C. DETAILED OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL AND COMPLIANCE

CY 2015

The Agency failed to prepare its monthly Bank Reconciliation Statements as required by Section 74 of PD 1445, thus the reliability of the "*Cash in Bank – Local Currency Current Account*" and "*Cash in Bank –Modified Disbursement System (MDS), Regular* as of December 31, 2015 amounting to ₱16,231,118.03 and ₱1,989,683.49, respectively, or a total of ₱18,220,801.52 could not be ascertained.

10. Section 74 of PD 1445 requires that ***at the close of each month***, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.

11. Our review of the Agency's Cash in Bank accounts for All Funds disclosed the following:

Account Name	Amount
Cash in Bank-Local Currency, DBP	16,231,118.03
Cash in Bank –Modified Disbursement System (MDS), Regular, LBP	1,989,683.49
Total	**18,220,801.52**

12. Related thereto, we noted further that in the reported Inventory of Bank Accounts as of December 31, 2015, DOLE Regional Office No. V maintains nine (9) bank accounts and all of them are active, viz:

	Name of Bank	Account Name	Account No.	Purpose of maintaining Account	Status A-Active D-Dormant
1	LBP-Legazpi	DOLE-RO5	2013-9033-47	MDS Regular	A
2	LBP-Legazpi	DOLE-RO5	2013-9033-55	Accounts Payable	A
3	LBP-Legazpi	DOLE ROV SPES	0132-0200-35	SPES Payroll	A
4	LBP-Legazpi	DOLE ROV	0131-1127-34	Unclaimed SAB	A
5	LBP-Legazpi	DOLE V (EFPS)	0131-2864-65	BIR Tax	A
6	DBP-Legazpi	DOLE Trust Fund	0615-005824080	Small Money Claims	A
7	DBP-Legazpi	DOLE AEP	0615-025911080	Alien Employment Permit	A

	Name of Bank	Account Name	Account No.	Purpose of maintaining Account	Status A-Active D-Dormant
8	LBP-Pili	DOLE-BRW	2702-102793	SAP Funds	A
9	LBP-Legazpi	DOLE NARS	0132-1055-53	NARS Program	A

13. We observed that the Agency lagged behind in the preparation and submission of the bank reconciliation statements as required. We also noted that for CY 2015, the bank reconciliation statements are being prepared and submitted for five (5) bank accounts only, and none for the other four (4) bank accounts, as shown below:

	Name of Bank	Account Name	Account No.	Latest Bank Reconciliation Statement	Date Received
1	LBP-Legazpi	DOLE-RO5	2013-9033-47	January to April 2015 May to September 2015 October to November 2015	9/1/15 12/14/15 3/4/16
2	LBP-Legazpi	DOLE-RO5	2013-9033-55	January to December 2015	3/4/16
3	LBP-Legazpi	DOLE ROV SPES	0132-0200-35	January to June 2015 July to September 2015	10/21/15 10/28/15
4	**LBP-Legazpi**	**DOLE ROV**	**0131-1127-34**	**None**	
5	**LBP-Legazpi**	**DOLE V (EFPS)**	**0131-2864-65**	**None**	
6	**DBP-Legazpi**	**DOLE Trust Fund**	**0615-005824080**	January to April 2015 April 2015 (Revised) and May to **November 2015**	11/16/15 4/22/16
7	DBP-Legazpi	DOLE AEP	0615-025911080	January to April 2015 March to April 2015 (Revised) and May to **November 2015**	3/7/16 3/17/16
8	**LBP-Pili**	**DOLE-BRW**	**2702-102793**	**None**	
9	**LBP-Legazpi**	**DOLE NARS**	**0132-1055-53**	**None**	

14. Our inquiry with the Accountant III disclosed that late preparation of Bank Reconciliation Statement (BRS) is due to the delay in the receipt of bank statements from the bank.

15. We reiterate that the timely preparation of the bank reconciliation statement is a vital activity in ensuring that all cash receipts and cash disbursements are actually existing and properly accounted for.

16. In view of the foregoing, the reliability of the recorded cash in the bank amounting to ₱18,220,801.52 could not be ascertained.

17. **We recommend that Management should strictly require the Accountant III to promptly and regularly reconcile all the bank accounts with the accounting records and submit the same monthly to the Office of the Auditor, in order to immediately ascertain the integrity of cash pursuant to Section 74 of PD 1445.**

18. In her undated letter-reply, OIC-Regional Director Trayvilla informed the Audit Team that it is indeed due to the late receipt of Bank Statements from the bank the reason of the late preparation of Bank Reconciliation Statements. Management also stated their assurance of their compliance to all recommendations of the Audit Team.

19. During the exit conference, Management informed the Audit Team that a letter-request has been sent to the bank requesting for bank statements and letter-tracer will also be sent to the concerned government bank.

Cash Advances to Officers and Employees, Special Disbursing Officers and Payroll totaling ₱4,523,818.25 remained unliquidated as of December 31, 2015 contrary to Section 89 of PD 1445 and Sections 5.1.3 and 5.8 of COA Circular Nos. 97-002 dated February 10, 2007.

20. Section 89 of PD 1445 provides that no cash advance shall be given unless for a legally authorized specific purpose. A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.

21. Section 4.1.2 of COA Circular No. 97-002 dated February 10, 2007 on the grant, utilization and liquidation of cash advances requires that no additional cash advances shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.

22. Further, Section 5.1.13 of the same COA Circular states that, "*For official travel – xxx cash advance shall be liquidated within thirty (30) days after return to his permanent official station in the case of local travel, as provided for in EO 248 and COA Circular No. 96-004. Failure of the AO to liquidate his cash advance within the prescribed period shall constitute a valid cause for the withholding of his salary and the instruction of other sanctions provided for under paragraphs 9.2 and 9.3 hereof.*"

23. Moreover, Section 5.8 of the above mentioned COA Circular states that "*All cash advances shall be fully liquidated at the end of the year. Except for petty cash expenses, the AO shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary official receipts.*"

24. Our audit disclosed that cash advances to officers and employees, special disbursing officers, and payroll totaling ₱4,523,818.25 remained unliquidated as of December 31, 2015. Aging of the accounts disclosed that as at year-end, ₱1,407,492.92 or 31.11 per cent remained outstanding for six (6) months to one (1) year, summarized as follows:

Account	Balance 12/31/15	Aging of Advances to Officers and Employees/SDOs/Payroll (In Philippine Peso)			
		Below 6 months	6 months to 1 year	TOTAL	%
	a	b	c	d=c	
Advances to Officers & Employees	69,880.60	45,460.60	24,420.00	24,420.00	34.95%
Advances to Special Disbursing Officers (SDOs)	1,455,245.83	1,221,892.91	233,352.92	233,352.92	16.04%
Advances for Payroll	2,998,691.82	1,848,971.82	1,149,720.00	1,149,720.00	38.34%
TOTAL	4,523,818.25	3,116,325.33	1,407,492.92	1,407,492.92	31.11%
Per cent (%)	100.00%	68.89%	31.11%	31.11%	

25. Based on the above Aging of Unliquidated Cash Advances as of December 31, 2015, we noted that the Advances to Officers and Employees/SDOs/Payroll that remained unliquidated for a period of six (6) months to one (1) year consisted of the following:

a. Advances for Officers and Employees totaling ₱24,420.00, the amount of ₱4,760.00 was granted on December 10, 2014;
b. Advances to Special Disbursing Officers (SDOs) for Special Projects/Activities totaling ₱233,352.92, the total amount of ₱140,384.00 were granted on December 23 and 29, 2014;
c. Advances for Payroll amounting to P1,149,720.00 which was granted on June 30, 2015 remained unliquidated for a period of six (6) months. Liquidation was made only on February 12, 2016.

26. The status of liquidation of Advances to Officers and Employees/SDOs/Payroll, in prior years and during CY 2015, as of December 31, 2015 is presented below:

Particulars	Status of Liquidation of Advances to Officers and Employees/ SDOs/Payroll (In Philippine Peso)			
	Advances to Officers & Employees	Advances to Special Disbursing Officers (SDOs)	Advances for Payroll	Total
Cash Advances/Fund Transfers				
PY	72,296.20	6,171,095.13	5,340,604.33	11,583,995.66
CY	1,311,405.09	2,307,568.50	5,139,036.13	8,758,009.72
Total	1,383,701.29	8,478,663.63	10,479,640.46	20,342,005.38
Liquidation/Settlement (including refunds and adjustments)				
PY	67,536.20	6,030,711.13	5,340,604.33	11,438,851.66
CY	1,246,284.49	992,706.67	2,140,344.31	4,379,335.47
Total	1,313,820.69	7,023,417.80	7,480,948.64	15,818,187.13
Unliquidated Cash Advances/Fund Transfers				
PY	4,760.00	140,384.00	-	145,144.00

Particulars	Status of Liquidation of Advances to Officers and Employees/ SDOs/Payroll (In Philippine Peso)			
	Advances to Officers & Employees	Advances to Special Disbursing Officers (SDOs)	Advances for Payroll	Total
CY	65,120.60	1,314,861.83	2,998,691.82	4,378,674.25
Total	69,880.60	1,455,245.83	2,998,691.82	4,523,818.25
Percentage of Liquidation				
PY	93.42%	97.73%	100.00%	98.75%
CY	95.03%	43.02%		50.00%

27. Based on the table above, it is noteworthy to mention that the cash advances granted to DOLE RO V Officials and Employees/Special Disbursing Officers/Payroll for prior year were liquidated by 98.75 per cent. However, only 50 per cent of the cash advances granted in CY 2015 were liquidated as at year end. Moreover, we noted that additional cash advances were granted to SDOs for special projects/activities and for payroll even if their previous cash advances were not yet settled.

28. Our inquiry from the Accountant III disclosed that the cash advances granted to SDOs for special projects/activities are mostly done with one project proposal but these projects are implemented through a series of activities during the year, hence full liquidation can only be made upon completion of said projects, which usually takes a year. Moreover, the cash advances for payroll that remain unliquidated involves mostly those from the provinces.

29. Had there been strict enforcement on the submission of liquidation reports, cash advances granted to officers and employees/SDOs/Payroll could have been diminished, if not avoided.

30. **We recommend that Management:**

a. **Enforce the immediate settlement of the unliquidated cash advances granted to all concerned DOLE RO V officials and employees/SDOs, otherwise, cause the withholding of their salaries pursuant to Section 5.1.3 of COA Circular No. 97-002. Henceforth, ensure that all cash advances of this nature are fully liquidated at the end of the year pursuant to Section 5.8 of COA Circular No. 97-002.**
b. **Issue directives that no additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made as provided for in Section 89 of PD 1445 and in Section 4.1.2 of COA Circular No. 97-002.**

31. In her undated letter-reply, OIC-Regional Director Trayvilla informed the Audit Team that a Memorandum to all concerned employees was issued on April 27, 2016, directing all concerned employees to submit **immediately** liquidation reports of their unliquidated cash advances, to avoid problems in the future or the withholding of their salaries pursuant to Section 5.1.3 of COA Circular No. 97-002. They are also reminded that the office will strictly implement the policy on "**no release of additional cash advances to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof**

is made as provided for in Section 89 of PD 1445 and in Section 4.1.2 of COA Circular No. 97-002." (*emphasis ours*) Management also stated their assurance of their compliance to all recommendations of the Audit Team.

32. During the exit conference, Management informed the Audit Team that the memorandum was already emailed to the concerned DOLE ROV officials and employees.

Out of the ₱117,794,916.64 unliquidated fund transfers to various LGUs and NGOs/POs as of December 31, 2015, ₱98,631,067.59 or 83.73 per cent remained outstanding for more than six (6) months to over three (3) years due to the failure of management to strictly enforce liquidation contrary to Sections 4.3 and 4.6 of COA Circular No. 94-013 dated December 13, 1994; Section 5.4 of COA Circular No. 2007-001 dated October 25, 2007; and the terms and conditions provided for in the Memorandum of Agreement (MOA), pursuant to DOLE Department Order No. 137-14, series of 2014.

33. Section 4.3 of COA Circular No. 94-013 dated December 31, 1994, which provides for the rules and regulations on the grant, utilization and liquidation of funds transferred to implementing agencies, states that "*The fund to be transferred or sub-alloted to the Implementing Agency (IA) shall be (a) in an amount sufficient for three months operation subject to replenishment upon submission of the reports of disbursements by the IA, or (b) the total project cost, as may be determined by the Heads of the two agencies in either case.*"

34. Accordingly, Section 4.6 of the above mentioned COA Circular states that "*Within ten (10) days after the end of each month/end of the agreed period for the Project, the IA shall submit the Report of Checks Issued (RCI) and the Report of Disbursement (RD) to report the utilization of the funds. Only actual project expenses shall be reported. The reports shall be approved by the Head of the Implementing Agency.*"

35. Likewise, Section 5.4 of COA Circular No. 2007-001 requires that within sixty (60) days after the completion of the project, the National Government Organization/People's Organization (NGO/PO) shall submit the final Fund Utilization Report certified by its Accountant and approved by its President/Chairman to 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/expenses in its books of accounts.

36. Under DOLE Department Order (DO) No. 137-14 series of 2014, the DOLE Integrated Livelihood Program or DILEEP seeks to contribute to poverty reduction and reduce vulnerability to risks of the poor, vulnerable, and marginalized workers, either through: (1) transitional emergency employment; and (2) promotion of entrepreneurship and community enterprises. It has two component programs, namely: (1) Livelihood, or the KABUHAYAN program; and (2) Emergency Employment Program (EEP), or the *Tulong Panghanapbuhay sa Ating Disadvantage/Displaced Workers* or TUPAD. In line with the DILEEP, DOLE RO V entered into a Memorandum of Agreement (MOA) represented by the Regional Director referred to as

the DOLE with some qualified Local Government Units (LGUs) and NGOs/POs referred to as the proponents. The MOA provides, among others, that:

"The DOLE as the Source Agency (SA) provided fund assistance to qualified proponents/Implementing Agencies (IA) in the form of grant as capital assistance to qualified and deserving LGUs/federations/organizations/workers association or individuals.

The proponent/implementing agency shall implement the livelihood project which shall be for a period of three (3) months from the date of actual release of funds."

37. Moreover, the parties to the MOA agree to bind themselves, among others, to the following terms and conditions:

The DOLE/grantor shall:

a. Regularly monitor project implementation by the proponent and inspect/verify pertinent records and reports;
b. Demand the submission of project/financial liquidation report from the proponent including the return of any disallowed disbursement after financial audit by the DOLE and issue Official Receipt (OR) corresponding to the amount returned by the grantee;
c. Institute appropriate action/remedy against the proponent for any violation of the provision of the MOA or for misuse of transferred equipment/tools, the litigation cost of which shall be borne by the proponent;

The Proponent/grantee shall:

a. Return any amount not utilized and refund any disallowances to DOLE/grantor immediately upon project completion;
b. Keep and maintain financial accounting records pertinent to the project;
c. Submit required project financial/liquidation report within 60 days upon completion of the project including financial and physical status report in the prescribed forms to the DOLE together with the required supporting documents.

38. As of December 31, 2015, the reported balances of Due from LGUs and Due from NGOs/POs accounts amounted to ₱115,086,922.10 and ₱2,707,993.54, respectively, or a total of ₱117,794,916.64. Aging of the accounts disclosed that of the total balances as at year-end, ₱98,631,067.59 or 83.73 per cent remained outstanding for six (6) months to more than three (3) years, summarized as follows:

Account	Balance 12/31/15	Aging of Livelihood Grants to LGUs and NGOs/POs (In Philippine Peso)						
		Below 6 months	6 months to 1 year	1 year to less than 2 years	2 years to less than 3 years	3 years and over	TOTAL	%
	a	b	c	d	e	f	g=c+d+e+f	
Due from LGUs	115,086,922.10	19,163,848.05	35,765,276.09	48,728,200.77	10,045,675.00	1,383,922.19	95,923,074.05	83.35%
Due from NGOs/POs	2,707,993.54	-	-	30,000.00	-	2,677,993.54	2,707,993.54	100.00%
TOTAL	**117,794,915.64**	**19,163,848.05**	**35,765,276.09**	**48,758,200.77**	**10,045,675.00**	**4,061,915.73**	**98,631,067.59**	**83.73%**
Per cent (%)	**100.00%**	**16.27%**	**30.36%**	**41.39%**	**8.53%**	**3.45%**	**83.73%**	

39. The status of liquidation of funds transferred to LGUs and NGOs/POs in prior years and during CY 2015, as of December 31, 2015 is presented below:

Particulars	Status of Liquidation of Fund Transfer to LGUs and NGOs/POs (In Philippine Peso)		
	Due From LGUs	Due from NGOs/POs	Total
Cash Advances/Fund Transfers			
PY	87,958,471.80	2,707,993.54	90,666,465.34
CY	54,935,783.37		54,935,783.37
Total	**142,894,255.17**	**2,707,993.54**	**145,602,248.71**
Liquidation/Settlement			
PY	27,807,333.07	-	27,807,333.07
CY	-		-
Total	**27,807,333.07**	-	**27,807,333.07**
Unliquidated Cash Advances/Fund Transfers			
PY	60,151,138.73	2,707,993.54	62,859,132.27
CY	54,935,783.37	-	54,935,783.37
Total	**115,086,922.10**	**2,707,993.54**	**117,794,915.64**
Percentage of Liquidation			
PY	**31.61%**	**0.00%**	**30.67%**
CY	**0.00%**		**0.00%**

40. It can be gleaned from the above table that the fund transfers to LGUs for prior years were liquidated by 31.61 per cent as at year end. However, we noted that the fund transfer to LGUs in CY 2015 remained unliquidated for a period of six (6) months to one year already as of

December 31, 2015. Likewise, there was no liquidation as at year-end for the prior years' remaining balance of the fund transfers to NGOs/POs amounting to P2,707,993.54.

41. Our inquiry from the Accountant III disclosed that the fund transfers to LGUs took too long to be liquidated since the Fund Utilization Report still has to be verified by the COA Auditor of the LGU concerned.

42. Had there been strict enforcement on the submission of liquidation reports, unliquidated fund transfers to LGUs and NGOs/POs could have been reduced, if not prevented.

43. **We recommend that Management:**

- a. **Prepare a monitoring schedule covering current and prior years' projects and validate the Proponent's implementation of the project;**
- b. **Devise alternative measures to enforce immediate submission of the liquidation reports of the Proponents to determine if funds transferred were properly utilized in accordance with the provisions of the MOA;**
- c. **Initiate appropriate actions against the concerned Proponent which may include, among others, suspension or termination of the project in case of violation of the provisions of the MOA and/or legal action for misuse of approved and released funds, the legal cost of which shall be shouldered by the Proponent;**
- d. **Strictly adhere to the pertinent provisions of COA Circular Nos. 94-013 and 2007-001 on the liquidation of funds transferred to LGUs and NGOs/POs;**
- e. **Strictly enforce the terms and conditions provided for in the MOA, pursuant to DOLE DO No. 137-14 series of 2014.**

44. In her letter-reply dated May 2, 2016, Atty. Ma. Karina P. Trayvilla, OIC-Regional Director , informed the Audit Team that DOLE RO5 created the Regional Project Monitoring and Evaluation Team (RPMET) through the issuance of an Office Order No. 15-10, s. 2015 to determine the status of projects under the DOLE Integrated Livelihood and Emergency Employment Program (DILEEP). The RPMET conducted a series of monitoring activities last September 2015 up to November 2015 focusing on the group projects which was released from 2008-2014. aside from the goal of monitoring the status of the projects, the concerned LGUs/NGOs with an outstanding liquidation was given a demand letter requiring them to liquidate it at a given period of time. This CY 2016, another monitoring activities will be conducted which will cover the current and prior years' projects to validate the proponent's implementation of the project focusing on the proponent's individual projects. Schedule of monitoring activities will be discussed/arranged during the 1st Quarter Livelihood Meeting slated on the 3rd week of May 2016.

The template of the MOA will also be modified in order to:

a. Cover measures to enforce immediate submission of liquidation reports of the Proponents to determine if funds transferred were properly utilized

b. Include appropriate actions against the concerned Proponent, which may include, among others, suspension or termination of the project in case of violation of the provisions of the MOA;
c. Strictly adhere to the pertinent provisions of COA Circular Nos. 94-013 and 2007-001 on the liquidation of funds transferred to LGUs and NGOs/POs; and
d. Strictly enforce the terms and conditions provided for in the MOA, pursuant to DOLE DO No. 137-14 series of 2014.

At present, management is not anymore processing livelihood releases to those with unliquidated cash advances.

Management also stated their assurance of their compliance to all recommendations of the Audit Team.

45. During the exit conference, Management informed the Audit Team that they will comply with the audit recommendation and will make representations with higher authority in the DOLE Central Office regarding the issue.

The Accountant did not provide/recognize the Depreciation Expense for Office Building amounting to ₱626,313.43 and the corresponding Accumulated Depreciation for the year then ended, thereby resulting to the understatement of these accounts and overstatement of the pertinent asset and income accounts.

46. Section 67 of the Manual on National Government Accounting System (NGAS) for National Government Agencies (NGAs) Volume 1 provides for the Depreciation for Property, Plant and Equipment. The costs of property, plant and equipment are allocated to the periods benefited through the provision of accumulated depreciation. Depreciation is the systematic and gradual allocation of the depreciable amount of asset over its useful life.

47. Section 378, Article 2, Chapter 12 of the Government Auditing and Accounting Manual (GAAM) Volume 1 provides for the Guidelines in taking up depreciation. In computing depreciation expense, the following considerations are relevant.

a. Depreciation may be part of the cost of goods manufactured or an operating expense. It must be provided for regardless of the level of earning of the agency. The financial statements will be misstated if depreciation is omitted when the agency is losing and provided for only when the agency is gaining.

b. Depreciation should not be recognized on property, plant and equipment during their construction period or new equipment undergoing testing and breaking in until such assets are capable of being used. However, when partial use of the asset can be identified with an income-producing center and the corresponding cost can be ascertained, the related depreciation should be allocated to the operation.

c. Depreciation should be continued even on units of property, plant and equipment that are reserved or on stand-by, or idle either temporarily or for an extended period.

d. Provisions for depreciation are only estimates and there may be need to revise them during the life of the assets. The changes in estimates should be handled currently and prospectively.

48. PPSAS 17 on Property, Plant and Equipment (PPE) provides that the Carrying amount of PPE is the cost of the asset (acquisition cost or fair value in non-exchange transaction) after deducting any accumulated depreciation and accumulated impairment losses. Hence, we have to account for depreciation charges.

49. Appendix A of the Philippine Public Sector Accounting Standards (PPSAS) 1 provides for the Qualitative Characteristics of Financial Reporting. Two (2) of which are namely, a) Completeness, which means that the information in financial statements should be complete within the bounds of materiality and cost, and b) Reliability, which means that Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

50. Our review of the Property, Plant and Equipment accounts as of December 31, 2015 and the Non-Cash Expenses for the year then ended disclosed that the Accountant III did not provide/recognize Depreciation Expense for Office Building amounting to P626,313.43 and the corresponding Accumulated Depreciation for the year then ended, thereby resulting to the understatement of these accounts and overstatement of the pertinent asset and income accounts. The comparative data are presented below.

Statement of Financial Position				Statement of Financial Performance			
Accounts	2015	2014	Variance	Accounts	2015	2014	Variance
Buildings	20,877,114.20	20,877,114.20	0	Depreciation Expense-Office Building	0	626,313.43	(626,313.43)
Accumulated Depreciation-Office Building	2,505,253.72	2,505,253.72	0				

51. Our inquiry with the Accountant III disclosed that she inadvertently overlooked the provision/recognition of Depreciation Expense-Office Building and the corresponding Accumulated Depreciation for the year then ended, which means that these accounts were not taken up in the books of accounts. She unintentionally disregarded these accounts even during the preparation of the year-end financial statements since she was trying to beat the February 14, 2016 deadline for the submission of the financial reports. Moreover, an adjustment to the year-end financial statements can no longer be made since she already prepared and submitted the financial statements for the month of January 2016 but she assured the Audit Team that the necessary adjustments will be reflected in the February 2016 financial statements.

52. Because of the above condition, the Buildings under the Property, Plant and Equipment account is overstated by P626,313,43 while the Accumulated Depreciation-Buildings account is understated by the same amount in the Statement of Financial Position as of December 31, 2015.

53. On the other hand, the Depreciation Expenses- Office Buildings under the Non-Cash Expenses account is understated by P626,313.43 while the Surplus for the Period is overstated by the same amount

in the Statement of Financial Performance for the year ended December 31, 2015. In view of the foregoing, these accounts were not fairly presented in the financial statements as at year-end.

54. **We recommend that Management require the Accountant III to make the necessary adjusting entries on the Depreciation Expenses-Office Buildings and the corresponding Accumulated Depreciation accounts in the ensuing year.**

55. **We also recommend that Management advise the Accountant III to be more diligent in the preparation of the financial statements to ensure its completeness, reliability and fair presentation.**

56. In her letter-reply dated April 19, 2016, Atty. Ma. Karina P. Trayvilla, OIC-Regional Director, informed the Audit Team that the Depreciation Expense for Office Building amounting to P626,313.43 and the corresponding Accumulated Depreciation for the year ended were already adjusted. A copy of the Journal Entry Voucher (JEV) was furnished to the Audit Team.

An estimated variance of ₱829,843.97 between the balances of the Other Assets account as reported in the books and in the Inventory Report resulted in the understatement of the Other Assets account in the financial statements as at year end.

57. Section 58 of PD 1445 states that the examination and audit of assets shall be prepared with a view to ascertaining their existence, ownership, valuation and encumbrances as well as propriety of items composing the respective asset account; determining their agreement with records; ascertaining if the amounts were utilized economically, efficiently and effectively; and evaluating the adequacy of control over the accounts.

58. Accordingly, the records of the Property Unit, per physical inventory, shall tally with the book balances of the Accounting Unit, per controlling ledger.

59. Our verification of the balances of the Other Assets in the Agency's Books of Accounts disclosed that the figures do not reconcile with the amount reported in the RPCPPE vis-à-vis accounting records. A comparative data of the balances disclosed a difference of ₱829,843.97 between the two (2) records, as shown below.

Particulars	Accounting Records	Property Records	Variance
Other Assets	₱ 300,089.11	₱ 1,129,933.08	₱ (829,843.97)

60. Inquiry with the Accountant III disclosed that the variance of ₱829,843.97 cannot be accounted for since there is no Schedule of Other Assets in the accounting unit. She can only provide us with the lump amount of P300,089.11. A reconciliation between the accounting records and the inventory report for the Other Assets account that were inventoried is still to be done. After the reconciliation, the accounting unit has to make the necessary adjusting entries in the books of accounts for the difference of ₱829,843.97.

61. Likewise, inquiry with the Supply Officer disclosed that the Other Assets account in the RPCPPE amounting to ₱1,129,933.08 consist of unserviceable properties that were acquired from December 2007

up to June 29, 2015. The unserviceable properties were already included in the Inventory and Inspection Report of Unserviceable Properties (IIRUP).

62. **We recommend that Management reconcile the records of the Property Unit with the Accounting Unit and effect the necessary adjustments to correct the deficiency noted in the Other Assets account.**

63. In her letter-reply dated April 19, 2016, Atty. Ma. Karina P. Trayvilla, OIC-Regional Director, informed the Audit Team that the records of the Property Unit and Accounting Unit were reconciled and necessary adjustments were conducted to correct the deficiency noted in the Other Assets account. Copy of the said adjustment was provided to the Audit Team on March 11, 2016. The observations of AOM No. 2016-07 & 08 (15) were reflected in the adjusted financial statements as of December 31, 2015. Such financial statement was received by the Audit Team on April 18, 2016. Management also stated their assurance of their compliance to all recommendations of the Audit Team.

Reports of Checks Issued, paid disbursement vouchers and supporting documents for CY 2015 were either submitted late or not submitted at all, contrary to the Revised Rules and Regulations on the Settlement of Accounts, hence, prevented the timely review and audit of the transactions.

64. Sections 7.1 and 7.2 of the Revised Rules and Regulation on the Settlement of Accounts (RRSA), as prescribed under COA Circular No. 2009-006 dated September 15, 2009, provide the responsibilities of the agency head and accountant for audit and settlement of accounts, pertinent portions of which are quoted below:

> "*Section 7.1 Responsibility of the Agency Head*
>
> *7.1.1 The head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that (a) <u>the required financial and other reports and statements are submitted by the concerned agency officials in such form and within the period prescribed by the Commission</u>; (b) the settlement of disallowances and charges is made within the prescribed period; and (c) the requirements of transactions suspended in audit are complied with; and (d) appropriate actions are taken on the deficiencies noted as contained in the NSs, NDs, NCs and AOM.*
>
> *X xx.*
>
> *Section 7.2 Responsibility of the Agency Accountant*
>
> *7.2.1 The Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that:*