**AUDIT OBSERVATIONS AND RECOMMENDATIONS**

**I Financial Audit**

***SCBAA – Continuing Appropriations – Original and Actual Amounts overstated***

1. **Obligations were recognized only upon payment rather than at the time the contracts were perfected. Consequently, obligations for prior-year contracts of goods and infrastructure projects were only recorded in CY 2023. This practice is contrary to IPSAS No. 24, resulting in an overstatement of the amounts presented under the Original and Final Budget and Actual Amounts columns of the Continuing Appropriations for CO in the SCBAA. The overstatement amounts to ₱124,363,836.47, respectively.**
   1. Paragraph 14 of IPSAS 24 – Presentation of Budget Information in Financial Statements, provides that the comparison of budget and actual amounts shall present separately for each level of legislative oversight:
2. The original and final budget amounts;
3. The actual amounts on a comparable basis; and
4. By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.
   1. Paragraph 15 of the same standard provides that the presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget that is made publicly available will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the variance in accounting), may also be presented in the financial statements for completeness.
   2. Moreover, paragraph 11 of the same standard states that commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances, and include outstanding purchase orders and contracts where goods or services have not yet been received.
   3. The BOM defined obligations as the specific amount within the allotment that is committed to be paid by the LGU for any lawful expenditure made by an accountable officer for and on behalf of the LGU concerned.
   4. As a consequence, obligations are presented in the actual amounts column of the SCBAA, which describes the amounts that result from the execution of the budget. Obligations presented therein are either contractual obligations that are already paid, obligations recorded as accounts payable, or commitments.
   5. It was noted and communicated last year with management that at least 29 awarded contracts with a total cost of ₱123,064795.07 were not included in the presented actual amounts of the CY 2022 SCBAA. The non-presentation of the awarded contracts during the said period did not reflect the actual occurrence of procurement activities.
   6. A review of the SCBAA, pertinent registries, and transaction records was conducted in order to validate and monitor the implementation of the recommendation. Of the total obligations under Continuing Appropriations (429,070,886.79), it was discovered that a total of 43,537,397.00 of the obligations under Continuing Appropriations pertained to contractual obligations from previous years. These obligations included the following: LDRRMF totaling ₱7,717,200.00; Local DF totaling ₱24,956,245.71; and GF-Proper totaling ₱48,152,993.76, RA No. 7171 Fund.
   7. The personnel responsible for maintaining registries of appropriations, obligations, and balances explained that they are already posting obligations upon commitment but admitted that they were unable to make any adjustments on the noted errors, resulting in the overstatement of the amounts presented under the columns "Original Budget" and "Actual Amounts."
   8. The importance of SCBAA and disclosures is emphasized, as they ensure that the PGLU is held accountable by the public for their performance and adherence to the approved budget.
   9. In sum, the following presents the total misstatements for obligated prior-year contracts:

|  |  |  |
| --- | --- | --- |
| **CO –**  **Continuing Appropriations**  **Projects/Commitments/Obligations** | **Misstatements (over)** | |
| **Original and Final Budget** | **Actual Amounts** |
| GF-Proper | 48,152,993.76 | 48,152,993.76 |
| LDRRMF | 7,717,200.00 | 7,717,200.00 |
| 20% LDF | 24,956,245.71 | 24,956,245.71 |
| RA No. 7171 | 43,537,397.00 | 43,537,397.00 |
| **Total** | **124,363,836.47** | **124,363,836.47** |

* 1. **We recommended that the Provincial Governor direct the PBO to ensure that all contracts entered into during the year are obligated within the same year, in order for the Provincial Accountant to accurately prepare the report for SCBAA.**
  2. The PBO and Provincial Accountant claimed that all contracts entered during CY 2023 were all obligated within the same year. For the noted misstatements, these are the contracts that were indeed perfected during CY 2022 but only obligated during CY 2023. Adjustments could not be made because the registries and obligations report for CY 2022 was already closed.

***PPE – Inconsistent application of residual values***

1. **Accumulated depreciation was understated by at least ₱3,604,376.51 due to the inconsistent application of a salvage value of 10 percent for some PPEs, instead of the prescribed five percent. Furthermore, certain PPEs with a total cost of ₱6,641,296.29 were not depreciated from the time of their acquisition, contrary to IPSAS No. 17 and MNGAS for LGUs, thus impairing the usefulness and reliability of the financial statements, which are essential for making informed management decisions.**
   1. The assertions of accuracy of the PPE accounts in the financial statement were determined by analyzing PPE schedules and lapsing schedules of the PGLU, reviewing ledgers and physical count reports.
   2. Paragraph 66 of IPSAS 17 states that the depreciable amount of an asset shall be allocated on a systematic basis over its useful life. Paragraph 67 of the same IPSAS requires an annual review of the residual value and the useful life of an asset. Changes in residual value and useful life are treated as changes in accounting estimates in accordance with IPSAS 3: Accounting Policies, Changes in Accounting Estimates, and Errors.
   3. Paragraph 41 of IPSAS 3 expresses that the effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, shall be recognized prospectively by including it in surplus or deficit in:

1. The period of the change, if the change affects the period only; or

2. The period of the change and future periods, if the change affects both.

* 1. Furthermore, Paragraph 42 of the IPSAS 3 highlights that to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities or relates to an item of net assets or equity, it shall be recognized by adjusting the carrying amount of the related asset, liability, or net assets or equity item in the period of change.
  2. The NFS of the PGLU disclosed that they are adopting the straight-line method of depreciation, with an estimated residual value of five percent of the cost of the asset. The Provincial Accounting Office explained that their office had begun to adopt the five percent residual value in 2016, when the guidelines on the conversion of the chart of accounts from the Philippine Chart of Accounts to the Revised Chart of Accounts for LGUs were published.
  3. The extracted data reported 678 fully depreciated PPEs with an aggregate acquisition cost, accumulated depreciation, and carrying amount of ₱72,087,530.20, ₱64,878,777.18, and ₱7,208,753.02, respectively. Analysis of the data revealed that the accumulated depreciation was understated by at least ₱3,604,376.51. This is due to the fact that the residual values of these PPEs remained at 10% instead of 5%. In addition, several PPEs with a total cost of ₱6,641,296.29 were not provided with depreciation from the time of their acquisition. Lastly, 13 PPEs carried negative balances, with a total negative carrying amount of ₱416,387.70. All of the noted sampled misstatements pertaining to the said PPEs were subsequently adjusted by the Accounting Office.
  4. However, the issue of inconsistent application of the residual value rate still persists. A subsequent review of the PPE lapsing schedules extracted from e-NGAS revealed several fully depreciated assets with a carrying amount of ₱37,613,140.05 that still have residual values above 5%. This overstated the carrying amount of these assets by at least ₱19,787,454.10 and understated the accumulated depreciation by the same amount. The provincial accountant explained that the review of their lapsing schedules is ongoing but committed to applying the 5% residual value to depreciating their PPEs.
  5. The inconsistencies in applying the residual value rate resulted in misstatements in the carrying amount balance and accumulated depreciation, compromising the fairness of the financial statements. This inconsistency in using the five percent residual value rate ultimately impacted the usefulness and reliability of the financial statements, which are crucial for making informed management decisions.

* 1. **We recommended that the Provincial Governor direct the Provincial Accountant to adopt a consistent policy for depreciating PPEs by using the five percent estimated residual values in all PPEs subject to depreciation and accordingly prepare adjusting entries.**
  2. The PGLU assured that the Office of Provincial Accountant will continue to adopt a consistent policy for depreciating PPEs by using the five percent estimated residual values in all PPEs subject to depreciation and will conduct an in-depth review and analysis of the schedules of PPEs, as well as the computation of depreciation, to ensure the accuracy of balances in the financial statements.

***Understatement of Receivables***

1. **Savings from completed project partly funded with agency counterparts or equity remained dormant in the TF books due to the practice of recognizing equity shares as Subsidy to Other Funds and consequently closing it to the Government Equity account at year-end, contrary to Paragraph 27 of IPSAS 1, thereby understating the Due from Other Funds account by ₱1,718,186.29 and misclassifying the same amount to Other Payables instead of Due to Other Funds.**
   1. Paragraph 27 of IPSAS 1 states that financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. A fair presentation requires the faithful representation of the effects of transactions, other events, and conditions by the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.
   2. We noted in our review of the payable accounts, particularly under the TF books, that the Other Payable account includes ₱1,718,186.29 pertaining to the equity or agency counterpart for the KALSADA Program. This has been dormant for over 10 years and pertains to the excess or unexpended PGLU counterpart for the KALSADA Program, previously funded under the RA No. 7171 Fund. The account was previously recognized in the RA No. 7171 or GF books as a "Subsidy to Other Funds" and closed to the Government Equity account in the same year, resulting in the understatement of the receivable account and misclassifying the other payable account as due to other funds.
   3. The balance is for adjustment and will be reverted to the source fund. It became idle in the TF despite the completion of the project due to its classification as Other Payables. Had this been recognized as Due to Other Funds, Management should have been reminded that these savings should be reverted to the source fund.  The non-evaluation and review of the said account made the funds idle, which could have potentially provided additional funds for the province's other programs.
   4. **We recommended that the Provincial Governor direct the Provincial Accountant to prepare the necessary correcting entries as follows under the general and TFs:**

GF books:

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Due from Other Funds | 1,718,186.29 |  |
| Prior Period Adjustment |  | 1,718,186.29 |

TF books:

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Other Payables | 1,718,186.29 |  |
| Due to Other Funds |  | 1,718,186.29 |

* 1. **We also recommended that the Provincial Governor instruct the Provincial Treasurer and Provincial Accountant to prepare the disbursement voucher and supporting documents to revert the savings to the GF.**
  2. **Lastly, we also recommended that the Provincial Governor direct the LFC to include the amount of** ₱**1,718,186.29** **as available for appropriation, particularly for RA No. 7171 projects.**

1. **Compliance Audit**

***Incomplete physical count and non-implementation of one-time cleansing***

1. **Insufficient information pertaining to completed and ongoing infrastructure projects resulted in their exclusion from the physical inventory and in the Report on the Physical Count of Property, Plant, and Equipment (RPCPPE), contrary to MNGAS for LGUS; hence, the presented PPE in the financial statements is greater by ₱521,703,586.14 than the RPCPPE. Furthermore, the one-time cleansing of PPE was temporarily set aside due to the complexity of the process and the shortage of personnel, disregarding COA Circular No. 2020-006; thus, the accuracy of both the financial statements or reports could not be established.**
   1. The PPE account generally represents substantial amount of the total assets of an agency, which holds more than fifty percent thereof. It is thus imperative to establish the accuracy, completeness and existence of the PPE balances to ensure the fairness of its presentation in the SFPos of the agency.
   2. Section 124 of Chapter 7, Volume I of the MNGAS for LGUs mandates an annual physical count of property, plant, and equipment by type, which must be submitted to the Auditor by January 31st. The General Services Officer or Municipal Treasurer must maintain stock cards and property cards for supplies, property, plant, and equipment, and work animals to account for their receipt and disposition. The balance per stock card/property card should reconcile with ledger cards of the accounting unit and other property records, such as Acknowledgement Receipt for Equipment (ARE).
   3. In the CY 2023 financial statements, the reported balance of PPE amounted to ₱7,676,602,634.69, while the advance copies of RPCPPE reported total PPE valued at ₱7,154,899,048.55. A comparison of these balances revealed a net discrepancy of ₱521,703,586.14. This discrepancy includes ₱239,527.49, where the total balances per RCPPE for Medical Equipment and Motor Vehicles were higher than those recorded in the books. According to the Provincial Accountant, the balance recorded in the accounting records is the correct one. The remaining ₱521,943,113.63 pertains to total variances where the accounting records are higher than the balances per RCPPE, with details as follows:
2. The variances on Land, Flood Control System, Water Supply System, Power Supply System, School Buildings, and Other Structures, totaling ₱245,658,728.07, pertain to the PPEs under the SEF, which were not included in the RCPPE;
3. The variance of ₱80,763,467.19 for CIP - Buildings and Other Structures consists of those recorded under the SEF and TF accounts but not included in the physical count report; and
4. The Communication Networks refer to the recorded amount of La Union Wireless Mesh High Speed Local Area Network Backbone (Phase 1) with a recorded cost of ₱195,520,918.37. This was not included in the RPCPPE.
   1. In an inquiry, the Provincial GSO clarified that certain PPEs, particularly those related to the SEF, were excluded from physical counts due to the required documentation not being forwarded to their office. For movable PPEs and inventories, they were able to inspect the items upon delivery and record them based on the Acceptance and Inspection Report (AIR) and the Property Acknowledgement Receipt (PAR). However, concerning infrastructure and building projects, or even other immovable PPEs, the GSO explained their non-involvement in inspections and documentation, resulting in insufficient information to update their property records.

* 1. The said circumstances could have been prevented had there been close coordination between the GSO and other offices. The PEO should furnish the Office of the GSO with a copy of the Certificate of Completion and Inspection Report of constructed immovable PPEs, which will serve as the initial basis for the GSO to update their property records. Moreover, there should be regular reconciliation between the Property and Accounting records in order to identify discrepancies in records and address these discrepancies immediately.
  2. Additionally, we have noted a significant number of PPE items undergoing yearly physical counts. Notably, items identified in a separate observation as PPEs not being held for use are still included in these counts because their records remain in the province's books. Had these PPEs been transferred to the concerned agencies, the province would be relieved from the accountability of such assets.
  3. Moreover, management has yet to implement the one-time cleansing of the government agency's PPE accounts, as stipulated in COA Circular No. 2020-006 dated January 31, 2020. This initiative aims to establish PPE balances that are verifiable in terms of existence, condition, and accountability. As per the circular's provisions, one condition for recognizing the cost of an item of PPE as an asset is whether it meets the capitalization threshold of ₱15,000.00. This threshold was also taken into account during inventory procedures outlined in Item No. 6.2.2. However, in both the RPCPPE and the PPE Schedules, several items costing below ₱15,000.00 were still recorded and counted as PPE, suggesting an overstatement of PPE balances. Recently, however, the capitalization threshold for PPEs has been increased to ₱50,000.00 starting CY 2024 under COA Circular No. 2024-006 dated March 14, 2024. Consequently, all relevant procedures outlined in this circular should be strictly observed in accordance with the procedures provided under COA Circular No. 2020-006.
  4. Among the preparatory steps enunciated in COA Circular No. 2020-006 is the creation of an Inventory Committee by the Head of the Agency, who will complete the physical inventory in three months or less. It was specified that the members of the Inventory Committee shall be temporarily relieved of all their regular duties to devote their full time to the conduct of the physical inventory taking until the same is completed. The Inventory Committee shall prepare a Physical Inventory Plan (PIP) containing, at the very least, the specific assignments and duties of the Committee members, the cut-off date, and a schedule specifying the dates and locations of the inventory-taking activities from start-up to the targeted completion of the physical inventory. Section 6 of the circular offers comprehensive procedural guidelines to be observed before and during the inventory count. These guidelines entail reconciling property cards and ledgers through collaborative efforts between the property and accounting offices. Likewise, it outlines procedures for disposing of and recognizing non-existing or missing PPEs.
  5. The Provincial GSO has expressed his willingness to avail of the one-time cleansing of properties and equipment. However, given the complexity of the process and the need for personnel from the Property and Accounting Units who should devote several months of their time to inventory taking, reconciliation, and documentation, the idea has been temporarily set aside.
  6. Considering all of the deficiencies noted, the correctness of either the financial statements or financial report (RPCPPE) could not be ascertained.
  7. **We recommended that the Provincial Governor create an Inventory Committee that shall prepare a Physical Inventory Plan containing the specific assignments/duties of the committee members, the cut-off date, and a schedule specifying the dates and locations of the inventory-taking activities from start to finish in accordance with COA Circular No. 2020-006.**
  8. **Thereafter, we recommended that the Provincial Governor enjoin the Inventory Committee, Provincial GSO, and Provincial Accountant to undertake the procedural guidelines enumerated in COA Circular No. 2020-006 for the one-time cleansing of PPE account balances to come up with more reliable account balances to be presented in the financial statements.**
  9. **Lastly, we recommended that the Provincial Governor direct the Provincial Engineer to furnish the Provincial GSO supporting documents for completed projects. Likewise, there should be close coordination between the Property and Accounting Divisions for the regular reconciliation of PPE records.**
  10. ThePGLU said that the Provincial Accounting Office and the Provincial GSO had already reconciled the balances of PPE accounts as per RPCPPE vis-à-vis the balances as per book to address the observation.
  11. The PGLU informed the audit team that the Provincial Governor had already issued Executive Order No. 17, Series of 2022, to reorganize and strengthen the Provincial Inventory Committee of the PGLU with their duties and functions. The PGLU stressed that the Provincial PIP would be prepared thereafter, and the one-time cleansing had already been proposed to be conducted in the 2nd semester of 2024. The PGLU expressed that it is imperative that a one-time cleansing of properties and equipment be conducted following COA Circular No. 2020-006 dated January 31, 2020 and COA Circular 2024-006 dated March 14, 2024 in order to come up with more reliable account balances to be presented in the financial statements and the RPCPPE as of December 31, 2024.
  12. The PGLU affirmed the recommendation of the COA to streamline the coordination and communication between and among concerned offices to properly update PGLU PPE records and to identify discrepancies and address the same immediately. Management assured that they are exerting effort to ensure the accuracy, completeness, and existence of PPE balances and the fairness of their presentation in the SFPos.

***PPEs not intended for use***

1. **PPEs with total net book value of ₱2,033,284,695.86, which are already being used by other LGUs or entities, are still carried in the Provincial Government's books due to the absence of donation documents as required by Article 749 of the Civil Code of the Philippines and Section 381 of RA No. 7160; therefore, the PGLU cannot yet be relieved of accountability and responsibility for these assets.**
   1. Paragraph 13 of IPSAS No. 17 defines Property, Plant, and Equipment as tangible items that are (a) held for use in the production or supply of goods and services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period. Also, paragraph 14 provides that the cost of an item of property, plant, and equipment shall be recognized as an asset if and only if (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity and (b) the cost or fair value of the item can be measured reliably. Paragraph 72 thereof declares that the future economic benefits or service potential embodied in an item of property, plant, or equipment are consumed by the entity, principally through the use of an asset.
   2. On the other hand, paragraph 82 outlines the derecognition standards for PPE. Accordingly, the carrying amount of an item of property, plant, and equipment shall be derecognized on disposal or when no future economic benefits or service potential is expected from its use or disposal.
   3. The 2023 SFPos revealed PPEs net of accumulated depreciation, totaling ₱5,936,101,742.86. Of this, ₱1,931,686,182.04 were disclosed as PPEs intended for donation or transfer. However, analyzing the disclosed PPEs against the PPE Subsidiary Ledgers as of December 31, 2023, it was found that several PPEs totaling ₱438,442,187.16, completed between CY 2007 and CY 2023, were inadvertently omitted from the disclosure. The amount should have been disclosed for donation or transfer. The amount that should have been disclosed for donation or transfer should have been as follows:

| **Accounts** | **No.** | **Gross Amount** | **Accumulated Depreciation** | **Net Book Value** |
| --- | --- | --- | --- | --- |
| GF |  |  |  |  |
| Other Land Improvements | 5 | 24,423,503.67 | 3,232,094.04 | 21,191,409.63 |
| Road Networks | 307 | 1,191,777,845.00 | 182,994,178.64 | 1,008,783,666.36 |
| Road Networks  Drainage and Slope Protection Structures | 22 | 79,119,736.44 | 18,512,852.37 | 60,606,884.07 |
| Flood Control Systems  Waterways | 39 | 171,866,882.97 | 16,100,854.77 | 155,766,028.20 |
| Water Supply Systems | 38 | 131,848,081.08 | 14,904,984.85 | 116,943,096.23 |
| Other Infrasturcture Assets | 135 | 465,087,839.22 | 59,175,802.86 | 405,912,036.36 |
| Buildings and Other Structures  School Buildings | 53 | 27,394,257.28 | 24,654,831.55 | 2,739,425.73 |
| Other Structures | 8 | 37,960,719.06 | 490,228.03 | 37,470,491.03 |
| Health Centers | 1 | 4,860,526.41 | 76,958.34 | 4,783,568.07 |
| Sub-total – GF | 608 | 2,134,339,391.13 | 320,142,785.45 | 1,814,196,605.68 |
|  |  |  |  |  |
| SEF |  |  |  |  |
| Land | 2 | 3,655,000.00 | 0.00 | 3,655,000.00 |
| Flood Control Systems  Waterways | 1 | 2,995,147.33 | 260,827.38 | 2,734,319.95 |
| Water Supply Systems | 3 | 4,385,773.55 | 234,133.94 | 4,151,639.61 |
| Buildings and Other Structures  School Buildings | 33 | 82,685,003.23 | 5,989,847.35 | 76,695,155.88 |
| Other Structures | 40 | 142,068,053.96 | 10,216,079.22 | 131,851,974.74 |
| Sub-total – SEF | 79 | 235,788,978.07 | 16,700,887.89 | 219,088,090.18 |
|  |  |  |  |  |
| TOTAL | 687 | 2,370,128,369.20 | 336,843,673.34 | 2,033,284,695.86 |

* 1. These PPEs pertain to infrastructure assets and structures that are already physically transferred and not being used by the PGLU but rather by various barangays, municipalities, schools and other organizations upon completion of the projects.
  2. The said PPEs are intended to be donated or transferred to various barangays, municipalities, schools, and other organizations; however, as of date, SP Resolutions authorizing the Provincial Governor to donate these assets, including the Deed of Donations, have not yet been prepared. Consequently, the recipient LGU could not provide the resolutions or proof of acceptance to the PGLU.
  3. The following table shows the classification summary and corresponding users and beneficiaries:

|  |  |  |
| --- | --- | --- |
| **PPE Account** | **Amount**  **(at net book value)**  **(₱)** | **User/Beneficiaries** |
| Land | 3,655,000.00 | Schools |
| Other Land Improvements | 21,191,409.63 | LGUs |
| Road Networks | 1,069,390,550.43 | Barangays/LGUs |
| Flood Control Systems | 158,500,348.15 | Barangays/LGUs |
| Water Supply Systems | 121,094,735.84 | Barangays/LGUs/Schools |
| Other Infrastructure Assets | 405,912,036.36 | Barangays/LGUs/Schools/ NGOs/POs |
| Buildings and Other Structures | 253,540,615.45 | Barangays/LGUs/Schools |
| **Grand Total** | **2,033,284,695.86** |  |

* 1. The province funded and procured the construction, renovation, and restoration of buildings or public infrastructure requested by LGUs or school beneficiaries. The beneficiaries own the lots and are responsible for maintaining these assets. However, the derecognition of these assets may not have started due to incomplete deeds of donation or documentation. The PGLU conducted an updated inventory of its provincial roads, resulting in an aggregated provincial road length of 265.665 kilometers. The province maintained subsidiary records for identified provincial roads and their components, but a separate subsidiary ledger under the Road Network account was maintained for other roads not classified as provincial roads.
  2. Article 749 of the Civil Code of the Philippines allows for the transfer or donation of immovable properties to be valid and must be made in a public document. The acceptance can be in the same deed of donation or a separate public document, but it must be done during the donor's lifetime. Section 381 of RA No. 7160 allows property to be transferred without cost to another office, agency, subdivision, or instrumentality of the national government or another LGU at an appraised valuation determined by the local committee on awards. The transfer must be approved by the Sanggunian concerned and the head of the receiving office.
  3. The audit team noted that this year's observation included 687 identified projects, compared to the previous year's 159 remaining. Management successfully transferred 54 projects to intended users and beneficiaries, but only transferred and derecognized one lot in the books for CY 2023, amounting to ₱2,032,200.00, due to difficulties in processing necessary documents for asset transfer, particularly at the barangay level.
  4. A property transfer must be in a public document, and authorization from the Sanggunian of the agency must be secured through a SP resolution, a deed of donation, and acceptance of PPEs by the head of the barangays receiving the property. Non-transfer of property may result in negative consequences for both parties, including beneficiaries not having legal rights to make property decisions and the PGLU holding all accountability and responsibility. If property damage occurs, confusion may arise about who will be held responsible. However, the provincial government may be held accountable for these properties.
  5. **We reiterate our recommendation that the Provincial Governor continue requesting from the SP to enact a Resolution authorizing the transfer of these identified assets to the different recipient barangays/municipalities/schools/beneficiaries;**
  6. **We further recommend that the Provincial Governor instruct the Provincial Legal Officer in coordination with Provincial Engineer and Provincial General Services Officer to expedite the preparation of Deeds of Donation for the subsequent transfer and acceptance by the latter to support the transfer of ownership of the said properties.**
  7. **Thereafter, when the required supporting documents are already complied with, we recommended that the Provincial Governor direct the Provincial Accountant to make necessary entries to fairly present the Property Plant and Equipment accounts:**

|  |  |  |
| --- | --- | --- |
|  | **Dr** | **Cr** |
| **Acc. Depreciation – Other Land Improvements** | **1,814,736.24** |  |
| **Acc. Depreciation – Road Networks** | **143,752,223.01** |  |
| **Acc. Depreciation – Flood Control Systems** | **9,696,426.39** |  |
| **Acc. Depreciation – Water Supply Systems** | **10,191,373.68** |  |
| **Acc. Depreciation – Other Infrastructure Assets** | **39,017,485.11** |  |
| **Acc. Depreciation – Buildings and Other Structures** | **33,558,814. 09** |  |
| **Prior Period Adjustments** | **2,230,909,925.50** |  |
| **Depreciation Expense - Other Land Improvements** |  | **1,417,357.80** |
| **Depreciation Expense - Road Networks** |  | **57,754,808.00** |
| **Depreciation Expense - Flood Control Systems** |  | **6,665,255.76** |
| **Depreciation Expense - Water Supply Systems** |  | **4,947,745.11** |
| **Depreciation Expense - Other Infrastructure Assets** |  | **20,158,317.75** |
| **Depreciation Expense – Buildings and Other Structures** |  | **7,869,130.40** |
| **Land** |  | **3,655,000.00** |
| **Other Land Improvements** |  | **24,423,503.67** |
| **Road Networks** |  | **1,270,897,581.44** |
| **Flood Control Systems** |  | **174,862,030.30** |
| **Water Supply Systems** |  | **136,233,854.63** |
| **Other Infrastructure Assets** |  | **465,087,839.22** |
| **Buildings and Other Structures** |  | **294,968,559.94** |

* 1. The PGLU informed the audit team that their Legal Officer and other concerned departments are facilitating the obtaining of authority from SP to transfer assets currently used by intended beneficiaries. They said that transfer documents, such as Deeds of Donation, are being prepared to serve as the basis for the assets' derecognition in their books of account. For projects implemented and completed in the year 2023 below, the PGLU also informed the COA that the SP Resolution 621-2023 was already issued, authorizing the Governor to sign, for and on behalf of the PGLU, the deed of donations with various LGUs and other recipients pertaining to the donation of goods, multipurpose centers, buildings, and other infrastructure assets.
  2. The PGLU assured that continuous efforts are being made to expedite the consummation of the deed of donation for the subsequent transfer of ownership and acceptance of properties by the recipient entities. To ensure the timely acceptance and transfer of ownership of PPEs to be implemented or constructed beginning the second semester of 2024, the PGLU expressed their willingness to adopt the recommendation of the COA by creating a policy guideline delineating the process, requirements and prescribed period of donation.
  3. Lastly, the Provincial Accountant guaranteed that he would make the necessary entries in the books of accounts upon submission of the documentary requirements for the donation.

***Dormant and Outstanding Current Liabilities***

1. **The PGLU's current liabilities accounts, totaling ₱20,109,813.73, have remained outstanding or non-moving for over 10 years due to a lack of supporting documents, unclaimed stale checks, and unutilized, unliquidated, or unrefunded fund transfers, contravening IPSAS 1, Sections 4(6) of PD No. 1445, COA Circular No. 94-013, and COA Circular No. 2016-004, hence making these funds idle and negatively impacting the agency’s integrity, particularly for fund transfers.** 
   1. The IPSAS 1 classification of a liability is determined by its expected settlement within the entity's normal operating cycle, primary trading purpose, due settlement within 12 months after reporting, or the entity's inability to defer settlement for at least 12 months. The settlement terms can be settled through equity instruments, which do not affect the liability's classification.
   2. Section 4(6) of PD No. 1445 mandates complete documentation for claims against government funds, while Section 40, Chapter 5, Book VI of the Revised Administrative Code of 1987 states that no obligation can be certified to accounts payable without a valid claim supported by sufficient evidence and proper authority for its incurrence. Section 111 of the same decree mandates agency accounts to be detailed enough to meet agency needs while providing necessary information for fiscal or control agencies.
   3. A review and analysis of the aging schedule of payables of the Province showed that a total of ₱20,109,813.73were already past due since these were aged at least two years in the books of the agency. These liabilities remained unpaid or unsettled at year-end, even though these claims were already long outstanding in the books, contrary to the definition of current liabilities.
   4. The audit team reviewed each liability account and observed the following:
2. ***Lacking or unavailable documents to support the liabilities totaling ₱10,876,036.03***
   1. The aging schedule of payables has revealed outstanding obligations of ₱10,876,036.03 due to incomplete documentation. Nonpayment of certain payables includes Accounts Payable of ₱3,131,946.00, Due to Officers and Employees of ₱685,778.28, Due to LGUs of ₱2,826,475.06, Trust Liabilities of ₱2,814,321.69, and Other Payables of ₱1,417,515.00.
   2. Liabilities are present obligations that are settled through an outflow of the agency’s resources. Necessarily, there should be a settlement and, most importantly, documents to support the claim. Without the necessary supporting documents, the liabilities could not be settled. Hence, if these claims are found to be invalid, revert the unpaid claims to the accumulated surplus of the GF.
3. ***Reversion to payables of staled checks and deactivated ATM accounts accumulating to ₱1,740,957.10***
   1. Forty claims aged 2 to 10 years and above, totaling ₱1,740,957.10, were reverted to the liabilities account due to stale checks and payroll ATM deactivation. The claims pertain to payables to suppliers, creditors, financial assistance, salary payments, and security deposits. Treasury personnel have attempted to contact these parties but have not been successful. The Office of the Provincial Treasurer committed that replacement checks would be prepared and efforts would be made to contact the concerned payees. The presence of these outstanding stale checks casts uncertainty on transactions, as these payees should be more proactive in receiving payments, which is to their benefit.
4. ***Unutilized/unliquidated/unrefunded TFs in the amount of ₱7,492,820.60***
   1. Section 309 of RA No. 7160 defines TFs as private and public monies that have officially come into the possession of the local government or of a local government official as a trustee, agent or administrator, or which have been received as a guarantee for the fulfillment of some obligation. A TF shall only be used for the specific purpose for which it was created or for which it came into the possession of the LGU.
   2. Section 6.7 of COA Circular No. 94-013, dated December 13, 1994, further provides that one of the duties and responsibilities of the implementing agencies is to return to the source agency any unused balance and refund of disallowance upon completion of the project.
   3. A review of the accounts recorded in the subsidiary ledgers of the TF showed a total of ₱7,492,820.60, which is still unliquidated, unrefunded or unutilized as of December 31, 2023. The fund transfers consist of funds received from various agencies.

* 1. The Due to NGAs account consists of nine unliquidated fund transfers from four NGAs. The Fixed Tranche Work and Financial Plan 2021 program has already been disbursed and is due for liquidation, while the remaining balance is for refund. The Provincial Malaria Elimination and Response of the Free-Malaria Status of the Province program has already been processed for refund. The Kilos Asenso Support Fund and National Nutrition Council-Travelling Allowance of Barangay Nutrition Scholars have remained dormant for over 10 years.
  2. In addition, the Due to NGAs accounts totaling ₱1,891,330.00 and the Sillag 2019 Lantern by the Bay Lights Competition of ₱20,000.00 under the Other Payables account are cash prizes for different programs that were received by the province and were still under ongoing implementation or could no longer be implemented due to the absence of identified PPAs.
  3. The amount of ₱2,891,200.00 was given by La Union Vibrant Women Inc. in the year 2020 for the establishment of Sanctuary of Hope. To date, the fund has remained unutilized. On the other hand, the ₱128,050.00 under the Agrikulturang Makamasa pertains to loan collection from the Binhian sa Lalawigan Project and is said to be returned to DA-RFU. All other funds on the list remained inactive or dormant in the books.
  4. The Provincial Accounting Office committed to reviewing their records to determine whether the balances are already for return to source agencies, need reclassification in the books, or need further immediate implementation to maximize the provided funds.

* 1. Normally, the strongest predictor of donor satisfaction is the donor’s sense of the level of openness of its recipients and the responsibilities that go with it. Hence, it is crucial that, in meeting the expectations of these donors, there be timely and up-to-date communication that the recipient has established with their donors. This communication should have been established had the PGLU consistently provided their donors liquidation reports and could have also requested that these remaining funds, in excess of the contract cost for the specified projects, be utilized for relevant activities or projects.
  2. The non-payment, non-liquidation, and/or non-refund of these recorded claims can mainly be attributed to the lack of strict monitoring in the accounting office or end-users as to the prompt payments of the liabilities. The inclusion of past-due unpaid or unsettled claims under current liabilities affected the accuracy and validity of the liability accounts.
  3. The foregoing observed deficiencies made the relevant funds idle and negatively impacted the agency’s integrity, particularly for fund transfers.
  4. **We recommended that the Provincial Governor direct the Provincial Accountant, with the help of the Provincial Treasurer and implementing offices and end-users, to:**

* 1. **Assess the validity of the past-due claims recorded for more than two years and initiate the prompt settlement, liquidation, or refund of such claims. If these claims are found to be invalid or if the purpose of the funds cannot be fulfilled or has already been accomplished, revert the unpaid claims to the accumulated surplus of the GF or refund the TFs to the source agencies, if appropriate;**
  2. **Ensure that all documents for payment of claims are intact before recording them as valid claims to facilitate a smooth and prompt settlement of liabilities. Thereafter, ensure strict monitoring of recorded liabilities for prompt settlement thereof, and**
  3. **For those reverted stale checks or closed bank ATM accounts, prepare replacement checks, send written notices, or exert effort to contact the payees.**
  4. Management commented that the Provincial Accounting Office had requested the end-users to process the prompt payment of their payables and the PTO to release the checks under their custody to update the current liabilities account of the PGLU. The PGLU pointed out that they are practicing due diligence in reviewing documents supporting the processing of current liability accounts and exerting efforts to close out their outstanding obligations guided by existing laws, rules, and regulations.

* 1. The PGLU added that the Provincial Accounting Office and the PTO will assess the validity of past-due claims and will initiate prompt settlement, liquidation, and refund of such claims. Further, the Finance Team will practice due diligence in reviewing supporting documents before recording them as valid claims to ensure the smooth and prompt settlement of liabilities.
  2. The PGLU expressed that the Provincial Accounting Office and Office of the Provincial Treasurer will ensure the prompt payment of payables and will continuously coordinate with the concerned offices, suppliers, other government agencies, and institutions as regards the settlement of these claims/obligations.

***Dormant Accounts Receivables***

1. **The accounts receivable balance of ₱6,868,011.77 which has been dormant for more than 10 years is deemed inaccurate and unreliable due to the absence of supporting documents and sufficient records, which is not in conformity with IPSAS No. 1 and COA Circular No. 2023-008, thereby affecting the certainty of collections.** 
   1. COA Circular No. 2023-008, dated August 17, 2023, states that all government entities shall determine the existence of dormant accounts in their books. Moreover, the Head of the Accounting Unit shall conduct regular and periodic verification, analysis, and validation of the existence of all dormant accounts.
   2. According to the circular, dormant receivable accounts are those with balances that have been inactive or non-moving in the books of accounts for 10 years or more and for which settlement or collectability cannot be determined.
   3. The year-end financial statements, Status Report of Unliquidated Cash Advances, Fund Transfers, and Other Receivables for CY 2023, and Schedule of Aging of Receivables revealed that dormant receivables amounting to ₱6,868,011.77 were still carried in the books of the PGLU, summarized as follows:

| **Particulars** | **Amount (₱)** |
| --- | --- |
| ***GF*** |  |
| Due from NGO/POs | 2,055,560.00 |
| Due from Officers and Employees | 130,055.10 |
| Sub-total | **2,185,615.10** |
| ***TF*** |  |
| Due from LGUs –La Union Municipalities and City | 4,166,295.97 |
| Due from NGO/POs | 144,500.00 |
| Other Receivables – KKK Loans (Provincial Employees) | 268,000.00 |
| Other Receivables – Loan Assistance Fund (LAF) | 103,600.70 |
| Sub-total | **4,682,396.67** |
| **Grand Total** | **6,868,011.77** |

* 1. According to the Provincial Accountant, these were already in the books of accounts when he assumed office in 2016. He also added that most of these receivables have no available records, while those with records have continuously exerted efforts to collect; thus, for CY 2023, they managed to collect ₱669,354.34 out of these recorded dormant receivable accounts.
  2. With regards to the above dormant receivable accounts, COA Circular No. 2023-008, dated August 17, 2023, was recently issued by the COA, prescribing the guidelines on the proper disposition of dormant accounts of the government agencies, including the LGUs. The said circular amended COA Circular No. 2016-005, dated December 18, 2016, which previously outlines the guidelines and procedures for the write-off of dormant receivables accounts in the books of government agencies.
  3. COA Circular No. 2023-008 is issued for the one-time cleansing of all dormant accounts covered under the said issuance. Moreover, the procedures for the monitoring and derecognition of dormant accounts were enumerated in detail in the circular. It provides that within one year from the effectivity of the Circular, the Head of Accounting Unit, through the Head of the Agency, shall file with or through the ATL and/or RSA/SA, depending on the jurisdictional amount, a request for the approval of the COA to write off or derecognize from the books the dormant accounts pursuant to the provisions of the Circular. The request shall be supported by the documents listed in Annex 8, provided with index tabs for easy reference.
  4. Management should be guided by the above procedures and documentary requirements if the dormant receivables are proven to be uncollectible and are eligible for write-off. Without sufficient documents and the absence of positive confirmation from debtors, the certainty of whether the amount of ₱6,868,011.77 could still be collected is low.
  5. **We reiterated our recommendations that the Provincial Governor direct the Provincial Accountant and Provincial Treasurer to:**

1. **exert effort to collect these dormant receivables, particularly the accounts with available reference documents, by sending demand letters. Exhaust all remedies to collect and properly document efforts made;**
2. **continuously locate all related documents pertaining to the long outstanding receivables to establish their existence and validity;**
3. **prepare and submit the quarterly Schedule of Dormant Receivables, Unliquidated Cash Advances, and Intra/Inter-Agency Fund Transfers (Annexes 1–3) and Schedule of Other Dormant Accounts (Annex 4) for monitoring of the dormant accounts in compliance with COA Circular No. 2023-008.**
   1. **Lastly, we recommended that if these receivables are proven to be uncollectible but duly supported with required documents, to file the request for authority to derecognize dormant receivable accounts as prescribed under COA Circular No. 2023-008.**
   2. According to the PGLU, they are persistently working for the collection and closure of the aforementioned accounts receivable. Management stated that a team had already been formed to monitor, follow up, and deliver demand letters to the LGUs, NGOs/POs, and other persons that had been identified.
   3. The PGLU assured that the newly formed team will keep up its efforts to find all relevant records referring to the long-overdue receivables and to send demand letters to the designated entities, as advised.  Should the team’s persistence be in vain over the required time to recover the long overdue balances, the PGLU said that the team shall likewise recommend writing off the records.
   4. Lastly, the PGLU commented that they will establish an investigation committee for their dormant accounts pursuant to COA Circular No. 2023-008.

***Incomplete physical inventory***

1. **Inventories worth ₱24,539,001.60 were not included in the physical count due to a lack of coordination among the offices, contrary to Section 124 of the MNGAS for LGUs; thereby, the completeness, accuracy, and existence of inventories could not be ascertained which can undermine the reliability of the reports.**
   1. Inventories as defined under Paragraph 9 of IPSAS 12 are assets (a) in the form of materials or supplies to be consumed in the production process; (b) in the form of materials or supplies to be consumed or distributed in the rendering of services; (c) held for sale or distribution in the ordinary course of operations; or (d) in the process of production for sale or distribution.
   2. The MNGAS for LGUs mandates a periodic physical inventory of supplies or property, conducted semestrally and reported in the Report of the Physical Count of Inventories (RPCI). The inventory must be submitted to the Auditor by July 31 and January 31 of each year for the first and second semesters, respectively. The General Services Officer or Municipal Treasurer must maintain stock cards and property cards for supplies, property, plant, equipment, and work animals, accounting for their receipt and disposition. The balance per stock card/property card should always reconcile with the accounting unit's ledger cards.
   3. Deliveries of items purchased by the LGUs shall be accepted first by the general services officer or municipal treasurer, as the case may be, before inspection. Inspection of purchases shall be made by the authorized inspector(s) for conformity with the specifications in the order. Acceptance and inspection shall be made using the AIR.
   4. A comparison of the total figures incorporated in the RPCI, which amounted to ₱184.31 million, and the recorded balances of inventories accounts per ledger, which amounted to ₱208.85 million as of December 31, 2023, disclosed a discrepancy of ₱24.53 million.
   5. A review of available records revealed that only Agricultural and Marine Supplies for Distribution totaling ₱5,048,934.40 were included in the RPCI, while inventories worth ₱22,817,478.60 were apparently not counted. On the other hand, the Construction Materials Inventory account with an aggregate cost of ₱1,721,523.00, was also not counted.
   6. The inadvertent failure to conduct physical inventory counts on these items may be attributed to the fact that the goods had already been delivered to the implementing offices and were not presented during the scheduled counts from January 8 to 19, 2024. Moreover, the GSO explained that they were not informed of the items, hence they were not able to conduct a physical count on the items, thus balances were not included in the physical count report.
   7. In summary, the non-conduct of the physical count of inventories totaling ₱24,539,001.60 underscores the necessity of coordination among offices, submission of supporting documents, and timely reconciliation procedures in order to ensure that all inventory items are properly accounted for in their year-end balance.
   8. **We recommended that the Provincial Governor direct the following:**
2. **All implementing units to inform the GSO of all receipt of goods from suppliers; and**
3. **The Provincial GSO to ensure that all inventories are all accounted during the conduct of physical inventory.**
   1. The PGLU assured the audit team that they will streamline the coordination and communication between and among concerned offices to properly update PGLU inventory records, identify discrepancies and address the same immediately. Further, the PGLU guaranteed that proper inventory management and internal controls were in place. Moreover, the PGSO relayed that although they were not able to conduct a physical count of inventories on the noted items, they will submit supporting documents such as acknowledgement receipts and requisition issue slips to trace their existence and accuracy as of year-end.

***Lapses in the grant and utilization of cash advances***

1. **Two Accountable Officers (AOs) in the Cash Disbursing Unit of the PGLU handle multiple cash advances simultaneously, transfer their cash advances to other employees, and grant additional cash advances despite the non-settlement or proper accounting of their previous ones. This condition was due to unexpected increase of cash needed for various PPAs and lack of bonded AOs, contrary to COA Circular No. 97-002. Consequently, the AOs exceeded their maximum cash accountability and expose the PGLU in a precarious position where funds are at greater risk of being mismanaged as well as the risk of not being fully indemnified in case of defalcations, shortages, and unrelieved losses.**
   1. COA Circular No. 97-002 prohibits additional cash advances to officials or employees unless the previous cash advance is settled or a proper accounting is made. Only designated disbursing officers can perform disbursing functions, and cash advances cannot be transferred between AOs.
   2. Moreover, Treasury Circular No. 02-2019, dated April 25, 2019, regulates the bonding of accountable public officers under the Public Bonding Law (PBL). Officers, agents, and employees of LGUs responsible for local government funds and properties must be fidelity insured or bonded. The Fidelity Fund is available to replace defalcations, shortages, and unrelieved losses in the accounts of bonded officers for the payment of fees and costs in civil proceedings. The bond amount is based on the total accountability of the officer, determined by the Head of Agency, with an individual maximum bond amount not exceeding eleven million pesos.
   3. Similarly, Section 7 of COA Circular No. 97-002, dated February 10, 1997, as amended, provides that each accountable officer whose total cash accountability is not less than P5,000.00 shall be bonded. The amount of bond shall depend on the total accountability of the officer as fixed by the head of the agency. When accountability is increased, the accountant shall ensure that an additional bond is applied for. Lastly, the amount of bond necessary for the cash accountability of the AO shall be in accordance with the schedule of cash accountability and bond issued by the Bureau of the Treasury.

* 1. The audit team conducted the mandatory yearly cash examination on November 29, 2023, and among those cash examined were the two AOs in the Cash Disbursing Unit. We noted several deficiencies in the cash advances granted to these AOs, as follows:

1. **Multiple cash advances were granted to the AOs, and additional cash advances were granted despite the non-liquidation or accounting of previous cash advances**

* 1. Review and analysis of the cashbooks and subsidiary ledgers for the cash advances granted to the two AOs for the period covered by the cash examination revealed that AO 1 maintains four cashbooks while AO 2 maintains nine cashbooks. For the period of the cash exam, AO 1 was granted 88 cash advances totaling ₱64,409,161.40 for various purposes like stipends for nonagenarians, prizes, honorariums, meals and transportation, stipends and allowances for scholars, financial assistance, and for other purposes. Meanwhile, AO 2 received cash advances totaling ₱16,212,786.97.
  2. The Cash Advance Monitoring Report reveals that AOs have been granted multiple cash advances simultaneously, resulting in several outstanding balances. The report also shows instances where multiple cash advances were granted on the same date for different purposes. Additional cash advances were granted despite outstanding balances, which is not in line with COA Circular No. 97-002. This has led to AOs exceeding their maximum cash accountabilities of ₱1,000,000.00 covered by their fidelity bond. For AO1, individual cash advances exceeded her allowed cash accountability, with the highest amount granted reaching ₱6,384,000.00.
  3. Likewise, even during the cash count conducted on November 29, 2023, the AOs exceeded their cash accountabilities. For AO 1, her total cash accountability reached an astounding amount of ₱8,395,500.00, which consisted of cash on hand and various cash items, resulting in an overage of ₱7,395,500.00. Notably, the cash on hand alone, amounting to ₱1,515,009.94, is already beyond the limit. Similarly, total cash accountability of AO2 has reached ₱1,143,978.00, surpassing the threshold by ₱143,978.00.
  4. It is also important to highlight that although the maximum cash accountability is set at ₱1,000,000.00, the amount of the bond is only ₱500,000.00. This means that in the event of a loss, the maximum amount that can be replaced by the Fidelity Fund is only ₱500,000.00.
  5. The Maximum Cash Accountabilities of the Accountable Officers have been exceeded, which poses a significant risk to the financial accountability of PGLU. This deficiency goes against established regulations outlined in Treasury Circular No. 02-2019 and COA Circular No. 97-002 and exposes the agency to potential financial losses. The excess amounts not covered by the fidelity bond leave PGLU vulnerable to unrecovered losses in the event of defalcations or misappropriations.
  6. The Management attributed the multiple cash advances handled by the AOs and additional advances granted despite previous advances not being fully liquidated to unforeseen circumstances, such as an unexpected increase in cash needed for various PPAs of the PGLU. The lack of available bonded officials and employees also contributed to the observed observations. Additionally, the chief accountant's certification stating that previous cash advances have been fully liquidated and accounted for in the books was not attached to the granting of cash advances.
  7. The unexpected increase in the required cash for the various PPAs highlights the significance of proactive financial planning and management to prevent such occurrences in the future. Handling multiple cash advances at the same time and granting additional cash advances while previous ones have not yet been fully paid off exposes the PGLU to the risks of possible mismanagement of funds and the likelihood of overlapping one cash advance over another. Furthermore, managing numerous outstanding cash advances may lead to difficulties in accurately tracking each cash advance’s expenditures and maintaining accurate records, which may complicate the reconciliation process. In fact, during the cash examination, the AOs faced difficulties reconciling one cash advance separately from another, resulting in frequent corrections in the cashbooks and confusion regarding the total cash on hand to be presented for count.
  8. Implementing stricter financial controls in cash advances, grants and liquidations could have prevented or mitigated the aforementioned instances by requiring certification from an accountant, reassessing the bonding coverage of accountable officers, and appointing additional accountable officers as disbursing officers.

1. **Transfer of cash advances granted to AOs to other employees**

* 1. Section 4.1.6 of COA Circular No. 97-002 provides that the transfer of cash advances from one AO to another shall not be allowed.

* 1. In this regard, the audit team also observed that transfers were made by the AOs to other employees assigned to different offices. The cash advances of AO 1 for the stipend of nonagenarians with an aggregate amount of ₱55,370,281.40 were transferred to the designated employees of the Provincial Social Welfare and Development Office (PSWDO), who will distribute the same to the beneficiaries. The transfer process is formalized through an acknowledgment receipt signed by the receiving employees. The same was also being practiced by AO 2 for the cash advances for the stipends of centenarians and nonagenarians, with an aggregate amount of ₱3,085,000.00 and ₱3,640,000.00, respectively. On the other hand, the most notable for AO 2 are the cash advances for the food allowance and subsistence in the provincial jail and Bahay Pag-asa. Once encashed, these cash advances are regularly transferred by AO 2 to the designated employee in the said offices because these employees are the ones who will carry out the purpose of these CAs.
  2. The AOs are in a precarious situation since the CAs are under their name; hence, they are responsible for ensuring proper substantiation of liquidation reports with the required documentation. During a cash examination, the audit team observed that the accounting office returned certain reports due to queries regarding reimbursement expense receipts (RERs). AO 2 found it difficult to address these issues, as he was not directly involved in the transactions and lacked personal knowledge. However, since the CA is under his name, he is primarily liable for any loss, in case there is one.
  3. The practice of transferring these funds to other designated employees for specific expenditures makes it evident that significant operational challenges exist. This practice not only raises questions regarding accountability and financial controls but also underscores potential deficiencies in staffing and operational mechanisms. The observed scenario reveals a complex interplay between accountability, resource management, and operational efficiency. By assuming responsibility for cash advances disbursed to other individuals, the AOs are tasked with ensuring the proper utilization and liquidation of funds, despite not being directly involved in the execution of the associated transactions. This dynamic presents inherent risks, as it may lead to discrepancies in tracking and verifying expenditures, as well as potential mismanagement or misuse of funds. Moreover, the need for such transfers highlights underlying challenges within the organizational structure and staffing arrangements of PGLU.
  4. It was explained that the shortage of bonded AOs within PGLU is the underlying cause of this situation. Specifically, the Provincial Jail, Bahay Pag-asa, and PSWDO have no bonded employees.
  5. To address the issue, the Local Chief Executive could designate additional bonded special disbursing officers specifically under these concerned offices or departments in order to avoid the transfer of cash advances, considering that they are the ones directly involved in the transactions that are regularly incurred by these offices.
  6. The designation of additional bonded officers will at least alleviate an undue burden on individual officers like the AOs who manage multiple cash advances simultaneously and avoid transfers of funds that are not in accordance with the guidelines. This will improve the operational capacity of the PGLU and also decrease the likelihood of errors, oversights and delays in the financial management process.
  7. **We recommended that the Provincial Governor direct the PTO and the Provincial Accounting Office to:**

1. **Ensure strict adherence to the bonding regulations outlined in Treasury Circular No. 02-2019 and COA Circular No. 97-002. This includes conducting regular reviews of AO's cash accountabilities and promptly adjusting bonding coverage as needed to mitigate risks associated with exceeding cash accountabilities;**
2. **Refrain from granting additional cash advances unless the previous cash advances were already fully settled or a proper accounting thereof is made. A certification from the Chief Accountant that the previous cash advances have been fully liquidated and accounted for in the books should be required prior to the grant of cash advances;**
3. **Conduct a comprehensive review of its cash advance policies and practices, considering factors such as operational efficiency, accountability, and internal control requirements, to identify areas for improvement and ensure alignment with regulatory guidelines, particularly COA Circular No. 97-002; and**
4. **Discontinue the practice of granting cash advances for the Food Allowance/Subsistence of the Provincial Jail and Bahay Pag-asa and the Stipend Allowances under PSWDO to the concerned AOs. Instead, an AO for such offices should be bonded and later granted with the said cash advances.**
   1. The PGLU has highlighted the importance of fidelity bonding for accountable officers in the Cash Disbursement Unit (CDU). The PGLU acknowledged that while disbursing officers were properly bonded, the amount of cash advances was not properly monitored, exceeding each officer's maximum accountability. For Fiscal Year 2024, the Provincial Treasurer's Office assigned three disbursing officers with specific cash advances and accountability. The Provincial Accounting Office has informed accountable officers about rules and regulations on cash advances and has already implemented a procedure for certification of fully settled cash advances. However, this procedure is not yet implemented for cash withdrawals by disbursing officers due to the urgency of the purpose(s).
   2. In addition, the PGLU specified that the disbursing officers are required to ensure the liquidation of cash advances when they are no longer needed or have not been used for a period of two months and full liquidation at the end of each year, as provided in COA Circular No. 97-002. For the previous years, cash advance accounts for AOs have consistently had a zero balance at the end of the year.

* 1. To ensure compliance with COA rules and regulations on cash advances, the PGLU warranted that the Provincial Treasurer's Office intensify its monitoring of cash advances. The Review Unit will also conduct random internal audits of the Cash Disbursement Unit to enhance internal control measures. The PGLU believed that this would enable the accountable officers to track and monitor balances on a regular basis, thereby facilitating timely corrective actions when necessary.

* 1. In order to avoid the transfer of funds to other designated employees for specific expenditures, the PGLU stated that they are currently exploring the option of appointing accountable officers under the LUPJ and PSWDO to oversee the payment of food subsistence for the prisoners in the Provincial Jail and residents of Bahay Pag-asa. However, the PGLU advised that it is imperative that the Provincial Treasurer's Office (PTO) ensure that prior to the designation, the designee completes the necessary training and is properly bonded for the purpose. This will ensure that the designated officers are equipped with the required skills and knowledge to execute their duties efficiently and effectively in accordance with the established guidelines.

***20% DF – Low Utilization***

1. **The PGLU only utilized 51%, or ₱178,779,497.91 out of the total 20% of the DF current year budget amounting to ₱350,071,598.00, due to weak linkage between planning and budgeting and the inclusion of PPAs that are not well-planned and procurement-and-implementation-ready, contrary to Sections 3.2.1 and 3.2.3 of the DBM-DOF-DILG JMC No. 2020-001 and BOM; thus, the development needs of constituents were not satisfied in the most timely, effective and efficient manner.**
   1. Section 3.2.1 of the DBM, DOF, and DILG JMC No. 1 dated November 4, 2020 states that the 20% DF shall be utilized to finance the LGUs' priority development projects, as embodied in their respective duly approved local development plans, and medium-term and AIPs, which should be harmonized with the Regional Development Plan and the Philippine Development Plan.
   2. The BOM for LGUs defines the AIP as the annual slice of the Local Development Investment Program (LDIP), which includes the total resource requirements for all PPAs. The AIP should be prepared and approved before the local budget preparation phase, and local budgets must fund PPAs included in the AIP. The AIP Form requires the agency to identify potential funding sources for PPAs.
   3. Moreover, Section 3.2.3 of the Circular provides that the LGUs shall ensure that the development projects to be funded out of the 20% DF are well-planned and procurement- and implementation-ready. Section 4.0 further provides that the responsibility for ensuring that the development projects funded under the 20% DF comply with the guidelines under the JMC and optimally contribute to the attainment of desirable socio-economic targets and outcomes of the LGU shall rest upon the local chief executive and other officials concerned.
   4. The PGLU initially allocated ₱341,581,598.00 for its 20% DF budget for CY 2023, which was divided into 61 PPAs. However, supplemental budgets were approved during the year, resulting in a net increase of ₱8,490,000.00. This brought the final 20% DF budget for CY 2023 to ₱350,071,598.00, with the total number of PPAs decreasing to 54. Of the total final 20% DF budget, the PGLU utilized ₱178,779,497.91, which represents 51.07%. After analysis of the submitted reports and interviews, the audit team discovered that the low utilization rate of the 20% DF is attributed to weak linkage between the plan and budget, as well as insufficient planning by the implementing offices of the 20% DF PPAs. This is evidenced by the following issues:
2. ***Weak linkage between the planning and the budgeting***
   1. The audit aims to determine whether the PPAs funded through 20% DF in the Annual Budget are included in the approved AIP and are identified as priority projects or programs for implementation under the said fund.

* 1. The audit team found out that only 39 out of 61 PPAs, or ₱173,225,000.00 out of ₱341,581,598.00, were directly funded by the 20% DF in the AIP. Also, the funding source of 17 PPAs classified as 20% DF PPAs, with an aggregate appropriation of ₱109,646,598.00, was supposed to be sourced from GF-Proper. Moreover, projects that could have been funded by DOH/GF-Proper, GAD, Transfer and RA No. 7171, amounting to ₱1,000,000.00, ₱19,710,000.00, ₱35,000,000.00 and ₱3,000,000.00, respectively, were included in the list of 20% DF PPAs. Therefore, ₱168,356,598.00, or 49.28% of the total 20% DF, was allocated to the PPAs that were not meant to receive funding from it.

* 1. The inquiry with the PPDC outlined the rigorous procedures for preparing the AIP for the PGLU. However, despite these procedures, the PPDC stressed that the PBO will ultimately determine which PPAs will be included in the 20% DF budget.
  2. Meanwhile, the interview with the PBO disclosed that the inclusion of a PPA in the 20% DF budget depends on the priority PPAs of the Provincial Governor. She added that these priority PPAs shall be in sync with the “La Union Transformative Governance Roadmap.” In the 20% DF budget PPAs selection process, the PBO said that the inclusion of those PPAs with 20% DF as their funding source in the AIP was her priority. However, after a careful assessment, she decided that the other PPAs would be a better fit for the budget. Therefore, the inclusion of the non-20% DF PPAs in the 20% DF budget was made.

* 1. Based on the foregoing statements, we can infer that the linkage between the plan and the budget was not clearly established. To elaborate, we take, for example, the PPA “Logistical Support to Barangays (Purchase of Garbage Trucks, Equipment for Environmental Management, Ambulance, Other Medical Equipment, etc.)” with an original budget of ₱30,810,398.00. The SP approved an amended AIP affirming that this project has to be funded by “GF-Proper." However, it was subsequently funded under the 20% DF budget. Moreover, albeit several PPAs totaling ₱76,989,602.00 were reprogrammed to increase the budget of this PPA, this is still not sufficient to cover the amount with Supplemental AIP (SAIP) under the DF, hence the glaring inconsistencies between the AIP/SAIP and AB/SB.
  2. The BOM pushes for the clear establishment of linkage between the plan and the budget through the stringent preparation of the AIP. If the management wishes to formulate a budget that differs from the original AIP, the management must prepare a SAIP. The approval of this will maintain the linkage between the two processes. Otherwise, this casts doubt on the legality of the budget and its implementation. Unfortunately, the audit team further noted that the PPDC and PBO both assumed that the preparation and approval of a SAIP were unnecessary, as these glaring differences were not called out by the DBM during their review.

1. ***Several PPAs in the 20% DF budget were reprogrammed.***
   1. On September 21, 2023, the SP issued Provincial Appropriation Ordinance No. 10, approving the amount of ₱82,989,602.00 for Supplemental Budget No. 10. This intends to reprogram nine PPAs for CY 2023. The reasons behind the PPA reprogramming are elaborated on and discussed in detail in the succeeding paragraphs:

* **The 20% DF PPAs lacked detailed engineering.**
  1. The audit team observed that most of the reasons cited for the reprogramming of the foregoing PPAs invalidate their procurement and implementation readiness. The Supplemental Budget Nos. 10 and 16 show that most of the reprogrammed PPAs were infrastructure projects. Our interview with concerned implementing offices revealed that some PPAs were not implemented in 2023 because of the changes in their plans and the significant variance in the estimation of the projects’ costs, implying that detailed engineering was not prepared prior to budget preparation.
  2. The Government Procurement Manual (GPM) outlines procurement planning for infrastructure projects, which includes conducting detailed engineering investigations, linking procurement plans to budgets, preparing the Project Procurement Management Plan (PPMP), and consolidating all PPMPs into the APP. The preparation of PPMP is a crucial stage in procurement planning, as it helps in budget preparation. It involves identifying project requirements, writing technical specifications, determining the ABC, determining the schedule of milestone activities, and determining the procurement method. This process is essential for successful procurement planning.
  3. To accomplish the PPMP, the conduct of detailed engineering activities is a must. Annex “A” of the 2016 Revised IRR of RA No. 9184, otherwise known as the Government Procurement Reform Act, specifies that detailed engineering shall proceed only on the basis of the feasibility or preliminary engineering study made, which establishes the technical viability of the project and conforms to land use and zoning guidelines prescribed by existing laws.
  4. Hence, the performance of the feasibility study shall be undertaken before the submission of the PPMP. Likewise, the PGLU plans and drawings for the PPAs will already be done during the same period.

* 1. It is worth noting again that detailed engineering shall proceed only on the basis of the feasibility or preliminary engineering study made. It means that prior to the conduct of the detailed engineering investigations, surveys and designs, the implementing office should draw up a feasibility or preliminary engineering study that establishes the technical viability of the project and conforms to land use and zoning guidelines prescribed by existing laws.
  2. The GPM, Volume 3, outlines the process for conducting detailed engineering investigations for infrastructure projects. This includes surveying, site investigation, soils and foundation investigation, construction materials investigation, design plans, technical specifications, quantity and cost estimates, program of work, proposed construction schedule, site or right-of-way plans, utility relocation plan, design report, environmental impact statement, minimum requirements for construction safety and health program, value engineering studies, and bid/tender documents.
* **The reassessment of the feasibility of some 20% DF PPAs were delayed.**
  1. Some of the PPAs had been reprogrammed because their implementation before year-end was not feasible anymore due to the inclusion of already completed projects from the previous year, negative cost-benefit analysis projections, and the existence of disease (e.g., bird flu).

* 1. For example, the PPA entitled “Establishment of Oxygen Generator Facility” with an appropriation of ₱35,000,000.00 was formulated to produce medical oxygen in response to its high demand during the COVID-19 pandemic. As the cases continued to decrease, the demand for medical oxygen likewise decreased. Despite this fact, the PPA was still treated as a priority development project. The project had been removed from the 20% DF budget in the third quarter of 2023.

* 1. The other example is “District Hospital: Completion of the TB-DOTS Building." This PPA was already completed in 2022, but it was still tagged as a priority development project under the 2023 20% DF budget.
  2. The reassessment of the feasibility of the PPAs above could have been done before the year-end of 2022 or as often as possible during the budget year to assure the readiness and implementability of these projects for CY 2023.
* **Two 20% DF PPAs depends on the realization of the LGU partners’ counterparts.**
  1. Two large PPAs with an aggregate appropriation of ₱43,000,000.00 were not implemented in 2023 due to the delayed implementation of LGU partners' counterparts. These PPAs require smooth coordination and compliance, requiring the preparation of documents and clear communication. Before including PPAs in the 20% DF budget, the agency must ensure the LGU partner counterparts are done, and if possible, 20% DF PPAs should be stand-alone projects to avoid delays. Otherwise, the agency must undergo follow-up and monitoring to ensure timely implementation.
  2. The PGLU should have conducted detailed engineering before or during budget preparation, avoided PPAs that served as contingency funds, reassessed 20% DF PPAs before year-end, and coordinated with LGU and agency partners. This would have prevented significant variance in PPA cost estimation, unforeseen future expenses, and delayed implementation of LGU partners' counterparts. Priority development projects should be well-planned and procurement-and-implementation-ready, requiring sound procurement planning and detailed engineering. This ensures the timeliness of projects and improves their quality.

1. ***Several PPAs’ description/title/location in the 20% DF budget were not specific.***
   1. Provincial Ordinance No. 434-2023 was issued on September 21, 2023, to specifically identify and program the PPAs with a generic description, title, and location. The approval of the ordinance was already in September 2023, which is at the end of the third quarter. The audit team underscores that the approval of provincial ordinances just to specifically describe the PPAs takes a lot of time. The time consumed for it will negatively impact the timeliness of its implementation. Had these PPAs been completely described in the AIP, they could have been implemented earlier.
   2. The PPDC and PBO faced challenges in preparing the AIP and budget due to inadequate data from implementing offices regarding PPAs. This led to the inclusion of generic PPAs in the AIP and budget. Additionally, there was a significant delay in submitting the list of identified PPAs, resulting in the late approval of the ordinance, indicating that these projects were not procurement- and implementation-ready.
   3. In summary, the low utilization of the 20% DF was caused by the inclusion of non-priority development projects and the delays brought by the late reprogramming and specific identification of the PPAs. We highlight that the absence of sound planning by the implementing offices plays a vital role in the problem. Similarly, the differences in the criteria for selecting the 20% DF PPAs between the PPDC and the PBO resulted in inconsistencies in the AIP and the 20% DF budget.
   4. **We recommended that the Provincial Governor direct the:**
2. **Department heads of the implementing offices:**
3. **With the coordination of the Provincial Engineer, to ensure that their proposed 20% DF PPAs undergo thorough planning and detailed engineering;**
4. **Discontinue the practice of including PPAs that function like a contingency fund in the list of their proposed 20% DF PPAs;**
5. **Identify specifically the description of their proposed infrastructure PPAs, including their complete title and location;**
6. **Consider PPAs that do not involve any third-party counterparts as their proposed 20% DF PPAs. Otherwise, strictly monitor the timing of the implementation of the counterpart to avoid delay or reprogramming, and**
7. **Inform the PDC immediately if the full implementation of their 20% DF PPAs within the current year is not feasible.**
8. **PPDC to verify the procurement-and-implementation readiness of the proposed 20% DF PPAs and continue strict monitoring and evaluation of their implementation; and**

**c. PBO must ensure that the budgeted PPAs align with those programmed in the AIP including the sources of funds. Any discrepancies should be promptly coordinated with the PPDC to ensure proper linkage between planning and budgeting.**

* 1. The PGLU pointed out that all the PPAs funded under the DF are deemed priority projects at the time of their identification. In a volatile, uncertain, complex and ambiguous environment where the PGLU is working, the PGLU said that different factors are continuously changing and should be considered to realize their mission. To address the constantly evolving development needs of the constituents, the PGLU added that PPAs should also evolve and adapt. Despite the constant change of PPAs, the PGLU noted that the involved PPAs are embodied in the approved local development plans, medium and annual investment plans, and are all harmonized in the Regional Development Plan and Provincial Development Plan.
  2. The PGLU affirmed that these PPAs are necessary, appropriate, or incidental to efficient and effective local governance and are essential to the promotion of the general welfare of the people of the province as they contribute to the attainment of the desired socio-economic and environmental management targets and outcomes.
  3. As the JMC (DBM-DOF-DILG) only provides a general guideline or policy in the identification of developmental projects and the utilization of the 20% DF, the PGLU stressed that the recommendations of the COA are imperative to be considered in streamlining the planning, budgeting and implementation of PPAs funded under DF while they are considering the current circumstances in the development sector and the prevailing demands for the delivery of public services. Therefore, the PGLU said that it would be more prudent for them to consider the recommendations of the COA. A policy guideline will be developed, guided by the BOM and other existing policies, to detail and define the specific guideline, the responsibility centers and their roles and criteria, and the process for the planning, budgeting, implementation and monitoring of the 20% DF that the PGLU and the PDC can adopt. This will, therefore, ensure that the PPAs under DF are well-planned and procurement-and-implementation-ready.

***RA Nos. 7171 and 8240 Implementation Deficiencies***

1. **Some farmer-beneficiaries who received distributed palay seeds, fertilizers, fingerlings, and animal feeds totaling ₱80,529,153.75 may potentially be categorized as non-tobacco farmers. This arises from discrepancies between the total number of tobacco farmers listed by the PGLU and those registered with the National Tobacco Administration (NTA), contrary to the objectives of RA No. 7171.**  
   1. The government aims to develop the tobacco industry and improve the quality of life for those relying on it, particularly tobacco farmers. Under RA No. 7171, the government provides special support to Virginia tobacco-producing provinces, as they generate significant income through excise taxes and customs duties on imported blending tobacco. RA No. 8240, amended by RA Nos. 10351 and 11346, allocates 15% of excise tax revenue to provinces producing burley and native tobacco, based on tobacco leaf production volume. This support is part of the government's policy to support the tobacco industry.
   2. Section 2 of RA No. 7171 outlines special support for Virginia tobacco-producing provinces to enhance the self-reliance of tobacco farmers through cooperative projects, livelihood projects, agro-industrial projects, and infrastructure projects. These initiatives aim to improve product quality, productivity, market security, and income for farmers. They also encourage involvement in post-harvest and secondary processing, such as cigarette manufacturing and by-product utilization, and provide farm-to-market roads.
   3. The guidelines for the release and utilization of shares of LGUs from the 2017-2018 and 2019 collections of excise taxes on Virginia-type cigarettes and Burley and Native tobacco excise taxes, as amended by RA No. 10351, are provided under Local Budget Memorandums (LBM) Nos. 81, 83, and 84, respectively. These guidelines are the same as those under Section 2 of RA No. 7171.
   4. The Agricultural and Fisheries Modernization Program and the Road Map for the Philippine Tobacco Industry are the policies and priorities for beneficiary LGUs to implement programs and projects from tobacco excise taxes for FY 2018 and 2019. Beneficiary LGUs are encouraged to allocate at least 25% of their total share for cooperative programs, livelihood projects, and financial support for registered tobacco farmers.
   5. Additionally, it was further stipulated that in the identification of the list of programs and projects to be implemented, the beneficiary LGUs shall, with the assistance of the DA and NTA, conduct public consultations with tobacco farmers duly identified by the NTA to determine the appropriate programs and projects beneficial to the said farmers.
   6. The audit aims to determine if the utilization of shares from tobacco excise taxes is authorized and within the scope of the regulations. Several PPAs were financed under the province's RA No. 7171 shares for the fiscal years 2017–2019, these were implemented and paid for in fiscal year 2023.
   7. The three PPAs programmed and implemented under RA No. 7171 are aimed at supporting individual farmers and fishermen. One of the projects will be awarded to registered farmers and fishermen associations, certified by their respective city or municipal agriculture offices. The other one will be awarded to registered farmers and fishermen associations. The last project will be awarded to selected beneficiaries based on their suitability for coffee and cacao production. These projects are not primarily designed to cater to registered tobacco farmers in the province. The selection processes indicate that these projects are not primarily focused on tobacco farmers.
   8. The OIC-Provincial Agriculturist reveals that three PPAs funded by RA Nos. 7171 are not exclusive to NTA-registered tobacco farmers in the province of La Union. The beneficiaries of these programs include non-registered tobacco farmers. According to her, even if the NTA identified 3,300 tobacco farmers only in La Union, the beneficiaries of their programs include tobacco farmers not registered with the NTA. The "Production Assistance for Commodities Optimum Yield" project alone may have benefited at least 11,798 non-tobacco farmers. The audit team cannot identify the exact number of tobacco farmers in the three PPAs due to a lack of information on recipients.
   9. The Department of Agriculture and the Philippine Rice Research Institute provided hybrid and certified seeds, covering 79% of the total seed requirement in 2023. The 21 percent deficiency of seeds was filled up through the Production Assistance for Commodities Optimum Yield project. This ensures that all tobacco farmers, who are rice-based, are fairly benefited with seed and fertilizer assistance.
   10. The PGLU has argued that the number of registered tobacco farmers in La Union province does not accurately reflect the actual number of farmers. They have targeted non-registered tobacco farmers and those providing allied services to the industry to benefit from the tobacco excise tax. The PGLU believes that these projects should benefit all farmers working in the tobacco industry. Before intervention by the OPAg, city and municipal agriculturists are tasked with verifying the identity of farmer-recipients in the Registry System for Basic Sector in Agriculture (RSBSA) database. The establishment of a farmer/fisherfolk database system at the OPAg was proposed in 2017 but was not implemented due to leadership changes and funding limitations. In 2023, the agri-digitalization project was initiated, aiming to digitalize the agriculture and fisheries databases in the province. Phase 1 of the project, the Agri-Registry, has undergone system development in partnership with the PGLU-ICTU. The enhanced system is set to be rolled out to all component LGUs and established by 2026.
   11. The OIC-Provincial Agriculturist informed the audit team that their office is working with the NTA to develop projects that directly impact tobacco farmers in the province. They are preparing an "Agri Registry" to capture the actual number of farmers, including tobacco farmers in La Union, to improve project effectiveness. The government passed RA Nos. 7171 and 8240 to extend special support to tobacco farmers, aiming to promote the development of the tobacco industry and improve the quality of life for those relying on it.
   12. The PPDC and OIC-Provincial Agriculturist are encouraged to engage in public consultations with tobacco farmers identified by the NTA to gather insights about their current needs and challenges. This will help develop targeted programs, projects, and activities to address their needs effectively.
   13. However, non-tobacco farmers may have been included as beneficiaries of palay seeds, fertilizers, fingerlings, and animal feeds totaling ₱80,529,153.75, despite the fund's purpose of promoting tobacco farmers' self-reliance.
   14. **We recommended that the Provincial Governor direct the OIC-Provincial Agriculturist, and the Provincial Development and Planning Coordinator, to:**
2. **Coordinate with NTA for the reconciliation of the list of registered tobacco farmers; and**
3. **Conduct public consultations or assemblies with tobacco farmers, assisted by the DA and NTA, and use the results to efficiently facilitate and give tailored support and assistance to them.**
   1. The PGLU committed that they will coordinate with the DA and NTA in conducting consultations, assemblies and studies to efficiently facilitate and provide tailored support and assistance to the tobacco farmers of La Union.
4. **The PGLU only obligated 35.07%, or ₱243,105,878.66, of the ₱693,227,339.00 shares from RA No. 7171 and RA No. 8240 FY 2020 collections of excise taxes. This was due to delayed preparation of Program of Works (POWs), which contravenes Section 2.3 of the LBM No. 86, compromising the timely delivery of project benefits to the intended beneficiaries.** 
   1. The province received a share of ₱693,227,339.00 from FY 2020 excise tax collections under LBM No. 86, with ₱272,643,865.50 and ₱3,969,804.00 for RA Nos. 7171 and 8240, respectively, which were released to the PGLU on December 20, 2022, and the remaining half on March 20, 2023.
   2. The PGLU obligated 35.07% of the total fund received from LBM No. 86, with the majority of unobligated funds remaining on March 30, 2023. The audit team noted that most projects have not started and their POWs are not approved. Additionally, ₱62,325,000.00 worth of funds was not enacted by an appropriation ordinance, indicating the low utilization of RA Nos. 7171 and 8240 funds, which may be due to the planning and preparation phase of the PPAs rather than their implementation phase.
   3. The audit team also observed the following timelines related to the enactment of the appropriation ordinance for the funds received from LBM No. 86:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Amount (₱)** | **Related to Fund Received on** | **Provincial Governor Request Letter for Enactment of AO Date** | **SP Session Date** | **Governor Approval of AO Date** | **Lapsed Days between Fund Receipt and AO Approval** |
| **A** | **B** | **C** | **D** | **E** | **F = E - B** |
| 346,613,669.50 | 12/29/2022 | 04/04/2023 | 07/04/2023 | 07/11/2023 | 194 |
| 35,000,000.00 | 03/30/2023 | 09/29/2023 | 10/17/2023 | 12/01/2023 | 246 |
| 20,000,000.00 | 03/30/2023 | 10/27/2023 | 11/07/2023 | 11/07/2023 | 222 |
| 229,288,669.50 | 03/30/2023 | 10/27/2023 | 11/28/2023 | 12/01/2023 | 246 |

* 1. As can be gleaned from the table, it took 194 to 246 days to enact the appropriation ordinance for the funds related to LBM No. 86. It was explained that the Local Chief Executive opted not to forward a request letter for the enactment of an AO unless the included PPAs therein were supported by complete POWs and project proposals. This is to ensure that the included PPAs are well planned and ready to implement. Unfortunately, for LBM No. 86, the PEO, the requesting office, failed to submit the required documents to the budget office immediately, thus resulting in a delay in the submission of the request letter by the Provincial Governor.

* 1. The engineering personnel admitted to making the Program of Work (POW) just before the preparation of the purchase request. Previously, POWs were not required to obtain approval from the AO. However, since second quarter of 2023, the PPDC and PBO offices have demanded POW submissions for every infrastructure project supported by an AO. The preparation and submission of POWs were delayed due to changes in the list of RA Nos. 7171 and 8240 projects. However, the office is now complying with the POW requirement on time.

* 1. The proposed PPAs under RA Nos. 7171 and 8240 lack detailed engineering support, as discussed in a previous observation. The timely preparation of the POW ensures project quality, timeliness, and accuracy in estimating costs. The absence of detailed engineering may lead to an overstatement or understatement of project costs, affecting the project's timeliness and quality.
  2. **We recommended that the Provincial Governor direct the Provincial Engineer to ensure thorough planning and detailed engineering for the proposed RA No. 7171 and 8240 Fund PPAs, ensuring prompt preparation of the Program of Works to prevent delays in PPA implementation.**
  3. Management commented that the Provincial Engineering Office will ensure thorough planning and detailed engineering of the proposed RA 7171 and RA 8240 funded projects in the future for the timely utilization of the funds.

***Disaster Risk Reduction Management Fund (DRRMF)***

***Unutilized Cash Donations***

1. **Cash donations received by the province totaling ₱3,141,850.69, intended as financial assistance for typhoons and disaster victims, remained unutilized due to inadequate monitoring and account misclassification, contrary to COA Circular No. 2012-002, thus undermining the very purpose of the donations and delays the benefits for the intended beneficiaries.**
   1. COA Circular No. 2012-002, dated September 12, 2012, provides that among the sources of the LDRRMF of LGUs are the funds received from other LGUs and other sources.
   2. Section 5.2.1 of the same circular states that the DRRM fund from the National Government (Sec. 22.d of R.A. No. 10121) and from other LGUs (Sec. 21 of the last sentence of the same law) shall be treated as a special trust liability account named “Trust Liability-DRRM (438) in the TF books of the receiving LGUs. The disposal of any unused balance shall be subject to the guidelines of the National Disaster Risk Reduction and Management Council (NDRRMC).
   3. Also, Section 5.2.4 of the circular further provides that funds received from private or international donors shall be duly received by the concerned LGU and treated as special trust liability using the account “Trust Liability-DRRM” (Code 438) in the TF books of the receiving LGUs. The utilization of the fund shall be in accordance with the purpose of the grant. In the absence of a specific purpose, the fund shall be used for purposes provided in the LDRRMFIP.
   4. The PGLU received cash donations totaling ₱3,141,850.69 from various government agencies and private entities as aid during COVID-19 and its aftermath.
   5. The audit team noted that the amount was not utilized as of December 31, 2023. The non-utilization of cash donations deprived beneficiaries of urgent financial aid, especially given the significant time that had passed. Except for prospective COVID-19 victims, which are still relevant as of today, the province would have difficulties utilizing other financial assistance because these were intended for victims of Typhoon Ompong, Typhoon Lawin, and Typhoon Maring.
   6. The non-utilization of the fund can be attributed to the fact that said cash donations were initially recorded as Other-Payables instead of Trust Liability-DRRM. The misclassification of the account affected the accuracy of monitoring reports on LDRRM, which is very crucial in decision-making. As of today, the accounting office has already adjusted the cash donations to their proper accounts.
   7. The province must review any agreements for cash donations received from other government and private entities, following the procedures outlined in COA Circular No. 2012-002. Accordingly, expedite the utilization of the idle funds in order to maximize the purpose of the fund.
   8. **We recommended that the Provincial Governor direct the PDRRM Council, with the assistance of the Provincial Accountant, to review whether the cash donations received are covered by an agreement. Accordingly, expedite the proper utilization of the idle funds.**
   9. The PGLU assured that the Provincial Accounting Office will assist the PDRRM **Council** in expediting the proper utilization of the idle funds for the intended beneficiaries or purposes, subject to existing rules, regulations, and processes and as authorized by law. Further, Management stated that they will streamline their procedure and guidelines on the receipt, monitoring, and utilization of in-kind and cash donations to ensure legality and proper utilization for intended beneficiaries or purposes.

***LDRRMF Reporting, Budgeting and Utilization Deficiencies***

1. **A separate annual Local Disaster Risk Reduction and Management Fund Investment Plan (LDRRMFIP), which shall also incorporate the use of the unexpended LDRRMF balance from previous years and funds received from other sources, was not prepared and submitted to the Office of the Civil Defense (OCD) and Department of Interior and Local Government-Local Government Operations Office (DILG-LGOO) as prescribed under COA Circular No. 2012-002 dated September 12, 2012 due to procedural gaps, thus the funds for disaster, mitigation, response and rehabilitation activities remained unutilized at year-end.**
   1. COA Circular No. 2012-002, dated September 12, 2012, mandates the preparation of an annual LDRRMFIP for the DRRM program. The LDRRMFIP will present the 30% allocation for Quick Response Fund (QRF) in lump sums and the allocation for disaster mitigation, prevention, and preparedness, along with details of projects and activities to be funded. The LDRRMFIP will also include a separate caption for projects and activities charged to the unexpended LDRRMF from previous years. The release and use of the LDRRMF must be supported by a local Sanggunian resolution, a declaration of a state of calamity for the QRF, and the LDRRMFIP for projects and activities listed in the approved plan. The unexpended LDRRMF will accrue to a special TF for disaster risk reduction and management activities of the Local Disaster Risk Reduction Management Council (LDRRMC) within five years.
   2. Section 5.1.15 of the Circular provides that the LDRRMFIP shall be reviewed and updated annually to include activities to be funded from the unexpended QRF and DRRMF-MOOE of the previous years, which were transferred to the Special TF.
   3. Section 5.1.6 of the same states that the LDRRMO shall furnish the Office of the Civil Defense and the DILG-LGOO a copy of each of the annual LDRRMFIP and the monthly Report on Sources and Utilization of DRRMF.
   4. The audit aims to determine or ensure that the limited funds appropriated for disaster risk management activities are optimally utilized. Through the interview, the audit team discovered that the LDRRMFIP was not being prepared by the province due to the understanding that the per-office or sector’s AIP being prepared and submitted to the PPDO for consolidation is already sufficient and compliant with the requirements. These misunderstandings create a procedural gap that should be addressed.
   5. The LDRRMFIP is a planning document that should be prepared and updated annually and incorporated into the AIP. It should be furnished to the OCD and DILG-LGOO as per the COA Circular. The AIP may include programs and activities for 5% DRRMF.
   6. The audit team noted that it does not include other available resources for DRRM activities, such as unexpended QRF and DRRM-MOOE from previous years, which were transferred to the STF, and donations received without a specific purpose. The province has unexpended balances of QRF and DRRM-MOOE in the amount of ₱7,589,673.84, ₱14,964,842.04, and ₱43,171,718.63 for CYs 2020, 2021 and 2022, respectively. The PDRRMO should have convened at the beginning of the year to identify PPAs funded by these balances. Records showed that there are no utilizations made under these STF balances, which may be attributed to the absence of initial planned programs or activities that could have been embodied beforehand in the annual LDRRMFIP.
   7. It was explained that previous unexpended balances in the STF were only utilized when needed, as happened during the pandemic. A supplemental AIP was prepared and approved, detailing the programs that will be implemented. During CY 2023, the Council issued Resolution Nos. 05 and 06 on August and November 2023, respectively, approving the additional programs and projects of the 5% LDRRM of the province to be charged under the STF or the unexpended balances of the LDRRMF. These are the PPAs that were recently identified, just like the establishment of the weather monitoring system, and also those that have been programmed previously but are being reprogrammed for the inclusion of a higher budget. While the unexpended balances were indeed recently programmed, they were only conducted after funds had already accumulated for three years instead of identifying needed PPAs at the beginning of the year, which should be embodied in the LDRRMFIP prescribed under COA Circular No. 2012-002.
   8. The main purpose of DRRM plans is to give direction to the LGU in determining various risks and providing strategies and measures by identifying various priority programs and activities on how to address these risks in order to prevent or minimize the possible impacts of a disaster or emergency in the locality. The identification of priority programs and activities is integrated into the long-term PDRRM Plan for CY 2023–2025 of the province, and these long-term plans should be apportioned into short-term plans as incorporated in the annual LDRRMP/LDRRMFIP. Thus, it is necessary that all available resources, not only those under the 5% DRRM Fund but also those unexpended balances in the STF and other DRRM sources, have been fully programmed and likewise regularly monitored, reviewed, and updated to ensure the full utilization of available resources and the timely implementation of proposed projects in contemplation of the long-term objectives of the office.
   9. The non-preparation of the annual LDRRMFIP as prescribed in COA Circular No. 2012-002 precluded the management from fully utilizing its available funds, more particularly the unexpended balances of DRRM and those from other sources; thus, the fund remains unutilized at year-end, which could have been used to implement disaster, mitigation, response and rehabilitation activities that could benefit the constituents. Moreover, the same LDRRMFIP should be submitted to the OCD and DILG-LGOO, along with the corresponding utilization report, in compliance with the COA Circular.
   10. **We recommended that the Provincial Governor direct the PDRRMO in consultation with the LDRRMC, to:**
2. **Prepare the annual LDRRMFIP duly approved by the LDRRMC in accordance with COA Circular No. 2012-002 dated September 12, 2012, which shall incorporate the use of all the available funds for DRRM, including the unexpended balances of QRF and DRRMF-MOOE of the previous years and those received from other sources; and**
3. **Furnish the OCD and DILG-LGOO with a copy each of the annual LDRRMFIP and the monthly Report on Sources and Utilizations of DRRMF in accordance with Section 5.1.6 of COA Circular No. 2012-002.**
   1. The PGLU noted that during the PDRRMC first quarter meeting held on March 12, 2024, the draft LDRRMFIP was presented and duly approved by the council. The PDRRMC assured that it will closely coordinate with the Provincial Budget Office to finalize the aforementioned document, which is expected to be completed by April 15, 2024. This is to ensure that the prepared LDRRMIP aligns with the guidelines. Moreover, the PDRRMC committed to furnishing a copy of the approved LDRRMFIP to the OCD and DILG-LGOO in due course.
4. **There are inconsistencies in the preparation and budgeting of the five percent LDRRMF, as evident in the AIP and the Annual Budget due to inadequate review. This is contrary to the BOM and RA No. 7160, and it affects the reliability of the reports, which could lead to unsound decision-making.**
   1. One of the fundamental principles of local fiscal administration embodied in Section 305(i) of RA No. 7160, or the Local Government Code of 1991, is that local budgets shall operationalize approved local development plans.
   2. The IRR of RA No. 7160 provides instructions on how to ensure that local budgets are linked to harmonized local plans and policies. Article 410 of the IRR explicitly states that the local development councils (LDCs) shall submit to the LFC a copy of the local development plan and AIP prepared and approved during the fiscal year before the calendar for budget preparation in accordance with applicable laws, specifying therein projects proposed for inclusion in the local government budget. The LFC shall use the plan to ensure that projects proposed for local funding are included in the budget.
   3. Incorporated in the CY 2023 AIP and Annual Budget are the proposed PPAs and the budgeted amounts for the 5% LDRRMF, which is mandated under Section 21 of RA No. 10121, otherwise known as the Philippine Disaster Risk Reduction and Management Act of 2010. For CY 2023, the budgeted amount of the Province of La Union for 5% LDRRMF PPAs amounted to ₱90,102,601.10, with details disclosed in the NFS, to wit:

| **Particulars** | **Amount Available** | **Utilized** | **Balance** |
| --- | --- | --- | --- |
| **Current Year Appropriation:** |  |  |  |
| Quick Response Fund (QRF) | 27,030,780.00 | - | 27,030,780.00 |
| Mitigation Fund: |  |  |  |
| MOOE | 36,762,071.00 | 12,947,375.50 | 23,814,695.50 |
| CO | 26,309,750.00 | 5,883,500.00 | 20,426,250.00 |
| **Total Current Appropriation** | **90,102,601.00** | **18,830,875.50** | **71,271,725.50** |

* 1. The law provides that of the amount appropriated for the 5% LDRRMF, thirty percent (30%) shall be allocated as the QRF or stand-by fund for relief and recovery projects and activities. The unexpended LDRRMF shall accrue to a special TF solely for the purpose of supporting disaster risk reduction and management activities of the LDRRMCs within the next five (5) years. Pertinent provisions of COA Circular No. 2012-002 dated September 12, 2012, which provides for the accounting and reporting guidelines for the LDRRMF, are as follows:
     1. All unexpended or unobligated balances of the QRF and the DRRMF-MOOE shall be transferred to the Special TF under the account “Trust Liability-DRRM” (Code 438) in the TF books.
     2. All unexpended or unobligated balances of the LDRRMF for CO shall be continued in the GF books until the project funded is therefore completed, and any savings shall be available for use in the disaster risk reduction and management activities in the LDRRMFIP.
  2. The audit team compared the proposed PPAs under the 5% LDRRMF in the AIP with those funded in the Annual Budget and found discrepancies. The PPA "Establishment of Radio Communication System" was allotted an estimated cost of ₱30,000,000.00 under MOOE in the AIP, while it was funded for ₱20,000,000.00 in the Annual Budget under the expense class CO. Thus, the difference in expense class allocation was glaring from the AIP compared to the annual budget.
  3. The BOM defines MOOE as allocations for LGUs' operations, such as supplies, materials, transportation, utilities, and maintenance activities. CO is an allotment class for purchasing goods and services that add to government assets, such as infrastructure outlays, vehicles, and investments in government corporations' capital stock. MOOE represents expenses for regular activities used during the budget year, while CO refers to expenses that extend beyond the fiscal year and add to the assets of the LGU. CO appropriations remain valid in subsequent fiscal years until fully spent, reverted, or the project is completed. Identifying whether a PPA is a MOOE or CO can be traced during the AIP and annual budget preparation. For 5% LDRRMF, identifying whether a PPA is allotted with a MOOE or CO budget is crucial due to special guidelines on accounting and utilization of unexpended balances. LDRRMF COs remain in the GF until fully spent, reverted, or the project is completed.
  4. The management's reporting of the expense class per annual budget led to inconsistencies between the AIP and Annual Budget for the expense class of the PPA, "Establishment of Radio Communication System." If the AIP was followed, the PPA would be budgeted under MOOE for ₱20,000,000.00, with any unexpended amount transferred to the STF. A similar PPA was proposed under Supplemental AIP (SAIP) No. 3, approved under SP Resolution No. 1429-2023, with an estimated budget of ₱43,000,000.00, but this time under the CO. This was also budgeted under Supplemental Budget No. 16 in the amount of ₱22,629,154.00 under CO. In an inquiry, it was admitted that there were inconsistencies in the programming and budgeting of the PPA. However, the Supplemental SAIP dated September 2023 could have already covered the inconsistencies made, and to date, the PPA has not yet been implemented.
  5. Although the supplemental SAIP could have covered the inconsistencies, we observed that the original intention in the preparation of SAIP No. 3 was not to correct the inconsistency, but it just happened that it was prepared due to the newly identified PPAs or increased budget to be charged in the discontinued LDRRMF Continuing and the unexpended balances of LDRRMF in the Special TF.
  6. **We recommended that the Provincial Governor direct the Provincial DRRMO and the PBO, in coordination with the LFC, to conduct a strict and thorough review of the five percent LDRRMF Annual Budget and its local budget preparation forms to ensure consistency in the financial reports.**
  7. The Provincial Accounting Office had committed to assist in the preparation of the AIP and annual budget, especially the proper classification of the expense class of PPAs. Also, the Provincial Accounting Office said that they will assist the PBO in the review of the 5% LDRRMF annual budget and its local budget preparation forms to ensure consistency of the annual investment plan, annual Budget and related reports.

* 1. Further, the PDRRMO stressed that they will be in close coordination with the LFC to ensure the correctness and consistency of financial reports to be submitted to respective offices with respect to the preparation of the 5% LDRRMF annual budget.

1. **Instead of the correct balance of the five percent LDRRMF Continuing totaling ₱43,617,243.00, an amount of ₱51,334,443.00 was declared as savings and thereafter used to fund new PPAs as a result of the inadequate review. This action is contrary to Section 321 of RA No. 7160. Therefore, the amount of ₱7,717,200.00 under Supplemental Budget No. 16 lacks actual cash back up, which may potentially lead to legal and regulatory issues as well as negatively impact the cash flow of the LGU if not promptly addressed.**
   1. Section 321 of RA No. 7160, also known as the Local Government Code of 1991, mandates that all budgetary proposals are considered in the budget preparation process. After the local chief executive submits the executive budget to the sanggunian, no supplemental budget ordinance can be enacted unless supported by funds actually available as certified by the local treasurer or new revenue sources. Funds are considered available when realized income exceeds estimated income as of any given day, month, or quarter of a given fiscal year. Savings are defined as the portions or balances of any programmed appropriation free from any obligation or encumbrance still available after the satisfactory completion or unavoidable discontinuance of the work, activity, or purpose for which the appropriation is authorized, or arising from unpaid compensation and related costs pertaining to vacant positions and leaves of absences without pay.
   2. For CY 2023, Appropriation Ordinance No. 16-2023 was enacted on December 22, 2023, thereby approving the amount of ₱122,326,865.80 for Supplemental Budget No. 16 of the Province of La Union. SB No. 16 was requested for the enactment of an Appropriation Ordinance on a letter dated December 1, 2023, which was received by the Office of the SP on December 5, 2023. It was supported by the Statement of Funding Sources (LBP Form No. 8) and the Statement of Supplemental Appropriation (LBP Form No. 9). It could be inferred from LBP Form No. 8 that SB No. 16 was funded from the available sources as follows:

| **Particulars** | **Amount** (₱) |
| --- | --- |
| Continuing – 5% LDRRMF | 51,334,443.00 |
| Special TF – 5% LDRRMF | 62,302,422.80 |
| Reprogramming of 20% Local DF - Current | 200,000.00 |
| Prior Year Savings – 20% Local DF | 8,490,000.00 |
| **Total** | **122,326,865.80** |

* 1. The five percent LDRRMF Continuing Balance of ₱51,334,443.00 was not updated before being declared as savings. The amount was certified as an available balance in LBP Form No. 8, but later obligated and disbursed for disaster response and rescue equipment. The correct unobligated balance should be ₱43,617,243.00, not ₱51,334,443.00. As a consequence, the amount of ₱7,717,200.00 was included in the amount appropriated under SB No. 16, although in reality there is no more cash back-up equivalent to this amount since the same was already previously obligated and disbursed. Cash backing is crucial to ensuring that all PPAs being implemented are funded with the actual cash available.
  2. The 5% LDRRMF Continuing in LBP Form No. 8 of SB No. 16 was found to be outdated due to oversight. The schedules and documents were not updated to include the payment of disaster response and rescue equipment before certification and endorsement by the SP. The audit team was informed that the newly budgeted PPAs under the LDRRMF are not yet supported with Purchase Requests or obligated, resulting in no disbursements or obligations charged under the supplemental budget. The risk of human errors may not be fully eliminated, but they can be prevented or avoided by implementing sound internal control. The five percent LDRRMF Continuing was the only fund source supported with reports as of September 30, 2023, rendering the submitted report inaccurate. This could have been detected had a comprehensive review of reports been conducted prior to the declaration of savings.
  3. While it is fortunate that the recently funded LDRRMF PPAs under SB No. 16 remain unutilized, the ₱7,717,200.00 discrepancy in declared savings, if not discovered and corrected promptly, could place the LGU in a precarious situation, which could potentially result in legal or regulatory issues as well as negatively impact the entity’s cash flow.
  4. **We recommended that the Provincial Governor, in coordination of the Provincial Treasurer, PBO, Provincial Accountant, Provincial DRRMO, and the SP, to take the following actions:**

1. **conduct a comprehensive review of the documents supporting the Statement of Funding Sources (LBP Form No. 8) prior to certification in order to ensure that the accurate amount is being reported or declared as savings and thereafter made as the basis for the enactment of a supplemental budget; and**
2. **revisit the newly programmed LDRRMF PPAs under Supplemental Budget No. 16 and identify which among these PPAs will be excluded for implementation or decreased in appropriations amounting to ₱7,717,200.00.**
   1. The PGLU explained that the Provincial Accounting Office had certified the balance of the five percent LDRRMF Continuing amounting to ₱51,334,443.00 based on the available accounting records as of September 30, 2023. The PGLU added that it was only upon recording the disbursement that the Provincial Accounting Office acquired knowledge of a purchase request with PR No. 32-V for the Disaster Response and Rescue Equipment, which was reviewed and certified by the PBO for the availability of appropriation and reviewed by the PTO for the availability of funds on November 18, 2022.

* 1. On the other hand, the PGLU clarified that the SP, through the Committee on Finance, Budget, and Appropriations, relied on the documents submitted, particularly the certification of the Provincial Treasurer and Provincial Accountant on LBP Form No. 8; thus, the committee assumed that it was the most recent balance upon submission. The SP assured, through the appropriate committees, will exercise due diligence in ensuring that all documents pertinent to the requests will be reviewed and validated.

* 1. The PGLU guaranteed that the PTO will be in close coordination with the PBO and Provincial Accounting Office in conducting a comprehensive review of the documents supporting the Statement of Funding Source (LBP No. 8) and revisiting the newly programmed LDRRMF PPAS under Supplemental Budget No. 16 (2023).

1. **Out of the available funds amounting to ₱63,071,821.00, for the 70% mitigation fund, only ₱18,830,875.50 or 30% were obligated or utilized during the calendar year. Similarly, only ₱7,717,200.00 or 15% of ₱51,334,443.00 were utilized for LD. RMF Continuing Appropriations prior to reprogramming. This signifies inefficient use of available funds and slow implementation of PPAs, primarily due to ineffective planning, identification of PPAs**, **and budgeting, thus undermining the LGU’s disaster resilience and preparedness capabilities, which run counter to the objectives of RA No. 10121.**
   1. The Philippine Disaster Risk Reduction and Management Act of 2010 shifted the focus from disaster response and recovery to disaster risk reduction, preparedness, and mitigation. It modified the use and appropriation of the LDRRMF. Section 21 of the law stipulates that at least 5% of the estimated revenue from regular sources should be set aside for disaster risk management activities, including pre-disaster preparedness programs, post-disaster activities, and calamity insurance premium payments. The LDRRMF covers 30% of the QRF and 70% for disaster prevention, mitigation, preparedness, response, rehabilitation, and recovery.
   2. For CY 2023, the total estimated revenue of the Province of La Union amounted to ₱1,802,052,022.00. Five percent of this amount, or ₱90,102,601.00, was appropriated as the 5% LDRRM Fund. Of this 5% LDRRMF, 30%, or ₱27,030,780.00, was allocated as the QRF and 70%, or ₱63,071,821.00, was allotted for disaster prevention and mitigation, preparedness, response, rehabilitation and recovery activities (“Mitigation Fund” for brevity). Under the Mitigation Fund, 58% of the Mitigation Fund, or ₱36,862,071.00, was allotted for MOOE, and ₱26,209,750.00, or 42%, was for CO.
   3. Additionally, the Province, at the beginning of CY 2023, has the available balance of LDRRMF Continuing Appropriations in the total amount of ₱51,334,443.00 pertaining to the CY 2021 and CY 2022 unexpended/unobligated balances of COs.
   4. As per guidelines, the utilization of the 30% QRF is dependent on whether there is a declaration of a state of calamity by the appropriate authority. For CY 2023, there was no declaration of a state of calamity for the province of La Union; hence, the QRF remained unutilized. Thus, evaluation was based essentially on the extent of utilization under the remaining 70% of the CY 2023 LDRRMF and the LDRRMF Continuing Appropriations as incorporated in the AIP.
   5. A review of available reports and records disclosed that for CY 2023, the Province of La Union reported the following utilizations for the Mitigation Fund and Continuing Appropriations:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **Available Fund** | **Utilization\*** | **Balance** | **Percentage of Utilization** |
| **Mitigation Fund:** |  |  |  |  |
| MOOE | 36,862,071.00 | 12,947,375.50 | 23,914,695.50 | 35% |
| CO | 26,209,750.00 | 5,883,500.00 | 20,326,250.00 | 22% |
| **Total Mitigation Fund** | **63,071,821.00** | **18,830,875.50** | **44,240,945.50** | **30%** |
| **Continuing Appropriations:** | |  |  |  |
| CY 2021 | 1,583,283.00 |  | 1,583,283.00 | **0.00%** |
| CY 2022 | 49,751,160.00 | 7,717,200.00 | 42,033,960.00 | **15.5%** |
| **Total Continuing Appropriations** | **51,334,443.00** | **7,717,200.00** | **43,617,243.00** | **15%** |

*\*Amount includes commitments*

* 1. As could be gleaned from the above table, the utilization rate for the Mitigation Fund was only at ₱18,830,875.50, or at 30%, inclusive of commitments totaling ₱11,797,900.00. Commitments are obligations incurred by a government agency for which items have not been delivered and services have not yet been rendered. From the foregoing, if we only considered those programs and projects that were actually fully implemented during the calendar year, only ₱7,032,975.50 were utilized, with a very low utilization rate of 11%.

* 1. On the other hand, for the Continuing Appropriations, only ₱7,717,200.00, or 15%, was utilized during the year, which pertains to the procurement of disaster, response and rescue equipment charged against the CY 2022 budget.
  2. The LDRRMF Continuing Appropriations for CY 2021 and CY 2022 were reprogrammed according to Appropriation Ordinance No. 16, dated December 22, 2023. The remaining 5% of PPAs were discontinued, declared as savings, and reprogrammed. The discontinuation was due to recent developments, such as insufficient original budgeted amounts, PPA implementation in the current year, increased budgetary estimates, and the allotment of budget for recently identified priority programs. The reprogramming was based on Appropriation Ordinance No. 16.
  3. The PPAs included in the AIP and Annual Budget are priority programs or projects intended to be implemented within the budget year. As such, the LGU should have planned the implementation of these projects early, providing technical specifications, setting time schedules, and considering relevant factors. This ensures that these projects are implemented within the budget year and are well-planned and implemented.
  4. The province's Mitigation Fund and LDRRMF Continuing Appropriations programs were found to be poorly planned, identified, and budgeted, leading to low utilization rates and the discontinuation of most of them. This was due to a lack of concrete procurement plans and specifications, as well as not considering other relevant factors in budget estimation. The delayed or non-implementation of these programs affected the timely achievement of the Provincial DRRM Plan and RA No. 10121, which were designed to effectively anticipate and mitigate natural disaster hazards and emergencies, impacting the lives of their constituents.
  5. **We recommended that the Provincial Governor direct the PDRRMO and the PDRRM Council and LFC to:**

1. **Optimize the utilization of its Mitigation Fund and 5% Continuing LDRRMF to enhance the disaster preparedness and response capability of the Province; and**
2. **Ensure that the PPAs programmed and budgeted in the LDRRMFIP and as incorporated in the AIP are well-planned and procurement-and-implementation-ready in order to efficiently and effectively use the available funds and to avoid unnecessary subsequent discontinuance or abandonment of PPAs.**
   1. The PDRRMO committed to strictly monitoring the Annual Work and Financial Plan, or CY 2024, with regard to the utilization of the Mitigation Fund and the 5% Continuing LDRRMF.

* 1. The PGLU said that the Provincial Accounting Office reminded the concerned offices to implement their PPAs as planned and religiously apprise them of the utilization rate of the LDRRMF.

* 1. Further, the PBO assured that projects and activities to be charged against the LDRRMF will be incorporated into the LDRRMIP and integrated into the approved AIP. The PGLU stated that they will also closely monitor the PPAs and utilization of the LDRRMF on a monthly basis, ensuring strict compliance with the proposed Annual Work and Financial Plan, and recalibrate the implementation of PPAS during the 1st and 3rd quarters to allow ample time for implementation and avoid any potential delays.

1. **The prolonged issuance of Notice to Proceed (NTP) and Purchase Order to the winning bidder and the grant of requests for extensions based on reasons that were not reasonably meritorious defeated the timely execution of other procurement activities conducted on the acquisition of disaster response and rescue equipment and supplies costing ₱7,795,600.00. This is contrary to Section 3(c) of RA No. 9184, thus impeding the immediate use of the equipment and supplies in times of disasters or emergencies.**
   1. The Government Procurement Reform Act (RA No. 9184) was enacted to modernize, standardize, and regulate the procurement activities of the Philippines' government. It aims to promote good governance and adhere to principles of transparency, accountability, equity, efficiency, and economy. Section 3 of the Act outlines the principles of government procurement, including the need to streamline the process and adapt to advances in technology.
   2. One stage in the procurement process is the issuance of the NTP. The concerned procuring entity must issue the NTP and a copy of the approved contract to the successful bidder within seven calendar days of contract approval by the appropriate government authority. Notices called for by the contract terms are effective only upon receipt by the successful bidder.
   3. Records showed that disaster and rescue equipment and supplies to be used during search and rescue operations were procured in CY 2022 with a total contract cost of ₱8,065,000.00. The equipment and supplies were delivered on May 11, 2023 and June 21, 2023, and paid on October 20, 2023.
2. ***Prolong issuance of NTP and Purchase Order***
   1. The issuance of a NTP and Purchase Order to the winning bidder was delayed, with the NTP being prepared as of December 23, 2022, but the winning bidder only received it on February 11, 2023, almost 50 days after the NTP date. This delay in the procurement process, which was conducted up to the NOA (35 days), hindered the timely and efficient conduct of procurement activities by the BAC.
   2. The IRR states that the NTP should be issued within seven calendar days from the date of contract approval by the appropriate government approving authority. In this case, the NTP should have been issued until December 30, 2022. A contract is effective on the date signed by both parties, but all notices called for by the terms of the contract are effective only upon receipt by the successful bidder. The belated issuance of the NTP will ultimately affect the period in which items will be received by the end-user.
   3. The end-user, PDRRMO, received the NTP from the Bid of Awards Committee on February 2, 2023, which they issued to the supplier on February 11, 2023. The bottleneck lies in the rigorous preparation and review of purchase orders, affecting the timely issuance and approval of documents by the Head of the Procuring Entity. Although acknowledged, this level of review should not compromise timelines under RA No. 9184 and its IRR. The contract entered into by management and the supplier is sufficient for procurement through competitive bidding.
3. ***Extensions granted were not based on meritorious grounds***
   1. The Manual of Procedures for the Procurement of Goods and Services mandates that suppliers must deliver goods or services within the specified period. If delays are expected, they must notify the procuring entity in writing, detailing the causes and duration. The procuring entity may grant time extensions based on meritorious grounds, with or without liquidated damages. The supplier requested a 90-day delivery extension due to importation issues, which was granted by management. The contract was awarded to the winning bidder, and it is assumed that post-qualification and testing of the sample goods were conducted by the BAC-TWG, indicating the winning bidder's competence to deliver the products.
   2. The supplier's request for extensions was deemed unjustifiable due to the circumstances. The supplier committed to complying with the terms of the contract, including the delivery period, from the receipt of the Notice of Award (NOA) until the receipt of the NTP. This amount of 95 days is considered sufficient time for the supplier to prepare and comply with their obligations. The risk of delays due to production or importation should be borne by the supplier, not the agency.
   3. The Remote Area Lighting System (RALS), with a total cost of ₱269,400.00, was not delivered due to its discontinuation in 2022. The winning supplier claimed that these developments were not properly communicated to them until recently. The NOA was received by the supplier on December 23, 2022, but the NTP was delayed to February 11, 2023. If the supplier is a regular importer or distributor of the product, they should have at least knowledge of the discontinuation date or sometime thereafter, but not after six months.
   4. Although we recognize that management has given consideration to the supplier's requests for delivery extensions, we reiterate that the requests should be granted only based on reasonably meritorious grounds in such a manner that the reasons are not attributable to the supplier’s lack of adequate planning for the management of its inventories. The agency must prioritize the prompt execution of its plans, initiatives, and operations, especially when utilizing the LDRRM Fund to purchase supplies or equipment crucial for saving lives and providing care. Several car accidents and other emergencies have actually happened during the time that the deliveries were delayed. Timely implementation of the procurement project, could have ensured timely use of these supplies and equipment.
   5. **We recommended that the Provincial Governor, in coordination of the BAC and the concerned offices, take the following actions:**
4. **Streamline the process that involves the preparation, review and approval of NTPs and POs and ensure that the NTPs are strictly issued to the successful bidders within seven (7) calendar days from the date of the approval of the contract; and**
5. **Grant delivery extensions only for grounds that are reasonably meritorious (e.g. fortuitous events, calamities, etc.) in order to oblige the suppliers to deliver within the period prescribed in the contract.**
   1. The PGLU has committed to adherence to the recommendation and intensifying procurement monitoring under the updated 2016 Revised IRR of RA No. 9184. The PDRRMO has confirmed close coordination with the BAC for the fast release of BAC documents to winning bidders and suppliers. The BAC claims that delivery timelines and extensions from suppliers, manufacturers, or distributors have been meticulously reviewed and, if meritorious, the circumstances asserted to eliminate delivery delays for end-users.

***Delayed implementation due to inadequate planning and coordination***

1. **Eleven infrastructure projects amounting to ₱57,542,560.20 were delayed by 30 to 200 days due to inadequate planning, lack of detailed engineering, and coordination with the stakeholders and end-users, contrary to Annex “A” of the 2016 Revised IRR of RA No. 9184, therefore hindering the constituents from timely enjoying the benefit from these projects.**
   1. Annex “A” of the 2016 Revised IRR of RA No. 9184 enunciates the use and importance of detailed engineering in the planning of infrastructure projects. The deviations of the actual work from the original plan of a project signify weak or incomplete planning of the implementing unit. The audit team discovered that the PGLU incurred the following reasons for changes in their 11 projects:
2. ***Due to Change Order, Change of Location, or Revision of Plans***
   1. The contract was extended by 657 days due to changes in the project, including changes in location or plans. These extensions were approved due to issues such as non-coordination with agencies like DPWH and LGUs, insufficient manpower for project planning, delayed requests for consultant assistance, and failure to provide the lessor with complete project details.
3. ***Due to Ongoing Projects***
   1. The audit team observed that several projects were delayed by 290 days due to the ongoing projects of other LGUs, particularly in upland barangays where reliable access roads are needed. These projects were urgently constructed by LGUs covering these areas, but they also hampered the implementation of the PGLU projects. The PEO, believing they had properly coordinated their upcoming projects with the concerned LGU, was unaware of the simultaneous implementation of their projects. This could be due to the office’s unawareness of the AIP and APP of the LGUs, which present the upcoming project schedules. It is crucial to synchronize the AIP and APP of all concerned LGUs to avoid delays and overlapping projects. The audit team also noted that extensions due to ongoing programs and projects were not exclusive to the projects implemented by other LGUs. Sometimes, PGLU projects were delayed due to their own other programs or projects, which could have been avoided if the PGLU properly scheduled the implementation through proper coordination among department heads.
   2. Overall, the projects were extended due to inadequate planning, detailed engineering, and coordination with stakeholders, including partner LGUs and end-users. The PGLU needs to harmonize their PPAs, from their own institution to other LGUs and government agencies. Miscommunication or scheduling conflicts could jeopardize progress and quality standards. Implementing planning improvements, conducting thorough assessments, and fostering open dialogue can help reduce change orders on construction projects.
   3. **We recommended the Management:**
4. **Ensure that all parties in the project, including the requestor and end-user, are involved in the planning phase so that their preferences, such as design, specification, location and timing, are considered in order to avoid changes during the implementation phase;**
5. **Require any requestor to disclose whether they have already requested the same project from other government agencies and remind them to wait for the response of the PGLU before submitting any request letter to other agencies to avoid duplication of project;**
6. **Coordinate with the different agencies, especially the DPWH and the partner LGUs, and reconcile the respective APPs and SPPs of the parties involved to detect any potential duplication or overlapping, and if necessary, to consider any possible schedule adjustment to harmonize the implementation of the infrastructure projects; and**
7. **Conduct a comprehensive assessment of the staffing needs for the PEO's, with specific focus on workload, especially tasks related to monitoring.**
   1. To address the delay in infrastructure projects, the PGLU stated that the recommendations of the COA to streamline the process of project implementation and funding shall be adopted.
   2. To make all these possible, the PGLU admitted that it is imperative to assess the manpower complement of the Provincial Engineering Office and to consider their workload, especially tasks related to monitoring and implementation.

**Contract Implementation**

***Grant of Time Extensions could not be verified***

1. **The justification for granting time extensions due to material shortages and rain-related delays, ranging from 76 to 181 days, for 11 infrastructure projects totaling ₱54,555,776.27 could not be confirmed due to lack of supporting documents, discrepancies between the number of suspended days and the data from PAGASA, as well as inconsistencies in the suspended days granted to nearly identically located projects. This does not align with the pertinent provisions of Annex E of the Revised IRR of RA No. 9184, thereby raising concerns about the reasonableness of the extensions granted, which prolonged the implementation of the projects.**
   1. A common provision in the contracts for infrastructure projects entered into between the PGLU and various contractors requires the completion of the project within a certain period of time. However, both parties may call for work suspension, and the PGLU may extend the contract duration of the project if the reason is valid.
   2. The 2016 IRR of RA No. 9184 mandates that the procuring entity must determine the amount of extension for contractors who are fairly entitled to an extension of contract time. If a contractor wishes to request an extension, they must notify the procuring entity within 30 calendar days after work has commenced or after the circumstances leading to the claim have arisen. Failure to provide such notice constitutes a waiver by the contractor.
   3. The procuring entity will examine the facts and extent of the delay and may extend the contract time for completing the contract work when the findings justify it. However, no extension of contract time shall be granted due to ordinary unfavorable weather conditions or the inexcusable failure or negligence of the contractor to provide the required equipment, supplies, or materials.
   4. An extension of contract time may be granted for rainy or unworkable days considered unfavorable for the prosecution of works at the site, in excess of the number of rainy or unworkable days predetermined by the government in relation to the original contract time during detailed engineering and preparation of contract documents as agreed upon by the parties before contract perfection.
   5. Additional grounds for extension of contract time may include shortages of construction materials, general labor strikes, and peace and order problems that disrupt construction operations through no fault of the contractor, provided they are publicly felt and certified by appropriate government agencies. The written consent of bondsmen must be attached to any request for an extension of contract time and submitted to the procuring entity for consideration.
   6. A review of the Consolidated Quarterly Report on Government Projects, Programs, and Activities (QRGPPAs) revealed that the PGLU reported 62 PPAs completed, 74 ongoing PPAs, and 19 PPAs set for implementation during the fourth quarter of CY 2023. The total contract cost of these PPAs was ₱874,831,663.51. Out of the 155 reported infrastructure projects, 50 were granted extensions in their contract duration. The audit team specifically highlighted 15 PPAs to address the different reasons the PGLU extended these contract durations. These 15 PPAs have a total contract cost of ₱74,851,007.19 and were granted a total of 2,605 extension days, as summarized below:

|  |  |
| --- | --- |
| **Reason for Extension** | **Total No. of extension**  **days granted** |
| Due to Rain | 1,252 |
| Due to Unpassable Road | 212 |
| Due to High Water Level | 84 |
| Due to Ongoing classes | 20 |
| Due to Lack of Materials | 90 |
| Due to On-going Project | 290 |
| Due to Change Order | 360 |
| Due to Change of Location | 200 |
| Due to Revision of Plans | 97 |
| Total | 2,605 |

1. ***Due to Rain***
   1. The most common reason for contract extension was the occurrence of rain at the project site. Heavy rain or prolonged periods of precipitation can make it difficult or impossible to carry out construction activities, leading to delays and the need for additional time to complete the projects.

* 1. As mentioned earlier, RA No. 9184 permits the grant of a contract time extension to the contractor due to the unfavorable work conditions caused by rain. However, the said privilege can be easily subject to abuse, as the cited unfavorable weather conditions may be just ordinary. Therefore, whenever contractors request work suspension due to rain, the PEO must thoroughly assess the validity of these requests.

* 1. The audit team could not verify the validity of all the 1,252 rain-related extension days granted, ranging from 76 to 181 days, that pertain to the 11 infrastructure projects totaling ₱54,555,776.27. However, the audit team noted that some of the approved rain-related extension days may be classified as ordinary unfavorable weather conditions because of the following issues:
* ***Work was suspended despite the absence of rain.***
  1. One of the reliable pieces of evidence to prove the occurrence of rain in a certain area is the official rainfall data from the PAGASA.
  2. The audit team found that the PGLU granted rain-related extension days to several contractors, even if the PAGASA report revealed no rain. For example, the "Construction of Covered Court at Bacnotan NHS" project had 100 calendar days of suspension, but only 86 days had actual rain. The Provincial Engineer stated that the office would issue a suspension order once a request letter was received, relying on the PAGASA report and interviews with local authorities.
  3. During suspension, the OPE maintains daily communication with the contractor to see if work can be resumed. If the weather is favorable, they send a staff member to inspect the site and recommend whether the project is ready for resumption. Contractors cannot resume work immediately upon a rain stoppage due to the risk of rain and safety risks for workers. Workers may need to wait for the site to dry out before continuing work.
  4. It is uncommon for a project to be suspended for 45 consecutive days due to rain, as evidenced by the PAGASA report. However, during this stretch, there was no rain for three consecutive days, prompting the contractor to resume work, even for a day.
* ***The number of suspended days differs significantly among the projects which location and implementation period are almost identical.***
  1. The audit team noted that there were three projects that were awarded to different contractors and started simultaneously. These projects’ locations are adjacent, and there is a high probability that these barangays experienced the same type of weather and amount of rain precipitation every day. The audit team found out that the contractor of one of the projects did not request a work suspension despite the rainy days recorded from June to August 2023 and completed the project on August 1, 2023. Meanwhile, the other two contractors requested a work suspension and submitted their PAGASA reports to support it. In one of the projects, the time extensions totaled 34 days while the other totaled 30 days.
  2. The scenario for June 2023 suggests that the contractors for the two can continue their work during rainy days. On the other hand, in the same month, the other contractor claimed that they could not continue to work due to rain for 10 days. This fact imprinted doubt on the real capability of the contractors to continue their projects during the suspended days. This may also suggest that the approved 10 extended days may fall under the “ordinary unfavorable weather conditions” category, as the other contractors near their vicinity can work during these days.

* 1. The circumstances discussed above imply that the uncertainty brought by the lack of documentation of the actual site calls for additional backup documents such as the geotagged photos of the site and the site assessment report. The presence of these documents will boost the reliability of the claims of the contractors.

1. ***Due to Lack of Materials***
   1. The cases wherein the lack of material caused a delay in project completion were connected to the construction of sanitary landfills. The two contractors of the Sanitary Landfill were granted a 60-day and 30-day extension. Both of them experienced difficulty in the importation of high-density polyethylene (HDPE) liner, a material used to make heavy-duty liners and geomembranes for the control of leachate spilling from the landfill.
   2. RA No. 9184 is explicit that no extension of contract time shall be granted to the contractor due to the inexcusable failure or negligence of the contractor to provide the required equipment, supplies or materials. In addition, the law says that shortages of construction materials may be considered additional grounds for extension of contract time, provided they are publicly felt and certified by appropriate government agencies such as DTI, DOLE, DILG, and DND, among others.
   3. The Provincial Engineer said that the importation problem might be rooted in the excess effects of the pandemic. He said that the accumulation of pending orders might cause a delay in the delivery of HDPE liner. However, the Provincial Engineer cannot provide sufficient and appropriate evidence, such as certifications from other government agencies, to warrant the claim. The audit team also found out that there is a supplier of HDPE liner based in the Philippines. This fact makes the need for importation a little questionable. Nevertheless, the provincial engineer assured us that these cases are very rare.
   4. Whether due to rain or lack of materials, it is very important to assess the validity of the contractor's contract time extension claim. Not only is it important to assure the timeliness of the project’s completion, but it is also important to assess whether the PGLU is already entitled to the liquidated damages due to delays incurred by the contractor.
   5. **We recommended that the Provincial Governor direct the Provincial Engineer to:**

1. **Require personnel who undertake inspection or assessment to make a monitoring, inspection, or accomplishment report for every site inspection, which must be duly documented and backed up with photos. Otherwise, require the contractor to submit the geotagged photos of the site to back up his claims, and**

1. **Defer the recommendation of suspension of work in the absence of proofs to the back-up reasons stated therein or those not in accordance with RA No. 9184. In the absence of supporting documents, the unworkable days perceived in the PAGASA Reports should be followed in the grant of time extensions.**
   1. The PGLU has endorsed the COA's recommendation to require personnel conducting inspections or assessments to create monitoring reports or accomplishment reports for every site inspection, validating the proofs for backup reasons and in accordance with RA No. 9184.

***CSHP Implementation Shortcomings***

1. **The PGLU was unable to strictly and efficiently enforce the Construction Safety and Health Program (CSHP) throughout the construction phase of its infrastructure projects, despite its inclusion as a separate pay item in each infrastructure project's program of works, totaling ₱872,552.97 due to the leniency of the management. This infraction runs counter to Department of Labor and Employment (DOLE) Department Order (DO) No. 13, series of 1998, thereby compromising the protection and welfare of both the construction workers and the general public.**
   1. The DOLE DO No. 13 series of 1998 aimed to establish guidelines for occupational safety and health standards in the construction industry. The program outlined detailed rules for processes and practices in compliance with Occupational Safety and Health Standards, including personnel responsible and penalties for violations. The DPWH DO No. 56 series of 2005 provided guidelines for implementing these standards. The implementation of construction safety should be considered in all stages of project procurement and its cost should be integrated into the overall project cost under pay item "SPL: Construction Safety and Health." All requirements, provisions, and instructions related to construction safety should be included in project bidding documents. RA No. 11058 strengthens compliance with occupational safety and health standards, ensuring a safe and healthy workplace for all working people. The total cost of implementing a safety and health program should be an integral part of the operating cost and a separate pay item in construction and contracting or subcontracting arrangements.
   2. The audit team reviewed the contracts for the implementation of the CSHP in the provincial government. They found that the CSHP was included as a separate pay item in the Program of Works for each infrastructure project. However, they found that the province failed to ensure strict adherence to safety and health protocols for contractors and the general public. The Occupational Safety and Health Program (OSHP) was paid for ₱872,552.97 for 25 sampled IPs with an aggregate contract amount of ₱110,429,806.09.
   3. The review of procurement and disbursement documents revealed that a significant portion of the workforce, including contractors, failed to adhere to construction safety and health protocols, including the absence of essential personal protective equipment. This lapse was not only on the part of the contractor but also on the part of the provincial government, indicating a failure to enforce guidelines and procedures outlined in department orders. The PEO confirmed that a project engineer is designated to conduct site inspections for every infrastructure project, especially when works are on a critical path. During these inspections, workers were often observed without personal protective equipment, and the overseeing project engineer reminded the contractor's project engineer of the need for compliance. Although workers are provided with personal protective equipment, they often choose not to wear it despite reminders and weather-related precautions.
   4. Section 6.1 of DOLE DO No. 13 mandates that employers must provide adequate and approved protective equipment for workers on construction projects. The budgeted amount for OSHP includes labor payments for safety personnel. Section 7 requires each site to have a minimum number of required safety personnel. Despite contractors' non-compliance, no sanctions were imposed, and projects were declared as 100% satisfactorily completed. The equivalent amount of unimplemented OSHP should have been deducted from contractors' claims or refunded if already disbursed. Appropriate sanctions should be imposed for violations of specific safety policies.
   5. The Construction Safety and Health Program is crucial for the safety and health of workers involved in infrastructure projects. It requires the wearing of personal protective equipment as a preventive measure to safeguard workers from various risks. Ensuring workers' safety and health is equally important as timely and efficient project implementation. This fosters a harmonious relationship among all stakeholders involved, ensuring the protection and welfare of construction workers.
   6. **We recommended that the Provincial Governor direct the Provincial Engineer, direct the Project Engineers to:**
2. **strictly require all contractors to ensure their entire workforce is wearing the required safety gear or personal protective equipment at all times within the construction project site for the protection and welfare of both the construction workers and the general public;**
3. **closely monitor the proper implementation of the Construction Safety and Health Programs and Standards by the contractors at the project sites by maintaining detailed records of contractor’s non-compliance per site visitation, which can be referenced during future payment processes; and**
4. **formulate an internal policy that clearly defines the appropriate sanctions or penalties to be applied to contractors found in violation of the Construction Safety and Health Program to ensure accountability and adherence to safety protocols.**
   1. The PGLU emphasized that they had consistently upheld the welfare and safety of both construction workers and the general public in all their infrastructure projects, as evident in the inclusion of the Construction and Safety and Health Programs in all Programs of Work as required by law.

* 1. They clarified that they are not lenient in implementing and monitoring the said program. Moreover, the contractors complied by equipping their workers with mandated safety gear or personal protective equipment. As a result, they had not encountered any untoward incidents in the implementation of their projects. The PGLU believed that the wearing of personal protective equipment was affected by the current working conditions.
  2. The PGLU assured that they will adopt the recommendations of the COA to closely monitor the proper implementation of the CSHP and to ensure the entire workforce is wearing the required safety gear and personal protective equipment at all times within the construction project site for the protection and welfare of both the construction workers and the general public.

* 1. The PGLU informed us that they will also strengthen the conduct of the Contractor’s Performance Evaluation System (CPES) to ensure compliance with construction laws, rules and regulations and to ensure accountability and adherence to safety protocols.

**Special Education Fund**

***Delayed assistance to regional delegates***

1. **Due to inadequate planning and monitoring by the Provincial School Board (PSB), the distribution of the meals and snacks assistance totaling ₱7,474,080.00 was delayed. This contravened the Board's proposal, hence defeating the purpose of the assistance intended to regional delegates.**
   1. Section 272 of RA No. 7160, or the Local Government Code, provides that the SEF shall be allocated for the operation and maintenance of public schools, the construction and repair of school buildings, facilities and equipment, education research, the purchase of books and periodicals, and sports development as determined and approved by the local school board.
   2. DEPED-DBM-DILG Joint Circular No. 1, s. 2017, with addendums, enunciates that “[t]he SEF provides the source of funds for the supplementary annual budgetary needs for the operation and maintenance of public schools within the province, city or municipality through an annual SEF budget." The formulation, approval and utilization of the SEF budget are the responsibility of the individual LSB in each province, city or municipality.”
   3. Item 4.0 of the JMC provides the allowable expenses chargeable against the SEF; among these are the expenses for school sports activities at the national, regional, division, district, municipal and barangay levels, as well as for other DepEd-related activities, subject to the prevailing requirements and specifications set by the DepEd.
   4. For CY 2023, the Provincial Annual SEF Budget was approved in the amount of ₱131,000,000.00 through PSB Resolution No. 30, Series of 2022, dated December 14, 2022. Out of this budget, ₱15,000,000.00 was allotted for the Sports Development Program for the R1AA and Provincial Meet. The budgetary requirements per submitted budget proposal are allocated for food, transportation, venue, medicines, sports equipment, uniform and other expenses which totaled to ₱999,940.00 for Provincial Athletic Meet and ₱13,185,057.22 for the R1AA.
   5. The financial assistance for the Provincial Meet in the amount of ₱999,940.00 was transferred by the PGLU to the DepEd Division of La Union for their implementation and subsequent liquidation. On the other hand, for the financial assistance for the R1AA, only the amount of ₱5,710,977.22 was transferred to the DepEd Division, while the remaining balance of ₱7,474,080.00, which pertains to the budget for meals and snacks, was not transferred but rather withdrawn as a cash advance by the Disbursing Officer of the province.
   6. The schedules of activities during the R1AA as set by DepEd Division Office compared with the release of checks are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Event/Activity** | **Date of**  **Scheduled Activities** | **Date of Check** | **Date of Check Receipt** |
| Training of Athletes (Phase 1) | May 1 to 5, 2023 | May 12, 2023 | May 15, 2023 |
| Training of Athletes (Phase 2) | May 6 to 10, 2023 |
| R1AA Proper | May 14 to 19, 2023 | May 12, 2023 | May 15, 2023 |

* 1. In the course of the audit, it was observed that the checks for R1AA were only received by the disbursing officer on May 15, 2023, which suggests that the distribution of cash to the delegates occurred solely on that date and thereafter.
  2. From the project proposal, it can be deduced that the provision for meals and snacks during the R1AA training and event includes breakfast, lunch, and dinner, along with morning and afternoon snacks. Originally, these meals and snacks were planned to be served buffet-style or as packed meals and snacks for the athletes' convenience and advantage. This approach was aimed at minimizing their concerns about food and allowing them to fully concentrate on their training and sports activities.
  3. However, support for meals and snacks was only extended to the delegates at a later date. In fact, their training had already concluded by the time the assistance was provided. This situation also raises uncertainties about the participants' well-being during their training, as the allocated budget for their meals and snacks was not distributed in a timely manner. The same situation occurred during the actual R1AA event at San Carlos City, Pangasinan, where the games had already begun by the time the assistance was distributed.
  4. In an inquiry, a PSB member asserted that the delay can be attributed due to the changes and deviations from the proposal at the request of DepEd Division of La Union. As per plan, the DepEd Division should implement the actual distribution of meals and snacks of the athletes and delegates, however due to time constraints as a result of inadequate planning and monitoring, the project implementation fell to PGLU.
  5. It was noted though that the R1AA Meet is an annual sports event. The DepEd Division of La Union was able to timely conduct the necessary procurement activities for R1AA except for the meals and snacks.
  6. We emphasized the need for continuous monitoring and coordination with the LFC of the Provincial Government to ensure the timely implementation of PPAs. It is suggested that DepEd personnel who are members of the PSB should have discussed the implementation of PPAs assistance during the monthly or quarterly meetings. Although meal and snack allowances were provided, delays in the distribution hindered the achievement of the intended purpose of assistance.
  7. **We recommended that the Provincial Governor, as head of the PSB, direct the members from the DepEd to continuously coordinate with the LFC of the Provincial Government and monitor the timely implementation of the identified PPAs in the SEF Budget.**
  8. The PGLU noted that due to time constraints and for reasons of economy and efficiency, the PSB requested to provide the needed meals and snacks in the form of allowance paid through cash advance of the disturbing officer of the PTO. Moving forward, the PGLU assure that they will continuously coordinate with the DepEd to determine the most feasible means of fund disbursement and to ensure the timely implementation of the PPAs funded under the SEF. Likewise, the PGLU expressed that the welfare of the student athletes is their topmost priority.

1. **Operational Audit**

***Electronic Real Property Tax System (eRPTS) Performance Issues***

1. **The Electronic Real Property Tax System (eRPTS) has encountered several issues, including miscalculations in the Abstract of Collection, failure to generate a list of delinquent taxpayers, and other reporting-related issues. These indicate sluggish development and a lack of coordination between the treasurers of the PGLU and the LGU partners. This resulted in the simultaneous adoption of the automated and manual systems by the end users. Consequentially, the additional time spent on duplicating efforts and reconciling data for report preparation may negate the benefits of the automated system.**
   1. One of the priority mandates of the PTO is the implementation of revenue generation programs, particularly the collection of local revenue sources pursuant to the existing Provincial Revenue Code. This is to increase the local revenue of the PGLU.
   2. The PTO identifies the integration of information and communication technology as a tool for effective and efficient governance by empowering the PGLU and municipalities to formulate policies, programs, and projects to improve their revenue generation capabilities. To achieve this, the PTO sought the assistance of a developer to formulate a Treasury Module and Real Property Tax Delinquency Management System (RPTDMS) that will be uploaded to the current eRPTS.
   3. Both of the projects were fully funded in 2021. However, the audit team noted that they are not fully functioning as expected due to the developer’s non-completion of some features in both systems. Details regarding these flaws are presented below.
2. ***Treasury Module***
   1. The PGLU awarded the contract entitled “Purchase of Electronic Real Property System” on December 2020 which was delivered on January 2021.
   2. Despite its title, the project was only aimed at creating the Treasury Module of the eRPTS as a counterpart to the Assessor’s Module embedded in the same system. This module will serve as a tool for extracting important and relevant data from the database of the Office of the Provincial Assessor (OPAss) and producing custom reports for the PTO; thus, the tracking and updating of records and accessing information will be more efficient and in real time.
   3. Based on the Terms of Reference, the following conditions or features must be executed by the eRPTS through the inclusion of the Treasury Model:
3. There's a need to implement the treasury module in current eRPTS. The treasury module scope is within the RPT payments and other transactions within that area.
4. Development of the frontend screen for the receiving in Assessor's office with link of transactions and data to Treasury department.
5. Developed Ul Screen at the Treasury receiving for processing of payments
6. Will define database structure for the module.
7. Custom reports for the RPT in Treasury Module will be defined together with Assessor Office and will be developed in the system.
8. Delinquent Reporting will be developed to provide immediate report of delinquent taxpayers
9. Provide interface for Data Statistics and Summaries
10. Provide Data Synchronization to 19 municipalities through Import Export functionality
11. Create OR Forms that conforms to BLGF standard
12. Prepare tax table and other supporting tables like penalties and discounts.
13. Data build up for the all-lookup tables
14. No hardware needed since it will utilize the existing server and database used by eRPTS
15. Data Coverage is Provincial Treasury and the 19 Municipal treasurers.
    1. The PGLU conducted a pilot implementation of the eRPTS-Treasury Module in the municipalities of San Juan and Caba in 2021. After that, the system was fully cascaded to the other 17 municipalities of La Union in 2022. As of this writing, although the Treasury Module of the eRPTS automates the assessment due by each taxpayer, which can be automatically printed on official receipts upon payment, some municipal treasurers noted that the eRPTS cannot generate RPT-related reports such as the Real Property Tax Account Register/Taxpayer's Index Card (RPTAR/TIC) and Monthly Abstract of Collections.
    2. The audit team, through the interview with the PTO, found out that there were still deficiencies in the project, specifically in the features enumerated above in letters e, f, g and j. The PTO said that the “custom reports” stated in the letter “e” refer to the Daily Abstract of Collections and Quarterly RPT Report. The PTO added that the eRPTS cannot yet generate an accurate report of the daily/monthly abstract of collections and the quarterly RPT report because of some miscalculations. The PTO clarified too that the eRPTS was not yet designed to generate RPTAR; nevertheless, they are considering this feature to be included in the system in the future.
    3. Meanwhile, the letter “f” is related to the ability of the eRPTS to produce a list of delinquent taxpayers. The PTO exposed that the eRPTS can only present the delinquent taxpayers individually through the utilization of a search engine. The system is not yet capable of showing the delinquent taxpayers through a list.
    4. The PTO also admitted that the developer had not yet started to work on the feature mentioned in letter "g,” which is the Data Statistics and Summaries Interface. This feature will aim to help the eRPTS user interpret the data by using different graph presentations. Furthermore, the audit team was informed by the PTO that the tables in letter “j” were not yet ready to accommodate data regarding the taxes, penalties and discounts of the taxpayers.
16. ***RPTDMS***
    1. To manage and track delinquencies in the collection of RPT, the PGLU entered into another contract with the same developer of eRPTS-Treasury Module to develop RPTDMS on September 2021 which was delivered on October 2021.
    2. According to the project proposal, the RPTDMS is an update to the existing eRPTS. It is primarily focused on the computation of the latest liability amount of the delinquent owner arising from the availment of the compromise agreement. The project proposal also states that the main component of it is the issuance of the statement of billing or the computed monthly amortization that will serve as a payment basis for the delinquent owner. It was also expected that the system would provide an updated ledger for each delinquent owner who entered into the compromise agreement.
    3. The Terms of Reference includes the ensuing features/guidelines in creating the RPTDMS, to wit:
17. There is a need to develop a System to Manage and Track Delinquencies of Real Property Taxation.
18. Link with Real Property Database to determine current unpaid Taxes or flagged as Delinquent Taxpayer.
19. The system will run as a stand-alone system for Treasury.
20. Multi-user and concurrent access to the system is allowed for Treasury personnel.
21. Access privilege for User or Group Accounts.
22. System will have ability to manually enter delinquent taxpayer including amount dues for records that does not exist yet in the Database.
23. The unpaid taxes computed will be based on duly assessed value by Provincial/Municipal Assessor.
24. The delinquency application will be applicable to all classifications of property whether Land, Building or Machinery.
25. A lookup table will be provided where Treasury department can set dates of the ordinance so that system will adjust the application of delinquency according to whatever set date or duration by the Treasury.
26. A configuration will be provided to setup the delinquency computation table like amount range, down payment, and applicable period.
27. A tracking screen will be provided to users to monitor the down payment and payments for remaining balance.
28. System will have built-in reports but may still entertain customized report as agreed by both parties.
29. Current Taxpayer status will be fed back to RPT Database to ensure status are in sync between Treasury and eRPTS.
30. User Interface for Data Statistics and Summaries will be provided.
31. Provide Data Synchronization to 19 municipalities through Import/Export functionality.
32. OR Forms to be printed will conform to standard Official Receipt Form
33. Data build up for all lookup tables.
34. Data Coverage is Provincial Treasury and the 19 Municipal treasurers
    1. The PTO informed the audit team that all of the features were already coded in the RPTDMS except for letters a and i. They added that the RPTDMS does not yet have the capacity to generate a summary list of delinquent taxpayers. The PTO also admitted that the system cannot yet incorporate the data from the ordinances and apply it to the computation of the adjusted RPT, contrary to requirement letter i.
    2. Even though it is designed to become a stand-alone system, the PTO decided to integrate the RPTDMS into the eRPTS. So, in summary, the eRPTS lacks the following features:

* Accurate computation of figures in the Abstract of Collection and RPT Reports
* Provision of consolidated list of delinquent taxpayers
* Presentation of Data Statistics and Summaries Interface
* Presentation of table showing the accurate amounts of tax payable, penalties and discounts of each taxpayer
* Incorporation of ordinances in the RPT computation
  1. The PTO said that the RPTDMS was initially planned to accommodate the influx of taxpayers from 2021 to 2022 who were not yet able to pay during the pandemic. However, as of this writing and as presented, the eRPTS is not yet fully functional.
  2. The delay in the completion of the eRPTS (Treasury Module and RPTDMS) will greatly affect the users, particularly the municipal treasurers. The delay resulted in the adoption by the Municipal Treasurer of both automated and manual systems for computing and generating RPT reports. Adoption of a hybrid system poses challenges to the consistency and accuracy of the data. Maintaining these can lead to discrepancies between digital and manual records, resulting in data inconsistencies. It may also lead to redundant data entry, which can create confusion and errors in records.
  3. Moreover, managing automated and manual systems simultaneously increases the complexity of processes. This will make it harder to maintain data integrity and streamline operations. Aside from that, reconciling data between manual and digital systems can be challenging and time-consuming. The system may help the users in the prompt issuance of official receipts; however, the time consumed by possible duplication of efforts and reconciliation activities in the preparation of reports may offset the benefits reaped from it.
  4. Lastly, the audit team observed that the list of reports that were expected to be produced by the system was not specified in the Terms of Reference. Had the PTO enumerated those, the PTO and the developer would not be confused about the real goals of the project, and it would also enable them to forecast its real completion status. As a result, the developer may build the system faster.
  5. The PTO is working with the developer to address system deficiencies and expects the projects to be completed by 2024. However, the PTO highlights the importance of data buildup by municipal treasurers, which involves inputting taxpayer data into the eRPTS by LGUs. The completion of the data buildup will help identify potential bugs and glitches early, and currently, only the Municipality of Agoo has completed the data buildup.
  6. **We recommended that the Provincial Governor enjoin the Provincial Assessor and Provincial Treasurer to expedite the development of the Treasury Module and the RPT Delinquency Management System of the eRPTS to optimize the system's benefits.**
  7. **We also recommended that the Provincial Governor encourage Municipal Mayors to expedite their respective data collection in regard to taxpayers in their jurisdiction in the eRPTS.**
  8. The PGLU clarified that they had accepted the eRPTS and the RPTDMS based on the Terms of Reference of the Systems Development as evidenced by the modules of the system as presented. The PGLU wanted to point out that some of the modules will just become functional once the data build-up is completed. The PGLU said that the deficiencies, as noted, were due to the incomplete data inputs from the LGUs which were necessary to come up with more updated, reconciled and comprehensive reports on collection, delinquencies, and other information relevant to RPT Management. The PGLU expressed their affirmation with the recommendation of the COA to encourage Municipal Mayors through their respective Assessors and Treasurers to expedite their data collection in regard to taxpayers in their jurisdiction and to fully utilize the eRPTS.
  9. The PGLU assured that the Offices of the Provincial Treasurer and Assessor together with the La Union Association of Local Treasurers and Assessors (LUALTRA) will coordinate with the developer in optimizing the full potentials and benefits of the eRPTS and RPTDMS.
  10. **The audit team, during the interview and demo of the IT personnel of the PTO, learned that even if the data build-up is completed by a municipality, several features such as the a.) Accurate computation of figures in the Abstract of Collection and RPT Reports; b.) Provision of consolidated list of delinquent taxpayers; c.) Presentation of Data Statistics and Summaries Interface; d.) Presentation of table showing the accurate amounts of tax payable, penalties and discounts of each taxpayers and e.) Incorporation of ordinances in the RPT computation will still not be fully functional. These features are some of the expected outputs incorporated in the Terms of Reference as interpreted and elaborated by the PTO personnels.**

1. **Compliance with Tax Laws and Other Regulatory Requirements**
   1. The LGU was able to withhold the taxes, GSIS, PhilHealth and HDMF contributions and remit them to the concerned government agencies. The amounts withheld and remitted in CY 2023 for these government dues are broken down as follows:

| **Due to** | **Balance as of 01/01/2023** | **Amount Withheld** | **Amount Remitted** | **Balance as of 12/31/2023** | **Remarks** |
| --- | --- | --- | --- | --- | --- |
| BIR\* | 48,128,389.46 | 133,673,206.38 | 135,619,387.51 | 46,182,208.33 | The amount withheld was net of refunds totaling ₱271,189.26 and adjustments of ₱358,914.86.  Ending balance was remitted on January 2024. However, there was an over-remittance amounting to ₱31,796.55 due to reverted payables (for refund) and subject for further reconciliation. |
| GSIS | 12,006,912.72 | 150,326,734.94 | 150,611,389.85 | 11,722,257.81 | The amount withheld was net of refunds totaling ₱302,252.10 and adjustments of ₱231,880.15.  Of the ending balance, only ₱10,826,701.35 was remitted on January 2024. The balance of ₱895,556.46 were not remitted due to: a) some salaries of employees (increment, etc.) in the eBilling and Collection System of GSIS are yet to be updated; and b) loans to be refunded to employees after reconciliation. |
| PhilHealth | 1,557,836.06 | 22,620,513.07 | 22,664,768.53 | 1,513,580.60 | The amount withheld was net of refunds totaling ₱46,713.28 and adjustments of ₱291,466.24.  Of the ending balance, the amount of ₱1,478,50.82 was remitted on January 2024. The balance of ₱35,229.78 is to be refunded to employees and premiums to be remitted after reconciliation. |
| Pag-IBIG | 1,238,602.87 | 16,187,700.69 | 15,528,449.11 | 1,897,854.45 | Of the ending balance, the amount of ₱1,864,570.76 was remitted on January 2024. The remaining balance of ₱33,283.69 is to be refunded to employees and for remittance after reconciliation. |

*\*Consist of dues to BIR for employee withholding taxes, 5% VAT and Withholding Taxes from payments to suppliers and documentary dues.*

1. **Status of Notices of Suspension, Notices of Disallowance and Notices of Charge** 
   1. As of December 31, 2023, the Statement of Audit Suspension, Disallowances, and Charges (SASDC) revealed that the PGLU had no outstanding suspensions, disallowances, or charges.

| **Audit Action** | **Beg. Balance**  **Jan. 1, 2023** | **This Period**  **Jan. 1 to December 31, 2023** | | **Ending Balance Dec. 31, 2023** |
| --- | --- | --- | --- | --- |
| **NS/ND/NC** | **NSSDC** |
| Notice of Suspension | **-** | **-** | **-** | **-** |
| Notice of Disallowances | **-** | - | - | **-** |
| Notice of Charges | **-** | **-** | **-** | **-** |
| **Total** | **-** | **-** | **-** | **-** |

1. **Report on Real Property Disposal**
   1. The Report on Real Property Disposal showed that PGLU has no real property disposed of for CY 2023.