative methods of procurement.”

- 15.15 Review of the supporting documents revealed that the agency split the requisition for the procurement of 1,936 sacks rice into nine (9) PRs and POs were summarized in *Annex V*:
- 15.16 All nine (9) Purchase Request (PRs) were dated October 24, 2017 and the Purchase Order (POs) were all dated December 18, 2017 except for PO number 17-12-16 which was dated December 15, 2017.
- 15.17 We further noted that the signed BAC resolutions were all dated December 06, 2017, which were consecutively numbered 2017-074 to 082 and contained the same tenor as to name of the project and procurement mode which is through Small Value Procurement.
- 15.18 These transactions are considered as splitting - to avoid public bidding, which is in violation of the above-stated provisions. Hence, circumventing or evading the legal and procedural requirements under the procurement law, which could result to a pecuniary loss or damage to the government.
- 15.19 As a result of splitting into nine (9) contracts, DOLE R.O. VII was not able to get possible discount or lower price that might be offered by a known/direct supplier's for this bulk or volume purchase.
- 15.20 **We recommended for Management to direct the Bids and Awards Committee (BAC) to explain why they resorted to splitting.**

Using of brand name in procurement of 1,936 sacks of rice

- 15.21 Reference of brand name "Ganador" for procurement of rice in the PRs and POs contrary to Section 18 of R.A. 9184
- 15.22 Section 18. Reference to Brand Names
- Specification for the procurement of Goods shall be based on relevant characteristics, functionality and/or performance requirements. Reference to brand names shall not be allowed except for items or parts that are compatible with the existing fleet or equipment of the same make and brand, and to maintain the performance, functionality and useful life of the equipment."*
- 15.23 It was clear in the aforementioned provision that imposes an absolute prohibition on reference to brand name and this applies to procurement of goods – "Ganador" rice and the use of brand names is for selected equipment only.
- 15.24 Validation of the item description from the PRs, RFQs, Abstracts of Canvass, Posting to PhilGEPS, Purchase Orders (POs) and Delivery Receipts (DRs) revealed that "Ganador Rice" was constantly indicated

instead of a specific variety of rice *i.e.* (Well-milled, Regular-milled, Fancy or Special and Premium)

- 15.25 **We recommended to Management to direct the BAC to explain why they had indicated in the PRs, POs and the Abstract of Canvass, the brand name “Ganador”.**

Advance payment of ₱4,840,000.00 before delivery of 1,936 sacks of rice

- 15.26 **Claims amounting to ₱4,840,000.00 were processed and paid in advance before actual delivery of 1,936 sacks of rice is contrary to Sec. 88 of P.D. 1445.**

Section 88 of PD 1445 prohibits against advance payment on government contract for service not yet rendered or for supplies and materials not yet delivered. No payment, partial or final shall be made on any contract unless services or supplies and material have been rendered or delivered.

- 15.27 Audit showed that the Accounting Section prepared the nine (9) Disbursement Vouchers on February 21, 2018 for processing of payment totaling ₱ 4,840,000.00 to MGE’s General Merchandise even though there was no delivery yet of the items procured as of that date.
- 15.28 The Cashier prepared and issued the List of Due and Demandable Accounts Payable-Advice to Debit Account (LDDAP-ADA) on February 24, 2018. The LDDAP-ADA was received by the Land Bank of the Philippines (LBP)-Cebu Osmeña Branch on February 27, 2018. The payment was credited to MGE’S General Merchandise’s LBP Cebu Capitol Branch Account # 3171-0658-94 on February 28, 2018.
- 15.29 Records revealed that the delivery receipt dated February 28, 2018 was inspected by Ms. Janice Ann C. Burbos, Labor Employment Officer III on even date. In our interview with Ms. Michelle L Momongan, the contractual project base individual, she said that the 1st batch was delivered on February 28, 2018; and the 2nd batch was delivered five days after.
- 15.30 It would seem that the DOLE VII provided funds to the winning supplier – for the latter to be able to purchase the goods for delivery to the former. As discussed in paragraph 15.3.b, MGE’s does not have the capacity to deliver a contract worth ₱4,840,000.00.
- 15.31 **We recommended for Management to direct the IMSD Chief to explain why the processing and payment to MGE’s was made in advance.**
- 15.32 The management commented that a joint reply will be drafted by the BAC secretariat. All issues related to the irregularity of the canvass will be will be jointly answered. This will be submitted within March 2020.

An independent committee was also created to conduct the impartial investigation and had already submitted the facts on the investigation to the management. Currently, management is still evaluating the report submitted by the committee.

- 15.33 The Office of the Auditor received the reply from the BAC Secretariat around the first/ second week of March. The reply however was found to be inadequate in explaining the irregularities. The reply should specifically explain the existence of procurement documents, whether it was falsified or not, the parties involved if it was falsified, and the narration of the truth of the matter. Splitting was not also explained as well as the advance payment to MGE. For that, the Office of the Auditor requires a more specific and responsive reply.

As for the other audit observations, the documents required and the progress in the investigation will be monitored within the 3rd quarter of the year.

- 16. Various goods procured through “Shopping” totaling ₱1,420,002.00 are deemed illegal due to the following:**
- a. RFQs submitted by D’LMR Gen. Merchandise and Cebu D & F Enterprises were falsified;**
 - b. bids/quotations from other suppliers were arranged and facilitated by a supplier adjudged as the winning bidder; and**
 - c. defrauding the government by making it appear that a canvass was conducted hence, unlawful and punishable under Article 171 of the Revised Penal Code and Section 65 of R.A. 9184.**

In addition, allowing the end-user to prepare and send RFQs to suppliers is contrary to Section 52.1(b) of the 2016 Revised Implementing Rules and Regulation (RIRR) – particularly Annex “H” on the consolidated guidelines for the alternative methods of procurement of R.A. 9184.

- 16.1 Article 171 of the Revised Penal Code describes the act attributable to falsification by public officer or employee, such as; counterfeiting or imitating any hand writing or signature; causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate.
- 16.2 Section 65.2. (b and d) states that private individuals who commit any of the following acts, including any public officer, who conspires with them, shall suffer the penal liabilities and sanctions provided in Rule XXI of the 2016 RIRR of R.A. 9184 as follows:
- a. When a bidder maliciously submits different Bids through two or more persons, corporation, partnership or any other business entity in which*

he has interest to create the appearance of competition that does not in fact exist so as to be adjudged as the winning bidder.

- b. When the bidder, by himself or in connivance with other, employ schemes which tend to restrain the natural rivalry of the parties or operates to stifle or suppress competition and thus produce a result disadvantageous to the public.*

16.3 Section 52.1(b), (ii and iv) of the 2016 RIRR-Annex H of RA 9184:

- a. The BAC shall prepare the RFQ, indicating the specifications, quantity, xxx.
- b. The BAC shall send the RFQs to at least three (3) suppliers of known xxx.

16.4 Audit on the utilization of Notice of Transfer of Allocation (NTA) for CY 2018 disclosed that DOLE RO VII purchased various goods for the implementation of OFWs livelihood assistance program “Sa Pinas Ikaw ang Maám/ Sir”, “Balik Pinay!” “Balik Hanapbuhay” and “Byaheng Agripreneur”.

16.5 All purchases were made through Shopping - supported with three (3) bids/quotations as canvass documents. We observed that in the twenty-four Purchase Orders (P.O.) issued, MGE’s always emerged as the winning supplier, while the following suppliers were the constant losing bidders - alternating each on their supposed bid participation. Details are shown in *Annex W*

16.6 Verification of the bids/quotations for the five (5) bidders namely MGE’s General Merchandise, D’LMR General Merchandise, Cebu D & F Enterprises, WELLANN Marketing General Merchandise, KINETIX Trading, NUTECH Marketing, Inc. (*MGE’s, D’LMR, CDFE, WELLANN, KINETIX, and NUTECH respectively, for brevity*) disclosed the following:

- a. In all instances that the above-mentioned suppliers submitted their quotations, MGE’s always came out as the winning supplier.
- b. D’LMR’s twenty-two (22) RFQs were falsified. Ms. Jenny B. Tejano, an outsource employee (LBP Service Corporation) assigned at the supply office in DOLE, admitted being ordered to sign on the name of Ms. Rosemarie L. Taneo, supplier of D’LMR.
- c. CDFE’s four (4) RFQs are highly questionable since its business ceased to operate in the early part of CY 2017. (*Please refer to the discussion of paragraph 15.*)
- d. We visited WELLANN at Aznar Road, Sambag 1, Cebu City the address provided in the RFQ but the store could not be found at its stated

address. We learned that it moved to Talisay City sometime in 2017. However, we were able to get the telephone number of its proprietor, Mr. Noel P. Cano, in the tarpaulin hanging on the former store. In our telephone interview with Mr. Cano, he said that he never submitted an RFQ to DOLE RO VII. Mr. Cano recalled that sometime in *the year 2018*, Ms. Grace Magdadaro, a representative of MGE's, requested him to sign the RFQs. The eight (8) RFQs submitted by WELLANN were all for the year 2018.

- e. Mr. Edmond (*surname unreadable*) signed the eight (8) RFQs for KINETIX. Telephone interview with Mr. Paul Lim, owner of KINETEX, confirmed that Mr. Edmond is their store messenger but is not authorized to fill up or quote a price in the canvass form.

We tried to interview the representative of NUTECH who signed the RFQ, but she was not willing to be interviewed.

- 16.7 We also noted that D'LMR was one of the losing suppliers in twenty-two out of the twenty-four transactions (there was no canvass made in one transaction). Other losing suppliers were as follows:

| <u>Name of Supplier</u> | <u>No. of transactions</u> |
|-------------------------|----------------------------|
| WELLANN | 9 |
| KINETEX | 8 |
| CDFE | 4 |
| NUTECH | <u>2</u> |
| TOTAL | <u>23</u> |

- 16.8 MGE's consistently emerging as the winning bidder in the twenty-four (24) Purchase Orders with dates from March 8, 2018 to October 30, 2018, creates an impression of pre-arranged canvass to a favored supplier. This deprives the Procuring Entity of the benefits of free and open competition among prospective suppliers, which is prejudicial to the interest of the government and is contrary to the Procurement Law.
- 16.9 An interview with Mr. Gilbert C. Carredo, BAC Secretariat disclosed that Mr. Dexter F. Paro, DOLE-NRCO 7 Regional Coordinator, prepared and signed the "canvass by" portion of all the RFQs mentioned, to facilitate the procurement process. Mr. Paro submitted the filled-up RFQs to Mr. Carredo for recording in the Abstract of Canvass/Award and for approval by the BAC.
- 16.10 The forgoing conditions substantiate our observation that no actual canvass was done, as quotations of suppliers D'LMR and CDFE were falsified, while WELLANN and KINETIX quotations were questionable. As a result,

this gave due advantage to a supplier adjudged as a winning bidder and suppressed competition among bidders.

16.11 **We recommended for Management to:**

- a. **Require Mr. Dexter F. Paro to submit an explanation on how he obtained the quotations from the losing bidders.**
- b. **Require the BAC Secretariat to submit an explanation why they allowed Mr. Paro, the end-user to prepare and sign the canvass by portion of the RFQ.**
- c. **Require the BAC members to explain why they allowed the irregularity of canvass in the procurement of goods intended for the beneficiaries under the livelihood assistance for disadvantage/distressed OFW returnees program.**
- d. **Create a committee to investigate the matter and take appropriate action against the persons or parties involved in the scheme. If there is a *prima facie* evidence of collusion, Management should bring the matter to the proper graft investigating body for filing of case/s.**
- e. **Remind the BAC to review the canvass document carefully to promote fairness and transparency in the procurement process and obtain reasonable price offers most advantageous to the government.**

16.12 During the exit conference, management informed the team that a committee has already been created and submitted the facts on the investigation. The management is currently evaluating the report submitted and also required the BAC Secretariat to submit their reply within March 2020.

Management also directed the BAC chairman and members to carefully evaluate/review the bidding documents to promote fairness and transparency in the procurement process and review price quotations to check if the price offer is most advantageous to the government.

16.13 The Office of the Auditor received the reply from the BAC Secretariat around the first/ second week of March. The reply is still subject to evaluation upon resumption of work.

17. **Payment for minor repair of two (2) water pumps amounting to ₱135,000.00 were tainted with fraud since quotations submitted appear falsified. This is unlawful, to the prejudice of the interest of the government; and punishable under Article 171 of the Revised Penal Code and Section 3 (e and g) of the Anti-Graft and Corrupt Practices Act (RA 3019).**

In addition, the procurement was made through Shopping, contrary to Sec. 52 of the Revised Implementing Rules and Regulations (RIRR) of RA 9184.

- 17.1 Article 171 (2) of the Revised Penal Code describes the acts attributable to falsification by a public officer or employee, such as; counterfeiting or imitating any handwriting or signature; causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate, among others.
- 17.2 Section 3 (e and g) of the Anti-Graft and Corrupt Practices Act which provides that the following shall constitute practices of any public officer and are hereby declared to be unlawful:
- a. Causing any undue injury to any party, including the Government or giving any private party any unwarranted benefits, advantage or preference in the discharge of his official administrative or judicial functions through manifest partiality, evident bad faith or gross inexcusable negligence.
 - b. Entering, on behalf of the Government, into any contract of transaction manifestly and grossly disadvantageous to the same, whether or not public officer profited or will profit thereby.
- 17.3 Section 52.1, (52.1.b) and (52.2) of the 2016 Revised IRR of RA 9184:
- Shopping – Procuring Entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment xxx;
 - Procurement of ordinary or regular office supplies and equipment xxx not available in the Procurement Service;
- However, office supplies shall not include such services as repair and maintenance of equipment xxx and related or analogous services.
- 17.4 Post-audit of disbursement vouchers disclosed that procurement for the repair of two water pumps was done through alternative mode of procurement - “Shopping”, which is contrary to Sec. 52 of the RIRR of RA 9184. This was supported with three (3) quotations as canvass documents.
- 17.5 Verification of the quotations submitted by the three (3) suppliers namely Color Acuity International Inc.; Crest Sun Industrial Products, Inc.; and EASTMAN Industrial Supply Inc. (Color Acuity, Crest Sun and EASTMAN respectively, for brevity) revealed the following:

- a. The winning supplier Color Acuity's business category in the organization profile directory registered in the PhilGEPS is that of a manufacturer of Fire Fighting, Rescue and Safety Equipment. We noted that the same supplier also won in the supply of breeding stock, feeds, milled rice and corn, grocery items, raw materials and equipment intended for DOLE VII's livelihood projects. Audit observations for that procurement were communicated to Management in AOM no. 2019-010-(18&19) dated July 05, 2019.
 - b. We visited the stores of the losing suppliers (Crest Sun and EASTMAN), to interview and to verify the authenticity of the signatures in the price quotations offered.
 - c. Ms. Sandra R. Luna, owner/manager of Crest Sun revealed that their company is engaged in the manufacture of Fire Fighting, Rescue and Safety Equipment. She disowned the signature in the price quotation and presented two credit cards (BDO & Union Bank) to prove her identity. (*Annex X*). She pointed out that the letter head with their company name in the price quotation is not theirs. This contradicts the quotation allegedly participated by her company.
 - d. Mr. Roland J. Menina, manager of EASTMAN stated that the he never signed nor submitted a price quotation to DOLE RO VII for repair of water pump. He emphasized that Ricson Herbania, who signed the quotation as manager, is not their employee but a subcontractor who is engaged in the installation/service jobs for their customers who buy their industrial products. (*Annex Y*)
- 17.6 The certificate of completion submitted by Color Acuity International Inc., states that the repair was accomplished by Rixon S. Herbania. This is the same person who misrepresented himself as manager of EASTMAN in the quotation submitted. (*Annex Z*)
 - 17.7 It appears that both quotations submitted by the losing suppliers Crest Sun and EASTMAN were spurious.]
 - 17.8 The transaction is considered highly irregular and anomalous. It seems that there was no actual canvass made and the signatures affixed in the two (2) quotations were questionable. More so, the losing bidder, Ms. Luna of Crest Sun, disowned the signature in the submitted RFQ; and there was misrepresentation of Mr. Ricson Herbania, who affixed his signature as manager of EASTMAN in the RFQ.
 - 17.9 The foregoing conditions show that the two (2) quotations supporting the payment for the repair of water pump were fabricated, thus unlawful. This is prejudicial to the interest of the government and disregards the Procurement Law.

17.10 We recommended for Management to:

- a. **Require the BAC secretariat to submit an explanation on how he obtained the price quotation of the two (2) bidders Crest Sun Industrial Products, Inc. and EASTMAN Industrial Supply Inc.**
- b. **Require the BAC members to explain:**
 - **why they allowed the irregularity of canvass in the procurement of services for the repair of water pump; and**
 - **why Shopping was resorted to in this procurement**
- c. **Create an independent committee to investigate the matter and take appropriate action against the persons or parties involved. If there is a *prima facie* evidence of collusion, Management should bring the matter to the proper graft investigating body for filing of case.**
- d. **Henceforth, direct the BAC to carefully review the authenticity of the price quotations received for their deliberation in order to promote fairness and transparency in the procurement process and obtain reasonable price offers most advantageous to the government.**

17.11 The management commented that they already tasked the BAC Chairman and members to investigate the authenticity of the price quotations received and to inquire the market price of the same product/services in the market to resolve the reasonableness of the price in the contract.

Management also stated that a joint reply will be drafted by the BAC secretariat. All issues related to irregularity of the canvass will be jointly answered. This will be submitted within March 2020.

Moreover, an independent committee was also created and had already submitted the facts on the investigation to the management. Currently, management is still evaluating the report submitted by the committee.

Advance Payment for Gasoline expenses

18. Procurement of diesel and gasoline in the total amount of ₱194,830.38 was paid in advance, contrary to Sections 2 and 88 of Presidential Decree (PD) 1445, resulting in irregular disbursement of government funds. Likewise, the government may incur losses if the supplier fails to delivered the procured items.

18.1 Section 2 of PD 1445 states that “*Declaration of Policy—It is the declared policy of the State that all resources of the government shall be managed,*

expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.”

18.2 Section 88 (1) of PD 1445 states that the government shall not be obliged to make an advance payment for, among others, supplies and materials not yet delivered under any contract. No payment, partial or final, shall be made on any such contract except upon a certification by the head of the agency concerned to the effect that supplies and material have been delivered in accordance with the terms of the contract and have been duly inspected and accepted.

18.3 Our audit showed that DOLE R.O. VII paid in advance to Carland Caltex Service Station the amount of ₱ 194,830.38 for the supply of 2,173 liters of diesel fuel and 1,732 gasoline fuel for its transportation vehicle for the period June to December 2019, as follows:

| Check No. | Date | Gross | VAT | Net |
|-----------|-----------|-------------|------------|-------------|
| 1665911 | 6/11/2019 | ₱194,830.38 | ₱10,437.34 | ₱184,393.04 |

18.4 Since there was no supply or delivery of fuel to speak of, the disbursement of ₱194,830.38 was irregular and placed the agency at a disadvantage in case the Gas Station fails to deliver the goods paid for.

18.5 Consequently, DOLE RO VII is giving undue benefit/advantage to the supplier for the advance payment made and depriving the agency on the use of the funds for other priority expenses.

18.6 **We recommended for Management to:**

- a) **Refrain from paying in advance for goods not yet delivered, pursuant to Section 88 (1) of P.D. 1445;**
- b) **Demand full refund of the remaining unconsumed balance of fuel (prepayment of diesel and gasoline); and**
- c) **Explain why advance payment was made in this transaction.**

18.7 Management had already submitted the reply on this audit observation last September 18, 2019. This year we will have a credit line to the winning supplier after the BAC will evaluate and recommend to the HOPE the lowest bidder. We will pay it on a monthly basis based on the actual consumption of gasoline per month.

Overpayment of Transportation Allowance

19. Officials receiving monthly TA and who used government service vehicle/s were not deducted the proportionate amount from the TA they received, in violation of Sec. 59 (a) of the General Provision of the General Appropriations Act, FY 2019; and Section 2.3 of COA Circular No. 2000-05 dated October 4, 2000.

- 19.1 Section 59 (a) of the GAA FY 2019 (R.A. 11260) provides that “xxx The transportation allowance, whether in full or partial amounts, authorized herein shall not be granted to officials who are assigned or actually using government motor transportation, xxx” Section 2.3 of COA Circular No 2000-5 likewise provides that “Whenever an official or employee entitled to transportation allowance uses the government vehicle issued to his office, a corresponding proportionate reduction on his transportation allowance shall be made.”
- 19.2 Audit of disbursement vouchers for the period January to May 2019 disclosed the payment of monthly RATA to DOLE officials, as shown in *Annex AA*
- 19.3 Officials who were receiving monthly TA and availed the services of a government vehicle were not deducted proportional amount for its use, in violation of the provision of the abovementioned law. The instances when these officials availed of a government vehicle are enumerated in *Annex BB*.
- 19.4 As a result, the government was deprived of the proportionate reduction of the TA from officials who used government service vehicle.
- 19.5 **We recommended for Management to:**
- a. Strictly implement the provisions of existing laws, rules and regulations in the granting of TA and deduct the proportionate amount from the TA using recommended formula (TA for the month divide by the number of working days for the month) whenever government vehicle were used; and**
 - b. Further, require the officer/employee concerned to refund the proportionate amount of TA claimed from the agency.**
- 19.6 During the exit conference, the management acknowledged the audit recommendation to deduct a proportionate amount of their TA every time they use the government vehicle. However, they seek reconsideration on the fairness of the recommended computation. They stated that deduction should be based on the number of hours of usage and not on the number of days of usage of the vehicle.

- 19.7 The team maintains its audit recommendations that the deduction for TA should be based on the number of days, regardless when the government vehicle is only used for less than a day.

This is in consonance with DBM NBC No. 548 which sets the guidelines on the amount of RATA based on the number of workdays of actual work performance. Implicitly, RATA is earned by the number of workdays. As such, the corresponding deductions thereto should likewise be based on the number of days of usage.

Incomplete documentation of financial transactions

- 20. The terms of the Memorandum of Agreement (MOA) between the Department of Labor and Employment (DOLE) VII and MLhuillier Financial Services Inc. (MLFSI) for the payment of salaries for DOLE employment program lacked provisions which would require MLFSI to:**
- a. furnish DOLE with an original copy of the acknowledgement receipt signed by the individual recipient/beneficiaries.**
 - b. return unclaimed salaries within a certain period of time.**

These are contrary to Section 4(6), of P.D. 1445 and Section 5, Chapter 2, GAM, Vol. I, and expose government funds to loss and/or wastage.

Since the disbursements lacked acknowledgement receipt from the individual payees, the disbursement vouchers (DVs) relative thereto amounting to P202,325,124.60 were not been submitted to this Office, contrary to Section 7.2.1(a) of COA Circular No. 2009-006.

- 20.1 Section 4(6) of Presidential Decree (PD) 1445 states that all claims against government fund shall be supported with complete documentation. The same provision is reiterated in Section 5, Chapter 2, of the Government Accounting Manual (GAM), Vol. I.
- 20.2 Complete documentation includes compliance to the basic requirements in the disbursement of government funds; and that payments must be duly acknowledged and properly receipted.
- 20.3 Section 7.2.1(a) of COA Circular No. 2009-006 dated September 15, 2009 provides that:

“The Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that:

- a. The reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month.” (Underscoring ours).
- 20.4 On April 11, 2018, DOLE RO VII entered into a MOA with MLFSI, for the former to avail of the services of the latter, thru its ML Kwarta Padala’s nationwide network of branches for payroll remittance. These are for the DOLE’s Special Program for Employment of Students (SPES), Tulong Panghanapbuhay sa ating Disadvantage/Displaced Workers (TUPAD), and Government Internship Program (GIP) beneficiaries.
- 20.5 In accordance with the agreement, DOLE shall deposit cash to an MLFSI bank account in an amount equal to the payroll, plus a service fee of fifteen pesos (P15.00) for each payee.
- 20.6 Our review of the MOA revealed that there is no provision requiring MLFSI to:
- furnish DOLE with an original copy of the acknowledgment receipt signed by the individual recipients/beneficiaries
 - return to DOLE all unclaimed salaries within a certain period of time
- 20.7 Verification of the Report of Advice to Debit Account Issued (RADAI) and Reports of Check Issued (RCI) revealed that due to the absence of acknowledgment of payment received by recipient/beneficiaries, one thousand three hundred seventy-four (1,374) DVs paid to MLFSI for the cash transfers of the above programs amounting to P202,325,124.60 were not submitted to COA. (*Annex CC*). The absence of the acknowledgment receipt considered the disbursement invalid, for failing to meet the fundamental requirement in the disbursement of government funds– that claims against government funds shall be supported with complete documentation.
- 20.8 In our Interview with the cashier Ms. Irene B. Beltran, pertaining to the procedures on cash transfer, payroll transmittal, keeping of records and monitoring of claims, the audit team discovered the existence of unclaimed money transfers from various recipient/beneficiaries per ML Web report downloaded. The summary of unclaimed money remittances are as follows:

| Period Covered | No. of Payee/ Claimant | Amount |
|-----------------------|-----------------------------------|----------------------|
| July to December 2018 | 236 | P897,518.24 |
| January to June 2019 | 133 | 416,052.70 |
| July to October 2019 | 946 | 4,489,497.77 |
| | | P5,803,068.71 |

20.9 There is no provision in the MOA which would require MLFSI to return unclaimed money transfers within a specified period of time. Nevertheless, even without this provision, DOLE should have demanded for the return of the unclaimed salaries, which had accumulated to ₱5,803,068.71 as of October 2019. This exposed government funds to loss and/or wastage, if not reverted to DOLE.

20.10 **We recommended for Management to:**

- a. **Amend the MOA to include provisions on the following:**
 - o **Submission by MLFSI to DOLE of original copies of documents showing acknowledgment/receipt of payment by individual beneficiaries.**
 - o **Return to DOLE any unclaimed money transfers after a specified period(example: after two months from cash deposit), as determined and agreed by both parties.**
- b. **Demand from MLFSI all unclaimed money transfers as of December 31, 2019.**
- c. **Instruct the Accountant and Cashier to fast-track the submission of required documents for these transactions, so that the DVs and its supporting documents could immediately be submitted to the Office of the Auditor. Henceforth, strict compliance to the dates of submission of DVs and supporting documents must be observed.**

20.11 Management agreed to amend the MOA and to include the recommended provisions. They have also informed the team that they are still tracing the beneficiaries of those unclaimed money transfers and after all their efforts to locate them, if there are still unclaimed money transfers, they will request MLFSI to return and deposit it to the National Treasury.

The Cashier is already preparing the documents to be submitted to COA this March 2020 for the month of December 2019.

20.12 The team will follow-up submission of the amended MOA, monitor the return of unclaimed money transfers and transmittal of DVs on the 2nd quarter of 2020.

Unauthorized transfers from Cash MDS account to CIB-LCCA

21. **Appropriated funds totaling ₱8,524,039.68 were transferred from Cash-National Treasury, MDS Account to Cash-in-Bank, Local Currency, Current Account No: 0142-0278-28 (DOLE SPES Grant) without complete supporting documents to establish the existence of valid claims, thus constitute unauthorized transfer to avoid the lapse of funds, in violation of Sections 4.0**

and 6.0 of DBM Circular Letter No. 2013-12, Section 34, Chapter 2, Volume I of Government Accounting Manual (GAM) and Section 3.3 DOF DBM COA Permanent Committee Joint Circular No. 4-2012.

- 21.1 Section 4.0 of Department of Budget and Management (DBM) Circular Letter No. 2013-12 dated November 21, 2013 requires that effective January 1, 2014, all Notice of Cash Allocation (NCA) releases for regular Modified Disbursement System (MDS) accounts, whether comprehensively released or additional releases, shall be valid until the last working day of the 3rd month of that quarter. Thus, Section 6.0 of same Circular Letter specifically provides that all NCA balances at the end of each quarter are considered lapsed after the last working hours of said quarter.
- 21.2. Section 34, Chapter 2, Volume I of GAM defines use of appropriated funds – all money appropriated for functions, activities, projects and programs shall be available solely for the purposes for which these are appropriated.
- 21.3. Section 3.3, of the DOF DBM COA Permanent Committee Joint Circular No. 4-2012 defines Unauthorized Accounts as Cash account balances maintained by agencies without specific authority or legal basis.
- 21.4. Audit of the Special Program for the Employment of Students (SPES) revealed that a Cash-in Bank-Local Currency, Current Account (CIB-LCCA) is being maintained with the Land Bank of the Philippines (LBP) where SPES funds are transferred from Cash-National Treasury, Modified Disbursement System (NT-MDS). During the year, funds totaling ₱8,524,039.68 were transferred in three (3) tranches through check/ADA from Cash-NT, MDS as presented below:

| DV No. | DATE | CHECK/ ADA No. | PAYEE | Amount |
|---------------|---------------|---------------------------|-----------------|----------------------|
| 18-06-886 | June 05, 2018 | 1650256 | DOLE SPES GRANT | ₱2,046,039.68 |
| 18-06-1104 | June 29, 2018 | 990000766 | DOLE SPES GRANT | 1,478,000.00 |
| 18-12-2705 | Dec. 27, 2018 | 1657185 | DOLE SPES GRANT | 5,000,000.00 |
| Total | | | | ₱8,524,039.68 |

- 21.5. The maintenance of CIB-LCCA DOLE SPES GRANT is not necessary considering that SPES expenses could be paid thru Cash-NT, MDS and a yearly budget for the said program is provided in the GAA.
- 21.6. Review of the Disbursement Vouchers (DVs) covering the transfer of funds disclosed that the DVs were not supported with documents to establish valid claims as follows:

| DV No. | SUPPORTING DOCUMENT |
|------------|---|
| 18-06-886 | SPES Account Monitoring and DOLE D.O. Order No. 175 S. 2017 |
| 18-06-1104 | No supporting documents attach |
| 18-12-2705 | SPES Summary Works and Financial Report (4 th Quarter of 2018) |

- 21.7. The issuance of check/ADA to transfer the funds is a form of disbursement, thus requiring complete supporting documents. The disbursements from Cash-NT, MDS account did not establish valid obligations and justify the drawing of check/ADA for the purpose. Per se, these transactions constitute unauthorized transfer of funds and a clear sign of avoiding the lapse of funds, in violation of Sections 4.0 and 6.0 of DBM Circular Letter No. 2011-15, Section 34, Chapter 2, Volume I of GAM and Section 3.3 of DOF DBM COA Permanent Committee Joint Circular No. 4-2012.
- 21.8. Transfer of funds from MDS account to LCCA account to avoid the automatic reversion of unutilized/excess funds source from NCA releases, deprived the National Treasury (NT) to maximize the use of scarce government resources by reducing government borrowings and rationalizing cash management and hinders the government of using these funds to finance other priority programs/projects and expenditures.
- 21.9. **We recommended to Management to stop the practice of transferring MDS funds to LCCA account; and revert the unutilized balance of SPES GRANT account to the NT; and subsequent closure of existing Cash-in-Bank LCCA No. 0142-0278-28 (DOLE SPES GRANT) unless authorized by law.**
- 21.10. Management commented that they have already stopped the practice of transferring MDS funds to LCCA account starting 2019. Currently, the Accountant is waiting for the bank statement as of December 2019 for the preparation of the bank reconciliation. After which, they will request for the closure of their existing Cash in Bank LCCA No. 0142-0278-28 (DOLE SPES GRANT) and transfer/revert it to the National Treasury this March 16, 2020.
- 21.11. The audit team will monitor the closure of account and reversion of unutilized balance, the team have yet to receive proof of closure of account and reversion of unutilized balance to the National Treasury. Monitoring of compliance will be on the 2nd quarter of 2020.

Non-submission of financial reports on time

22. **DOLE R.O. VII failed to submit complete Financial Statements (FS) for CY 2019 as prescribed under Sections 60 and 5, Chapter 19 of the Government Accounting Manual (GAM), Volume I, thus, verification thereof will be delayed.**

22.1 Section 60, Chapter 19 of the GAM, Volume I, provides that all NGAs shall prepare and submit the following FS and supporting schedules within the prescribed deadlines as follows:

b. Regional/Branch Offices

| Frequency | Statement/ Report | Deadline | Submission to: |
|------------------|--|--|--|
| Monthly | TBs and supporting schedules | 10 days after the end of the month | Regional Auditor, C.O.- Chief Accountant |
| Quarterly | TBs, FSs, supporting schedules | 10 days after the end of the quarter | Regional Auditor, C.O.- Chief Accountant |
| Annually | TBs, FSs, supporting schedules (Combined RO and OUs) | On or before <u>January 31</u> of the following year | Regional Auditor, C.O.- Chief Accountant |

22.2 Sec. 5, Chapter 19, Vol. I of the GAM states that a complete set of financial statements (condensed and by fund cluster) to be submitted by an entity shall include the following:

- a. Statement of Financial Position;
- b. Statement of Financial Performance;
- c. Statement of Changes in Net Assets/Equity;
- d. Statement of Cash Flows;
- e. Statement of Comparison of Budget and Actual Amount; and
- f. Notes to FS, comprising a summary of significant accounting policies and other explanatory notes.

22.3 The FS are reports that quantify the financial position and show the results of operations of an Agency. These are useful to verify the details of certain transactions, as outlined in the disclosures in the Notes to FS that accompany the statements.

22.4 Sec. 6.d, Chapter 19, Vol. I of the GAM states that,

“Timeliness – the usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. Ongoing factors such as the complexity of an entity’s operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.”

- 22.5 Records show that DOLE RO VII was unable to submit the complete set of the aforementioned FS for CY 2019 within the prescribed deadline, which is on or before January 31, 2020.
- 22.6 Further, the Trial Balances from August to December 2019 have not yet been submitted to the Audit Team as of this date.
- 22.7 Failure to submit the same within the prescribed period deprives the stakeholders of timely information on how the public resources were acquired and utilized. Likewise, non-submission of the FS hindered the exercise of audit functions in the review thereof.
- 22.8 We asked the Accounting Division, verbally and in writing, for the reason/s of their failure to submit the FS on time. This Office did not receive any response.
- 22.9 **We recommended for Management to require the Chief Administrative Office of IMSD, in close coordination with Accountant III and II to promptly submit all succeeding TB and FS with the complete schedules within the deadline set in Section 60, Chapter 19 of the GAM, Vol. I.**
- 22.10 The management stated they already instructed the IMSD Chief, Accountant III and II to comply with the deadline set. However, for the year-end financial reports, they were having minor setbacks on the submission especially on the confirmation from the Central Office and also the final closing of the accounts payable. They committed that for the year 2020, submission of reports will be on time.
- 22.11 As a rejoinder, the audit team will monitor the management's commitment to a timely submission of reports within the second quarter of 2020.

On GAD Reports

23. The management has integrated various programs intended for GAD totaling ₱121,807,970.00 or 14.20% of their total appropriation of ₱857,635,865.50. This fully satisfies the five percent (5%) requirement under Section 32 of the General Provisions of RA 11260, otherwise known as the General Appropriation Act of 2019. Details are shown in *Annex DD*.

Implementation of Senior Citizens and Person with Disability Program

24. DOLE-RO VII has formulated plans, programs, activities and projects that would enhance the mobility, safety and welfare of the senior citizens and persons with disability, in compliance with Section 33 of the General Provisions of Republic Act 11260. Details are shown in *Annex EE*.

Compliance with Tax Laws

25. DOLE-RO VII has complied with the provisions contained in Revenue Regulations requiring the withholding of taxes on government transactions and remittances thereof to the Bureau of Internal Revenue. Details of which are shown in *Annex FF*.

The remitted balance on January 10, 2020 totaling ₱1,456,925.25 as shown in the schedule did not coincide with the balance per books at year-end which has a balance of ₱73,846.44, which in turn yields a variance of ₱1,383,078.81.

Withholding and remittance of GSIS premiums and loans for CY 2019

26. The Government Service Insurance System (GSIS) personal share and loans of employees and Social Insurance Fund (SIF) and Employees Compensation Insurance Fund (ECIF) premiums as government shares for CY 2019 of DOLE-RO VII amounting to ₱10,663,829.02, were deducted and remitted to the GSIS, in accordance with RA No. 8291, the GSIS Act of 1997. Details of which are shown in *Annex GG*.

However, an unreconciled amount of ₱49,782.02 were shown to exist at the end of the year.

Withholding and remittance of Pag-IBIG Fund contribution and loans for CY 2019

27. The Pag-IBIG Fund contribution personal share and loans of employees and government shares for CY 2019 of DOLE-RO VII amounting to ₱147,200.00 and ₱452,653.34 respectively, were deducted and remitted to the Home Development Mutual Fund (HDMF), in accordance with RA No. 9679, the HDMF Law of 2009. Details of which are shown in *Annex HH*.

However, an unreconciled amount of ₱200.00 were shown to exist at the end of the year.

Compliance with PDAF

28. For the CY 2019, no Priority Development Assistance Fund was received by DOLE-RO VII.

Hiring of Job Order Personnel

29. DOLE-RO VII had fifteen (15) Job Order personnel and thirty-six (36) personnel covered with Contract of Service (COS) Agreement as of December 31, 2019. Their salaries were charged against Maintenance and Other Operating Expenses (MOOE) of the agency.

Status of Audit Suspensions, Disallowances and Charges

30. The total unsettled audit suspensions, disallowances and charges as reflected in the Statement of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2019 are as follows:

| <i>Particulars</i> | <i>Beginning Balance (Php)</i> | <i>Issued During the Year (Php)</i> | <i>Settlements During the Year (Php)</i> | <i>Ending Balance (Php)</i> |
|--------------------|--------------------------------|-------------------------------------|--|-----------------------------|
| Audit Disallowance | 1,424,386.16 | 138,158.23 | 15,715.24 | 1,546,829.15 |
| Audit Suspension | 29,919,116.35 | 3,003,027.00 | 1,425,763.01 | 31,496,380.34 |
| Audit Charge | 0.00 | 0.00 | 0.00 | 0.0 |

IV. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

31. The status of actions taken by the Post on the prior years' audit recommendations follows:


| <i>Status of Implementation</i> | <i>No. of Recommendations</i> |
|---------------------------------|-------------------------------|
| Fully Implemented | 3 |
| Partially Implemented/Ongoing | 10 |
| Not Implemented | 8 |
| Total | 21 |

32. The results of validation by the Audit Team on the suggested actions on prior year's recommendations are presented in *Annex II*.
33. Prior years' audit observations and recommendations which are not yet acted upon or reported actions not yet sufficient to address existing deficiencies are reiterated with modification in Part III of the report

V. ACKNOWLEDGEMENT

34. We wish to express our appreciation to the Management and staff of DOLE-RO VII for the cooperation and assistance extended to our audit team during the audit.
35. We would appreciate receiving your reply, both hard and electronic copies, within sixty (60) days from receipt of this letter.

Very truly yours,



NEMESIO S. PADILLA
State Auditor III
Audit Team Leader

Copy furnished:

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