

EXECUTIVE SUMMARY

INTRODUCTION

Article VII of the 1987 Constitution vests the executive power upon the President of the Republic of the Philippines. The President exercises control of all the executive departments, bureaus and offices. He ensures that laws be faithfully executed. He is expected to attend to the service requirements of the people in the immediate time possible. He is also responsible for preserving and defending the Constitution of the Philippines, for executing its laws and doing justice to every man, for the pursuit of national harmony and for exercising overall management of total development effort and administration of justice.

As provided for under the Administrative Code of 1987, the Office of the President (OP) consists of the OP Proper and the agencies under it.

The OP Proper consists of the Private Offices, the Presidential Assistant System, the Executive Offices, the General Government Administration Staff, the Internal Administration Staff, the Internal Audit Service Unit, the Locally Funded/Foreign Assisted Projects, and the Other Executive Offices.

The OP directly supervises 61 other executive offices, agencies, commissions and committees that warrant the special attention of the President.

FINANCIAL HIGHLIGHTS

Comparative information on the sources and application of funds for the last two years is presented below:

	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease)</u>
Allotment Received	2,070,656,309.00	2,044,181,031.00	26,475,278.00
Continuing Appropriations	111,740,832.89	125,824,424.02	(14,083,591.13)
Obligations Incurred	2,135,481,287.10	1,989,709,350.24	145,771,936.86
Unexpended Balance	46,915,854.79	180,296,104.78	(133,380,249.99)

SCOPE OF AUDIT

An audit was made on the accounts and operations of the Office of the President for the calendar year 2006. The audit was aimed to ascertain the propriety of the financial transactions and determine the fairness of the presentation of the financial statements of the agency.

AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Office of the President as of December 31, 2006 due to the immediately following audit observations, which affected the fair presentation of the financial statements.

OBSERVATIONS AND RECOMMENDATIONS

The following are the audit observations and corresponding recommendations, which were discussed with management officials concerned, details of which are discussed in the report. Management views and comments were incorporated in the report, where appropriate.

1. Cash advances to regular and special disbursing officers recorded under the accounts *Cash – Disbursing Officers, Due from Officers and Employees*, and *Other Receivables* amounting to ₱77,105,562.53, ₱29,542,838.31 and ₱508,645,567.96, respectively, or a total of ₱615,293,968.80 remained unliquidated as of year-end, contrary to Section 89 of PD 1445 and COA Circular No. 97-002.

We recommend that management:

- a. Compel the concerned accountable officers to liquidate their cash advances within the prescribed period and refrain from granting additional cash advance to those who have unsettled cash advance.
 - b. Exert more efforts to cause the full liquidation of the Other Receivables from former officials/employees who were transferred, retired, or separated from the Office of the President (OP); and
 - c. Impose the sanctions against concerned accountable officers.
2. Several subsidiary ledger (SL) balances under the accounts *Cash – Disbursing Officers, Due from Officers and Employees* and *Other Receivables* have abnormal negative balances totaling ₱4,403,225.84, thus, casting doubts on their reliability; and understating the totals of their pertinent General Ledger (GL) accounts.

We recommended that the Chief Accountant discontinue the practice of effecting journal entries that would result in negative balances of the subsidiary accounts; reclassify the remaining negative balances to the *Accounts Payable* or *Due to Officers and Employees* accounts, as the case maybe, to present the correct balance of cash advances without waiting for the refund of overpayment or over liquidation of cash advances by employees;

and discontinue the taking-up of excess liquidations in the outstanding cash advance, but instead, advise the accountable officers to request for the corresponding reimbursement, if warranted.

3. Loans granted out of the President's Social Fund (PSF) in CY 2003 and January 2004 totaling ₱269,527,000.00 were not booked-up, thus, understating the appropriate *Loan Receivable* accounts while overstating the appropriate *Cash in Bank* account; and corresponding paid Disbursement Vouchers (DV) and supporting documents totaling ₱94,450,288.24 were not yet submitted to the Auditor contrary to COA Circular No. 95-006 dated May 18, 1995, thus preventing the timely conduct of post-audit.

We recommended that the Accountant to set up receivable accounts for all loans granted out of the PSF, to maintain subsidiary records for each borrower and to immediately submit the paid DVs together with supporting documents to the Auditor for post-audit and custody; and require the borrowers to submit the required reports prescribed under the MOA.

4. The transfer of the balance of PSF-LAP under LBP ITF No. 05-047 of ₱48,950,109.20 from the Presidential Management Staff (PMS) was erroneously recorded in the books of OP as *Cash in Bank – Local Currency, Current Account* instead of *Other Investments and Marketable Securities, Interest Income*, resulting in the overstatement of the former and *Prior Years' Adjustments* accounts by ₱48,950,109.20 and ₱1,024,398.77, respectively and the understatement of the latter, *Interest Income* and *Other Payables* accounts by ₱51,141,516.22, ₱3,151,274.89 and ₱64,530.90, respectively.

We recommended that the Chief Accountant effect the necessary correcting entry by drawing a JEV debiting *Other Investments and Marketable Securities* and *Prior Years' Adjustments* accounts by ₱51,141,516.22 and ₱1,024,398.77, respectively; and crediting *Cash in Bank – Local Currency, Current Account, Interest Income* and *Other Payables* accounts by ₱48,950,109.20, ₱3,151,274.89 and ₱64,530.90, respectively. (*Annex B*)

5. Disbursements out of donations totaling ₱8,807,621.75 were used outside of intended purposes contrary Section 13 of the General Provisions of General Appropriations Act for 2005, as reenacted for 2006.

We recommend that management strictly use donations for the intended purposes specified by the donors.

6. Transfers of fund to government agencies and other non-governmental organizations or individuals totaling ₱112,135,302.41 are improperly recorded under the account *Due from NGAs* account, thus, overstating *Due from NGAs* account while understating the appropriate accounts.

We recommended that the Chief Accountant use the appropriate accounts on recording fund transfers and to effect the necessary correcting entry by drawing a JEV debiting accounts *Other Receivables*, ₱80,086,302.41; *Due from GOCCs*, ₱27,485,200.00; *Due from LGUs*, ₱4,000,000.00; *IT Equipment and Software*, ₱263,500.00; *Prior Years' Adjustments*, ₱300,300.00; and crediting *Due from NGAs* account by ₱112,135,302.41.

7. First-In, First-Out (FIFO) Method of costing inventories was used instead of the prescribed Moving Average Method contrary to Section 44 of the MNGAS, Volume I.

We recommended that management use the Moving Average Method for costing inventories.

8. Balances of Office Supplies Inventory and Property, Plant and Equipment per books and per physical count do not reconcile by ₱10,513,034 and ₱47,180,802, respectively, thus, casting doubts on their reliability.

We recommended that the Chief Accountant and the Property Officer to reconcile their respective records with the Reports on Physical Count, and thereafter to reconcile their records; and to make the necessary adjustments.

9. The Inventory Committee failed to conduct physical count of other inventories valued at ₱13,495,998.07 contrary to Section 65 of the MNGAS, Volume II.

We recommended that the management determine the cause for the failure to conduct complete physical count of inventories, and henceforth, to require the Inventory Committee to conduct physical count every semester.

10. Property, Plant and Equipment (PPE) with a total value of ₱949,913,075 were not provided with depreciation, thus, understating both the accumulated depreciation and depreciation expense accounts.

We reiterated our prior year's recommendation that management:

- a) Create an appraisal committee who would be responsible for determining the appraised value of the PPE and their estimated remaining useful life, in case necessary information such as acquisition dates and costs are not available; thereafter, require the Accountant to provide the depreciation on the subject PPE, pursuant to Sections 67 and 68 of the MNGAS, Vol. I.
- b) Require the Chief Accountant to reclassify balance of the *Artesian Wells, Reservoirs, Pumping Stations and Conduits* account of ₱3,227,647.40 to *Other PPE* account since the properties recorded therein are not for public infrastructures, thus, such properties are still subject to depreciation.

11. Various accounts totaling ₱293,891,822 as of December 31, 2006 remained dormant in the books of accounts since CY 1992, thus, casting doubts on their reliability.

We recommended that management revive its request for authority to write-off dormant accounts, as identified by the Chief Accountant, from the Chairperson, Adjudication and Settlement Board, Commission on Audit, thru the Supervising Auditor, supported by appropriate documents, such as: a) List of available records and extent of validation made on the accounts; and b) Certification and reasons why the books of accounts/records, financial statements/schedules and supporting vouchers/ documents cannot be located; and efforts exerted to collect or locate the persons concerned.

IMPLEMENTATION OF PRIOR YEAR'S RECOMMENDATIONS

Out of the twelve (12) audit recommendations embodied in the CY 2005 Annual Audit Report, seven (7) were fully implemented, three (3) were partially implemented, and two (2) were not implemented by management. Two of the 3 partially implemented, and the 2 not implemented audit recommendations are reiterated and discussed in this report.