

## SECTION 101 - PART II OBSERVATIONS

The following observations are made regarding reporting and controls at the time of the audit. The Department (PE) should be able to identify and track all of the following information in its financial system. The PE is required, with respect to the use of asset management, to report such information.

1. The PE should be able to track the following information and maintain it in its financial system: (a) the date and location of the PE's activities; (b) the PE's assets and liabilities; (c) the PE's income and expenses; (d) the PE's net worth; (e) the PE's cash flow; (f) the PE's debt; (g) the PE's equity; (h) the PE's capital structure; (i) the PE's risk profile; (j) the PE's compliance with applicable laws and regulations.

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## PART II

## OBSERVATIONS AND RECOMMENDATIONS

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2. The PE should be able to track the following information and maintain it in its financial system: (a) the date and location of the PE's activities; (b) the PE's assets and liabilities; (c) the PE's income and expenses; (d) the PE's net worth; (e) the PE's cash flow; (f) the PE's debt; (g) the PE's equity; (h) the PE's capital structure; (i) the PE's risk profile; (j) the PE's compliance with applicable laws and regulations.

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## OBSERVATIONS AND RECOMMENDATIONS

1. **Some deficiencies were identified in the recording, reporting, and monitoring of the status of Property and Equipment (PE) accounts with a carrying value of P15.060 million, indicating weakness in internal control over PE management, which raised the risk of asset mismanagement, unauthorized disposal, or loss.**

- 1.1 Section 5.7 of COA Circular No. 2020-006 on Guidelines and Procedures in the Conduct of Physical Count of Property, Plant and Equipment (PPE), Recognition of PPE Items Found at Station, and Disposition for Non-existing/Missing PPE Items, for the One-Time Cleansing of PPE Account Balances of Government Agencies states:

*For easy identification, the Property Number shall be prominently shown in the property sticker, in addition to the following vital information on the PPE item:*

- a. Description of the property*
- b. Model Number*
- c. Serial Number*
- d. Acquisition Date/Cost*
- e. Person Accountable*
- f. Space for the validation/signature of the Inventory Committee*

**Ocular inspection of the PEs owned by the Corporation revealed that 84 PE items with a carrying amount of P4.413 million lacked proper tagging and description, and there were donated PE items not recorded in the books, hindering tracking and accountability.**

- 1.2 During the ocular inspection held on February 4, 2025, it was observed that 84 PE items with carrying amount of P4.413 million were not properly tagged and lacked appropriate description to easily identify these PEs. Also, some equipment did not have asset tags, making it difficult to verify ownership thereof and to reconcile with ledger cards, while others have faded or illegible markings, preventing accurate identification. Additionally, the property ledgers have no sufficient descriptions for some PE, which may cause misclassification or duplication in the records.
- 1.3 Furthermore, the ocular inspection revealed that certain furniture and fixtures donated by the Bureau of the Treasury (BTr) are being used by the PDGCC; however, these are not recorded as part of its PE due to the absence of supporting documents to substantiate the donation.
- 1.4 Property officially received by a public officer in any capacity or upon any occasion must be accounted for as government property. Government property shall be taken up in the books of the agency

concerned at acquisition cost or an appraised value as required in Section 63 of PD No.1445.

**Unserviceable/obsolete PE totaling P1.265 million remained undisposed, thus, exposing them to further deterioration.**

- 1.5 Section 79 of PD No. 1445 provides that unserviceable or unneeded government property must be inspected by the agency head or representative and the auditor. If deemed valueless, it may be destroyed in their presence. If valuable, it may be sold through a public auction after proper advertisement. If the auction fails, the property may be sold privately at a price set by the committee and approved by COA.
- 1.6 During the ocular inspection, various pieces of equipment were found in the basement area and storeroom that were not included in the lapsing schedule or recorded in the books but are no longer in use.
- 1.7 Furthermore, the unserviceable or obsolete PE listed under the Other assets account, totaling P1.265 million, remained undisposed as of December 31, 2024. Thus, Management was unable to reduce the unnecessary costs linked to the storage of these assets and prevent their further deterioration.
- 1.8 To emphasize, if the unserviceable PE are sold or otherwise disposed of promptly, the Corporation may obtain an equitable exchange, relieve the accountability of the responsible officers, and save space for the Corporation.
- 1.9 The Agency Action Plan and Status of Implementation (AAPSI) as at September 30, 2024 disclosed that the policy regarding the disposal of non-serviceable assets has already been prepared for the Board's review and approval. Also, Management stated that they were unable to start the process of disposing the properties in question since its approval and finalization are still pending with the BOD.
- 1.10 It is also noted that in CY 2024, Inspection Reports were not prepared, indicating that inspection and inventory of unserviceable PEs, were not performed. We stress that these reports serve as basis for derecognizing unserviceable PE from the books. The said Reports should contain details such as the acquisition date, description, property number, quantity, unit cost, accumulated impairment, and carrying amounts of the property. It also reflects the mode of disposal, disposal amount, appraised value, and record of sales of the property disposed.

1.11 **We recommended and Management agreed to:**

- a. **Ensure all PE items are properly tagged with asset labels indicating the description of the property, model number, serial number, acquisition date/cost and person accountable;**
- b. **Update property records to reflect complete and accurate descriptions;**
- c. **Secure and submit the necessary documents to properly recognize the donated assets in their books, ensuring compliance with existing government regulations;**
- d. **Prepare and submit to the Audit Team the Inspection Reports for all PE, including semi-expendable property, found unserviceable, obsolete and no longer needed; and**
- e. **Immediately dispose the items for disposal to avoid further deterioration and possible loss of their value and prevent unnecessary storage costs and accordingly adjust the books.**

**2. Non-compliance with established cash management regulations, including violations of segregation of duties, inadequate record-keeping, improper use of petty cash, and insufficient safeguards, is contrary to the sound system of internal control, exposing the Corporation to risks of unauthorized transactions, undetected fraud, errors, and misstatements.**

2.1 Section 124 of PD No. 1445 states:

*Section 124. Installation. It shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control.*

2.2 *In order to protect assets, prevent fraud and errors, ensure accurate financial reporting, and promote compliance with regulations and policies, a robust system of internal control is essential in cash management. Cash is a highly liquid asset, making it vulnerable to theft or misuse. Hence, strong internal controls help prevent such occurrences, ensuring the organization's financial resources are protected.*

2.3 On February 26, 2025, the Audit Team conducted a cash examination of the cash advances granted to the Administrative Officer III, who concurrently serves as the Collecting Officer, Special Disbursing Officer, and Petty Cash Custodian of the Corporation. The purpose of the said examination was to evaluate the following: (a) the proper accounting

and existence of all government funds and accountable forms in the custody of the Accountable Officer (AO); (b) the strict adherence of the Corporation and its AO to the prescribed rules and regulations on cash transactions; and (c) the Corporation's policies and procedures that provided sufficient protection against fraud and the loss of government funds.

- 2.4 It was revealed that the AO prepares and processes the disbursement vouchers apart from his designation as Collecting Officer, Special Disbursing Officer, and Petty Cash Custodian of the Corporation. The lack of segregation of duties eliminates necessary checks and balances in validating the accuracy of disbursements, contrary to the principles of a sound internal control system.
- 2.5 It was further noted that the Corporation does not maintain cash books for recording collections and disbursements, making it difficult to track fund movements and reconcile transactions effectively. The absence of cash books violates the provisions under Section 6 of COA Circular No. 97-002, which mandates proper handling, custody and disposition of a cashbook.
- 2.6 Also, the petty cash count revealed that funds are stored in an unsecured location without a safety box, exposing them to risks of theft, loss, or unauthorized access. Additionally, a review of the petty cash book maintained in Microsoft Excel file showed that the communication allowances for the month of February 2025 were paid using the petty cash fund, contrary to COA Circular No. 97-002 which emphasizes that cash advances related to petty operating expenses shall not be used for regular expenses. Inquiry with the Bookkeeper also disclosed the lack of written guidelines on the maintenance of petty cash fund.
- 2.7 Premises considered, the multiple designations of the AO, the non-preparation and maintenance of cash books for recording collections and disbursements, and the deficiencies noted on the maintenance and use of petty cash fund, indicate a weak internal control system on cash management, increasing risks of unauthorized transactions, undetected fraud, errors, and misstatements.
- 2.8 **We recommended and Management agreed to:**
  - a. **Implement the principle of segregation of duties by designating separate personnel to handle cash collection, disbursement, and documentation;**
  - b. **Prepare and maintain comprehensive cash books for recording all collections and disbursements;**

- c. Provide a secure location for the storage of petty cash fund; and
  - d. Establish petty cash management policies, including, but not limited to, clear guidelines for allowable petty cash expenses, disbursement procedures, replenishment, and proper documentation.
3. The lack of subsidiary ledgers (SLs) of the accounts in the Financial Statements for CY 2024 indicates weak internal controls over financial management and operational inefficiencies, which may affect Management's decision-making process, contrary to Sections 111, 114 and 124 of Presidential Decree (PD) No. 1445.

3.1 Sections 111, 114, and 124 of PD No. 1445, otherwise known as the Government Auditing Code of the Philippines, state that:

**Section 111. Keeping of accounts**

- 1 *The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish information needed by fiscal or control agencies of the government...(xxx)*

**Section 114. The general ledger.**

- 1 *The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.*
- 2 **Subsidiary records shall be kept where necessary.**  
*(Emphasis ours)*

**Section 124. Installation.** *It shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control.*

- 3.2 SLs are crucial in the preparation of the financial statements because they provide detailed transaction records, allowing for accurate reconciliation, better financial analysis, and efficient audit processes, ultimately enhancing the capacity to inform and influence Management decisions.
- 3.3 At the commencement of the audit, the Audit Team repeatedly requested the SLs, among others, for all accounts. However, the bookkeeper only prepared and provided the journals and schedules

specifically requested by the Audit Team, while the SLs remained unsubmitted to the Audit Team even after the submission of the duly signed Financial Statements on February 14, 2025.

- 3.4 The Audit Team noted the absence of SLs for all general ledger (GL) accounts supporting the financial statements. Although journals and schedules are being maintained, they lack sufficient detail to monitor fully transactions in each GL account within the financial statements.
  - 3.5 The non-preparation of SLs indicates weak internal controls over financial management and operational inefficiencies, which may affect Management's decision-making process. Additionally, the non-submission thereof limited the Audit Team's ability to perform a comprehensive review of the financial transactions of the Corporation, increasing the risk of undetected errors, omissions, or even fraudulent activities.
  - 3.6 **We recommended and Management agreed to:**
    - a. **Prepare and regularly update SLs and schedules for all accounts;**
    - b. **Ensure timely submission of SLs to the Audit Team to avoid unnecessary delays in financial review; and**
    - c. **Implement internal controls and oversight mechanisms to monitor the timely and accurate maintenance of financial records, ensuring that SLs are always available and up to date.**
4. **The grant of a monthly communication allowance pursuant to PDGCC Board Resolution No. 04 (s. 2023) dated March 30, 2023, totaling P147,149 for CY 2024, is inconsistent with the Compensation and Position Classification System (CPCS) Circular No. 2021-010 dated January 12, 2022, issued by the Governance Commission for Government-Owned or Controlled Corporations (GCG). Thus, the overpayment of P61,506 constitutes as irregular and excessive expenditures, in violation of COA Circular No. 2012-003 dated October 29, 2012.**
- 4.1 Section 4 of CPCS Circular No. 2021-010 dated January 12, 2022, on the Grant of Communication Allowance to Certain Officers and Employees, provides that:

**4 Grant of Communication Allowance**

- 4.1 *Officers and employees with the following positions may be granted communication allowance for the discharge of their duties and responsibilities:*