

EXECUTIVE SUMMARY

A. 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 58 other executive offices, agencies, commissions and committees that warrant the special attention of the President.

B. Financial Highlights

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

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Allotment Received	3,064,673,326.00	2,070,656,309.00	994,017,017.00
Continuing Appropriations	37,474,470.69	111,740,832.89	(74,266,362.20)
Obligations Incurred	2,291,257,193.09	2,135,481,287.10	155,775,905.99
Unexpended Balance	810,890,603.60	46,915,854.79	763,974,748.81

C. Scope of Audit

An audit was made on the accounts and operations of the OP for the calendar year 2007. 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.

D. Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of OP as of December 31, 2007 due to the following audit observations, which affected the fair presentation of the financial statements.

E. 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 (SDO) recorded under the accounts *Cash – Disbursing Officers, Advances to Officers and Employees*, and *Other Receivables* amounting to ₱12,211,213.40, ₱26,713,950.83 and ₱594,000,667.49, respectively, or a total of ₱632,925,831.72 remained unliquidated as of year-end, contrary to Section 89 of PD 1445 and COA Circular No. 97-002, thus, resulting in the overstatement of the said accounts and understatement of the corresponding expense accounts.

We recommended that Management:

- a. Compel the concerned Accountable Officers (AOs) 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 OP;
 - c. Impose the sanctions provided under COA Circular 97-002 against concerned AOs; and
 - d. Designate a SDO who will handle the cash advances for foreign travels of the President and who at the same time should be a member or party of the delegation to such travel so as to pinpoint accountability as well as to facilitate liquidation of such cash advances.
2. Various reconciling items in the Bank Reconciliation Statements (BRS) for the *Cash in Bank – Local Currency, Current Account (LCCA)* on the President's Social Fund (PSF) account were not taken-up for corrections or adjustments in the books of accounts, thus, affecting the reliability of the *Cash in Bank – LCCA* account.

We recommended that Management require the Chief Accountant to effect the necessary adjusting/correcting entries in the books of accounts. Also, we recommended that the Accounting Office ensures that in the future preparation of the bank reconciliations, after the BRSs are made and the items are properly analyzed and verified, the necessary adjusting/correcting entries are recorded in the books of accounts.

3. The collections on income from OP Bus Service Fares, entrance fees for the Presidential Museum and other miscellaneous income were erroneously remitted/deposited in the Bureau of the Treasury (BTr) as a Special Account (Fund 184) in the General Fund (GF) instead in the unappropriated surplus of the GF, thus, resulting in the overstatement of *Miscellaneous Income, Due from National Treasury* accounts by ₱1,856,218.88 and ₱1,742,261.88, respectively and understatement of *Due to National Treasury* account by ₱113,957.00.

We recommended that Management require the Chief Accountant to effect the necessary correcting entry by drawing a JEV debiting the *Miscellaneous Income* account by ₱1,856,218.88 and crediting the *Due from National Treasury* and *Due to National Treasury* accounts by ₱1,742,261.88 and ₱113,957.00, respectively. Moreover, we recommended that management advised the BTr to transfer all deposits made under Fund 184 to Fund 101. Also, the subject receipts shall be maintained under the National Government (NG) Books in which it is used to record income which the agencies are not authorized to use.

4. Various collections and disbursements on electricity and water expenses were erroneously classified in the books of accounts resulting in the understatement of *Other Payables* account by ₱4,090,364.00 and overstatement of the *Due to Other NGAs* and *Due to GOCCs* accounts by ₱4,068,941.77 and ₱21,422.23, respectively.

We recommended that Management require the Chief Accountant to effect the necessary correcting entry by drawing a Journal Entry Voucher (JEV) debiting *Due to Other NGAs* and *Due to GOCCs* by ₱4,068,941.77 and ₱21,422.23, respectively, and crediting *Other Payables* account by ₱4,090,364.00. Also, we recommended that the Accounting Office follow the corresponding illustrative entries on the billing, collection, deposits and disbursement on accounting for the electricity and water utilities charged to other agencies as shown in *Annex E*.

5. Loans granted out of the President's Social Fund (PSF) in CY 2003 and January 2004 totaling ₱269,527,000 were not booked-up, thus, understating the appropriate *Loans Receivable* accounts while overstating the appropriate *Expense* account.

We reiterated the recommendation that Management require the Accountant to set up receivable accounts for all loans granted out of the PSF; to maintain subsidiary records for each borrower; and require the borrowers to submit the required reports prescribed under the MOA.

6. Physical count of *Office Supplies Inventory* as well as *Property, Plant and Equipment* do not reconcile with the balances per books, thus, casting doubts on their reliability.

We recommended that Management require the Chief Accountant and the AMO to:

- Analyze the discrepancy between the balance in quantity per books and per physical count of the *Office Supplies Inventory*. Also, determine if there are unrecorded purchases/issuances during the current year as well as in prior years that caused the overstatement/understatement of various supplies;
 - Reconcile their respective records with the Report on Physical Count of PPE, and thereafter make the necessary adjustments on the respective records; and
 - Draw the corresponding JEV to record the amount of ₱13,885,139.87 representing properties that have been disposed and donated already.
7. *Property, Plant and Equipment (PPE)* with a total value of ₱914,814,321 was not provided with depreciation, thus, understating both the *accumulated depreciation* and *depreciation expense* accounts.

We reiterated our prior year's recommendation that Management require the Accountant to provide the depreciation on the subject PPE, pursuant to Sections 67 and 68 of the MNGAS, Vol. I.

8. Balance of the *Due to Other NGAs* account as of December 31, 2007 amounting to ₱186,724,634.11 is doubtful due to unreconciled beginning balance of ₱181,952,115.48, thus, resulting in the overstatement of the said account and the corresponding understatement of the *Prior Years' Adjustments* account by undetermined amount for both accounts.

We recommended that Management require the Chief Accountant to:

- a) Effect the necessary correcting entry of those payments for various expenses made to different persons and private entities by drawing a JEV debiting the *Due to Other NGAs* account and crediting the *Prior Years' Adjustments* account by an undetermined amount for both accounts; and

- b) Determine whether the amount credited to the *Due to Other NGAs* account was really received by the OP from a definite or particular national government agency for the implementation of specific programs/projects subject to liquidation.
9. Balance of the *Due to Other GOCCs* account as of December 31, 2007 amounting to ₱42,078,008.75 is doubtful due to unreconciled beginning balance of ₱42,055,220.30, thus, resulting in the overstatement of the said account and the corresponding understatement of the *Prior Years' Adjustments* account by undetermined amount for both accounts.

We recommended that Management require the Chief Accountant to:

- a) Effect the necessary correcting entry on those payments for various charges and credits to the *Due to Other GOCCs* account which affects its reliability by drawing a JEV debiting the said account and crediting the *Prior Years' Adjustments* account by an undetermined amount for both accounts; and
 - b) Determine whether the amount credited to the *Due to Other GOCCs* account was really received by the OP from a definite or particular GOCCs other than GSIS, HDMF and PHIC for the implementation of specific programs/projects subject to liquidation.
10. Disbursements out of donations totaling ₱37,310,409.12 were used outside of intended purposes contrary to Section 13 of the General Provisions of GAA for FY 2007.

We recommended that Management strictly use donations for the intended purposes specified by the donors.

11. Various accounts totaling ₱293,891,822 as of December 31, 2007 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.

F. Implementation of Prior Year's Audit Recommendations

Out of the eleven (11) audit recommendations embodied in the CY 2006 Annual Audit Report, four (4) were fully implemented, three (3) were partially implemented, and four (4) were not implemented by management. Two (2) of the 3 partially implemented, and the 4 not implemented audit recommendations are reiterated and discussed in this report.