

## II – OBSERVATIONS AND RECOMMENDATIONS

### FINANCIAL

#### *Unreliable Cash in Bank – LCCA Balance*

1. The balance of the *Cash in Bank-Local Currency, Current Account (CIB-LCCA)* totaling ₱2.611 billion is overstated by a net amount of ₱18.918 million due to unadjusted stale checks and unrecorded reconciling items as at year-end, which is not in keeping with Section 6, Chapter 3 of the Government Accounting Manual (GAM) for National Government Agencies (NGAs), Volume (Vol.) I. Moreover, significant delays ranging from 7 to 354 days in the submission of Bank Reconciliation Statements (BRS) precluded timely analysis and verification of accounts and transactions.

1.1 Section 6, Chapter 3, of the GAM, Vol. 1 states that the Chief Accountant/ Designated Staff shall prepare a Journal Entry Voucher (JEV) to recognize all reconciling items that require adjustment and correction in the books of accounts.

1.2 Section 7 further directs the Chief Accountant to submit the BRS within 20 days after receipt of the monthly bank statements with all the supporting documents and JEVs to the COA Resident Auditor. Bank reconciliation as defined in the GAM refers to the settlement of differences contained in the bank statements and the cash account in the agency's books of accounts.

1.3 The Headquarters Philippine Army (HPA) maintains bank accounts with the Land Bank of the Philippines (LBP) and United Coconut Planters Bank (UCPB) recorded under the *Cash - Modified Disbursement System (MDS), Regular* and *CIB - LCCA* accounts.

#### *Unadjusted stale checks*

1.4 Section 44, Chapter 6 of the GAM Volume I provides that checks may be cancelled when they become stale, voided or spoiled. The depository bank considers a check stale if it has been outstanding for over six months from date of issue or as prescribed.

1.5 Review of the BRS disclosed outstanding checks in the HPA amounting to ₱2,584,841.97 under the ATM Payroll account which had already become stale but were not cancelled nor restored to the *Cash in Bank* accounts as required in Section 44, Chapter 6 of the GAM Volume I.

1.6 The non-cancellation of the stale checks understated *CIB-LCCA* by ₱2,584,841.97 and understated the corresponding liabilities by the same amount.

*Unrecorded reconciling items*

- 1.7 Verification of the subsidiary ledgers (SLs) and BRS disclosed that reconciling items totaling ₱21,503,642.87 were not recorded/corrected in the books as of December 31, 2021, resulting in the net overstatement of the *Cash in Bank-LCCA* by the same amount, as follows:

<b>Reconciling Item</b>	<b>ATM Payroll</b>	<b>PATRF</b>	<b>PAHB</b>	<b>AGHTRF</b>	<b>Total</b>
Credit memo (CM)	₱8,346,845.91	₱30,000.00	₱139,200.00	--	₱8,516,045.91
Debit memo (DM)	(23,765,618.88)	(26,055.00)	(1,050.00)	(700.00)	(23,793,423.88)
Interest income	62,572.35	--	--	--	62,572.35
Unrecorded check	(2,312,189.99)	--	--	--	(2,312,189.99)
Errors in recording CM/DM	(3,976,647.26)	--	--	--	(3,976,647.26)
<b>Net Overstatement</b>					<b>(₱21,503,642.87)</b>

PATRF – PA Trust Receipt Fund, PAHB – PA Housing Board, AGHTRF – Army General Hospital Trust Receipt Fund

- 1.8 Per Accounting Service, Philippine Army (ASPA), credit memoranda are disbursements which were not facilitated by the bank due to closure of savings/payroll accounts or error in the account provided by the claimant. It was noted that out of the total unrecorded credit memoranda of ₱8,516,045.91, ₱2,115,530.98 pertained to memoranda from prior years, which remained unadjusted as of year-end, as shown below:

<b>Account</b>	<b>Prior Years</b>	<b>CY 2021</b>	<b>Total</b>
ATM Payroll	₱2,115,530.98	₱6,231,314.93	₱8,346,845.91
PAHB	--	139,200.00	139,200.00
PATRF	--	30,000.00	30,000.00
<b>Total</b>	<b>₱2,115,530.98</b>	<b>₱6,400,514.93</b>	<b>₱8,516,045.91</b>

- 1.9 Moreover, the debit memoranda arose from subsequent correction of the account previously provided by the claimant and can only be recorded if the supporting documents validated by the bank are forwarded to the ASPA by the Finance Center, Philippine Army (FCPA). Of the ₱23,793,423.88 debit memoranda, ₱18,697,590.43 pertained to prior years, as follows:

<b>Table No. 3 – Debit Memoranda</b>			
<b>Account</b>	<b>Prior Years</b>	<b>CY 2021</b>	<b>Total</b>
ATM Payroll	₱18,669,785.43	₱5,095,833.45	₱23,765,618.88
PATRF	26,055.00	--	26,055.00
PAHB	1,050.00	--	1,050.00
AGHTRF	700.00	--	700.00
<b>Total</b>	<b>₱18,697,590.43</b>	<b>₱5,095,833.45</b>	<b>₱23,793,423.88</b>

- 1.10 The unrecorded check of ₱2,312,189.99 pertained to check no.769999 dated April 21, 2020, for PBB CY 2018 which was among the documents destroyed by fire at FCPA last April 2020.
- 1.11 In view of the foregoing, the *Cash in Bank-LCCA* was understated by ₱18,918,800.90, summarized as follows:

<b>Table No. 4 – Summary of Misstatements</b>	
<b>Particulars/ Reconciling Items</b>	<b>(Over)/ Understatement</b>
Stale checks	₱2,584,841.97
Credit Memo	8,516,045.91
Debit Memo	(23,793,423.88)
Interest income	62,572.35
Unrecorded checks	(2,312,189.99)
Errors	(3,976,647.26)
<b>Net overstatement</b>	<b>(₱18,918,800.90)</b>

- 1.12 One of the purposes in the preparation of the BRS as required by the GAM is to enable the agency to take up charges or credits recognized by the bank but not yet known to the agency. Therefore, all reconciling items identified in the monthly preparation of the BRS, if found valid, should have been recorded by the ASPA to reflect the correct balance of the *Cash in Bank-LCCA* account.
- 1.13 To check validity of the charges and credits made by the bank, supporting documents such as debit and credit memoranda should be requested from the bank immediately upon discovery, for timely verification and appropriate action.

*Delayed/non-submission of Bank Reconciliation Statements*

- 1.14 In the HPA, submission of BRS covering the period January to December 2021 was delayed from due date ranging from seven to 354 days, as follows:

<b>Table No. 5 – Delays in the Submission of BRS</b>		
<b>Account</b>	<b>Fund</b>	<b>Days Delayed</b>
Cash-MDS, Regular	Regular Agency Fund	7 to 354 days
Cash in Bank-LCCA	Regular Agency Fund	92 to 306 days
	Trust Fund and Internally Generated Fund (IGF)	28 to 354 days

- 1.15 Management, through the FCPA, stated in a letter dated February 19, 2021, that the bank accounts had already been enrolled in LBP *weAccess* as compliance with the audit recommendation issued in CY 2020. With this, Management should have been able to view, print and download monthly statements without waiting for the physical copies thereof from the LBP. However, the same issue on delayed preparation and submission of CY 2021 BRS had been observed.
- 1.16 The delayed submission of the BRS within the prescribed period was also observed in four PA field units; namely: 2<sup>nd</sup> Infantry Division (ID), 4ID, 7ID and 54<sup>th</sup> Engineer Brigade (EBde).
- 1.17 The delays in the submission of the BRS precluded the timely analysis and verification of PA’s accounts and transactions.
- 1.18 **We recommended and Management agreed to direct the:**
- a) **Chief, ASPA to prepare necessary adjusting entries to record reconciling items that were not taken up in the books to reflect correct balances of the affected accounts; and**
  - b) **Concerned field units accountants to strictly comply with the prescribed period for the preparation and submission of the BRS.**
- 1.19 Management commented that the ASPA reflected necessary adjustments under various JEVs to account for the reconciling items. Further, the ASPA required the FCPA to submit supporting documents validated by the bank to correct the remaining debit and credit memos.

***Unreliable Inter-Agency Receivables***

2. **The balances as at December 31, 2021 of *Due from National Government Agencies (NGAs) and Due from Government-Owned and/or Controlled Corporations (GOCCs)* accounts totaling ₱72.594 million and ₱3.927 billion, respectively, are unreliable due to the: a) unreconciled difference totaling ₱848.070 million between records of the HPA and the Procurement Service–Department of Budget and Management (PS-DBM); and the Philippine International Trading Corporation (PITC); and b) existence of non-**

**moving/inactive/dormant accounts, aged more than ten years, totaling ₱20.279 million.**

- 2.1 Section 15 Chapter 2 of the GAM for NGAs, Vol. 1 states that the financial statements (FS) shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenues and expenses set out in Philippine Public Sector Accounting Standards (PPSAS).
- 2.2 Paragraph 5.4 of COA Circular No. 2016-005 dated December 19, 2016, defines *Dormant Receivable Accounts* as accounts in which balances remained inactive or non-moving in the books of accounts for ten years or more and where settlement/collectability could no longer be ascertained.
- 2.3 Paragraph 5.6 of the same Circular describes *Dormant Unliquidated Fund Transfers* as advances granted by the source entity to implementing entity for implementation of programs/projects which remained non-moving for ten years or more and where a settlement could no longer be ascertained.
- 2.4 In the HPA, records showed that the outstanding balances under the *Due from NGAs* and *Due from GOCCs* accounts as of December 31, 2021 totaled ₱42,759,352.85 and ₱3,054,297,494.44, respectively, details are as follows:

<b>Table No. 6 – Aging Schedule of <i>Due from NGAs</i> and <i>Due from GOCCs</i></b>					
<b>NGA/GOCC</b>	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>5 years to 10 years</b>	<b>More than 10 years</b>	<b>Total</b>
<b>Due from NGAs</b>					
PS-DBM	₱679,790.19	₱26,347,960.09	₱4,952,352.68	₱9,098,597.81	₱41,078,700.77
NPO	50,000.00	--	--	--	50,000.00
AFPLC	--	--	--	2,265.00	2,265.00
BIR w/holding tax	--	--	--	657,309.47	657,309.47
Receivables NGA	--	--	--	135,172.61	135,172.61
AFPLC Adjustment	--	--	--	835,905.00	835,905.00
<b>Balance</b>	<b>₱729,790.19</b>	<b>₱26,347,960.09</b>	<b>₱4,952,352.68</b>	<b>₱10,729,249.89</b>	<b>₱42,759,352.85</b>
<b>Due from GOCCs</b>					
PITC	₱ --	₱2,816,006,369.44	₱228,741,582.1	₱9,317,381.89	₱3,054,065,333.44
NKTI	--	--	--	190,000.00	190,000.00
PHC	--	--	--	42,161.00	42,161.00
<b>Balance</b>	<b>₱ 0.00</b>	<b>₱2,816,006,369.44</b>	<b>₱228,741,582.10</b>	<b>₱9,549,542.89</b>	<b>₱3,054,297,494.44</b>
<b>Total</b>	<b>₱729,790.19</b>	<b>₱2,842,354,329.53</b>	<b>₱233,693,934.79</b>	<b>₱20,278,792.78</b>	<b>₱3,097,056,847.29</b>

*Legend:*

PS-DBM – Procurement Service-DBM, NPO - National Printing Office, AFPLC - Armed Forces of the Philippines Logistic Center (with Obligation Request), BIR - Bureau of Internal Revenue, NKTI - National Kidney and Transplant Institute, PHC - Philippine Heart Center

*Unreconciled discrepancy between the books of HPA and PS-DBM/PITC*

2.5 Comparison of balances as of December 31, 2021 between the HPA records and the results of confirmation with the PS-DBM and the PITC showed an unreconciled difference of ₱848,069,852.67, as follows:

<b>Table No. 7 – Unreconciled discrepancy (PS-DBM and PITC)</b>			
<b>Account</b>	<b>Per HPA books</b>	<b>Per Confirmation Reply</b>	<b>Difference</b>
Due from NGAs (PS-DBM)	₱41,078,700.77	₱12,042,288.61	₱29,036,412.16
Due from GOCCs (PITC)	3,054,065,333.44	2,235,031,892.93	819,033,440.51
<b>Total</b>	<b>₱3,095,144,034.21</b>	<b>₱2,247,074,181.54</b>	<b>₱848,069,852.67</b>

2.6 The unreconciled difference could partly be attributed to the following deficiencies:

**PS-DBM**

- a. *Fund transfers recorded in the HPA books but not in the PS-DBM or vice-versa.* The PS-DBM recorded receipt of funds from the HPA in CY 2021 totaling ₱1,600,643.63 but these were not recorded in the HPA's books. Likewise, FTs of ₱324,740.03 were recorded in the HPA books but were not reflected in the PS-DBM records. This resulted in an unreconciled difference of ₱1,275,903.60;
- b. *Unrecorded deliveries of inventories.* The PS-DBM records, particularly the detailed Statement of Account-Customers, showed total deliveries to the HPA in CY 2021 amounting to ₱2,693,177.25, while only ₱438,360.68 was recorded as received in the books leaving a discrepancy of ₱2,254,816.57. Inquiry with the concerned personnel disclosed that the unrecorded amount was due to non-submission of pertinent documents by the 15<sup>th</sup> Field Property Accountability Office (FPAO) to the ASPA.

Further verification revealed that in the current setup of procurement from the PS-DBM, the PA major units (PAMUs) directly submit to the Philippine Army Procurement Center (PAPC) their requests of procurement requirements through the submission of Agency Procurement Request (APR) and likewise, handle the pick-up/deliveries of the procured items from the PS-DBM. With this, there were instances wherein the PAMUs were unable to forward the liquidating documents such as Delivery Receipts (DR) to the 15FPAO for preparation of the Inspection and Acceptance Report (IAR) and subsequent submission thereof to the ASPA for recording; and

- c. Reconciliation of records between the ASPA and the PS-DBM is still on-going. In effect, the total amount of funds transferred by the HPA and funds received by the PS-DBM, as well as the correctness of the total amount of inventories delivered and accepted by the PS-DBM and the HPA, respectively, could not yet be established.

### PITC

- 2.7 It is worth noting, that in CY 2021, the PA has stopped transferring funds to the PITC for the procurement of goods. Further, the account balance of the HPA in CY 2020 decreased from ₱8,523,781,103.49 to ₱3,054,065,333.44, or 69 percent, as at December 31, 2021. The ASPA is continuously in the process of reconciliation of the PITC account to further decrease the outstanding balance.

### *Dormant accounts*

- 2.8 The balance of *Due from NGAs* and *Due from GOCCs* include dormant accounts, aged more than ten years, totaling ₱10,729,249.89 and ₱9,549,542.89, respectively, or a total of ₱20,278,792.78. Inquiry with the concerned personnel revealed that the supporting documents for some of these accounts could no longer be located, thus, the nature and purpose thereof could not be determined due to the unavailability of historical data to support their existence.
- 2.9 The unreconciled discrepancy in the amount of ₱848,069,852.67 between records of the HPA and PS-DBM/PITC records and the presence of inactive/dormant accounts in the total amount of ₱20,278,792.78 rendered the *Due from NGAs* and *Due from GOCCs* accounts unreliable, which is not in keeping with Sec. 15, Chapter 2 of the GAM, Vol. 1.
- 2.10 **We recommended and Management agreed to require the Chief, ASPA to:**
  - a) **Expedite reconciliation of the PS-DBM/PITC accounts, in coordination with the Chief, 15<sup>th</sup> Field Property Accountability Office (15FPAO) and other concerned personnel, with the end view of determining the cause/s of the difference, adjusting records and bringing balances in agreement;**
  - b) **Make representations with the PS-DBM and PITC to facilitate delivery of items requested for procurement and to return/remit to the Bureau of the Treasury (BTr) any unutilized balance of fund transfers; and**

**c) Request authority for write-off of dormant balances in accordance with COA Circular No. 2016-005 dated December 19, 2016.**

- 2.11 Management commented that the Command has been implementing controls to prevent and lessen accumulation of unliquidated balances such as: a) minimizing transactions for subordinate units/offices with unliquidated transfers to PS-DBM; b) continuous reconciliation and liquidation of undelivered purchases; and c) issuance of policy which provides guidelines in the procurement of goods from PS-DBM through transfer of funds to delivery of goods and liquidation.
- 2.12 Management also commented that the ASPA will facilitate the request for write-off of dormant balances after completing the required supporting documents.

*Unreliable balances of Inventories Accounts*

**3. The accuracy of the Inventories accounts could not be relied upon due to: a) unreconciled difference amounting to ₱3.012 billion between the records of ASPA and Property Accountability Office-General Support (PAO-GS); b) non-submission of Report of Supplies and Materials Issued (RSMI) to record issuances of inventories, including issuances of fuel, oil and lubricants; and c) unrecorded goods already delivered totaling ₱1.603 billion under Letters of Credit (LCs). Moreover, other deficiencies such as non-conduct of physical inventory and non-maintenance of Stock Ledger Cards (SLCs) and Stock Cards (SC) were noted.**

- 3.1 Appendix 57 of the GAM, Volume II states that the SLC shall be used by the Accounting Division to record all receipts and issues made. The agency shall conduct physical count of inventories every semester. The semestral physical inventory of supplies shall be reconciled with the SLCs and Supply records.
- 3.2 Appendix 58 thereof further states that the SC is used by the Supply/Property Division to record all receipts and issues made. The agency shall conduct physical count of inventories every semester. The semestral physical inventory of supplies shall be reconciled with the SLCs and Property records. The balance per SC shall be reconciled regularly with the SLC maintained by Accounting Division.
- 3.3 Appendix 64 provides that the RSMI is prepared by the Supply and/or Property Division Unit to report/summarize all issues of inventories which shall be consolidated by the Accounting Division at the end of the month. The Accounting Division and Supply/Property Division shall conduct



periodic reconciliation of SLCs and SCs to identify and adjust any discrepancy.

- 3.4 Appendix 66 also provides that the Report on the Physical Count of Inventories (RPCI) shall be used to report the physical count of supplies by type of inventory as at given date. It shows the balance of inventory items per card and per count and shortage/overage, if any. The RPCI should be submitted not later than July 31 and January 31 of each year for the first and second semesters, respectively.
- 3.5 Verification of the HPA records showed that balances of the *MPTSI* and *OSMI* account balances per ASPA books did not tally with the PAO-GS records as shown below:

<b>Account</b>	<b>Per ASPA</b>	<b>Per PAO-GS</b>	<b>Difference</b>
Military, Police and Traffic Supplies Inventory	₱13,388,764,207.19	₱14,168,307,865.55	₱779,543,658.36
Other Supplies and Materials Inventory	2,264,082,796.97	31,166,764.96	2,232,916,032.01
<b>Total</b>	<b>₱15,652,847,004.16</b>	<b>₱14,199,474,630.51</b>	<b>₱3,012,459,690.37</b>

- 3.6 The unreconciled difference of ₱779,543,658.36 was due, among others, to: (i) non-submission of the required RSMIs by the PAO-GS to the ASPA wherein issuances were already deducted from the property records but not in the accounting books; and (ii) delivered goods under LCs which were already recorded in the PAO-GS books but not in the ASPA.

*Non-submission of RSMI*

- 3.7 Historical data of deliveries and issuances for the past two years, for the *Military, Police and Traffic Supplies Inventory* (MPTSI) and *Other Supplies and Materials Inventory* (OSMI) accounts were analyzed and it was found out that failure of the PAO-GS to submit the RSMI to the ASPA, to record issues of stocks for a particular year resulted in the occurrence of huge amounts of beginning balances in the ensuing years:

	<b>2020</b>	<b>2021</b>
<b>Beginning Bal.</b>	<b>₱5,625,303,066.32</b>	<b>₱9,108,715,871.26</b>
Add:		
Deliveries/ Adjustments	4,607,553,935.11	6,187,122,474.37
<b>Stocks on Hand</b>	<b>10,232,857,001.43</b>	<b>15,295,838,345.63</b>

<b>Table No. 9 – MPTSI 2-year data</b>		
	<b>2020</b>	<b>2021</b>
Less:		
Issuances/Adjustments	1,124,141,130.17	1,907,074,138.44
Percentage of Issuances to Stocks on Hand	11	12
<b>Ending Bal.</b>	<b>₱9,108,715,871.26</b>	<b>₱13,388,764,207.19</b>

<b>Table No. 10 – OSMI 2-year data</b>		
	<b>2020</b>	<b>2021</b>
<b>Beginning Bal.</b>	<b>₱1,408,311,603.91</b>	<b>₱1,757,075,588.54</b>
Add:		
Deliveries/Adjustments	427,469,529.61	658,834,817.88
<b>Stocks on Hand</b>	<b>1,835,781,133.52</b>	<b>2,415,910,406.42</b>
Less:		
Issuances/Adjustments	78,705,544.98	151,827,609.45
Percentage of Issuances to Stocks on Hand	4	6
<b>Ending Bal.</b>	<b>₱1,757,075,588.54</b>	<b>₱2,264,082,796.97</b>

- 3.8 The table above shows that the total annual issuances of MPTSI recorded in the agency books through submission of the RSMIs with attached RIS by the PAO-GS to the ASPA in CYs 2020 to 2021 were very minimal with 11 and 12 percent only out of the total stocks on hand. Similarly, the recorded issuances of OSMI for the same period were four to six percent only.
- 3.9 The Chief, PAO-GS disclosed that issuances of inventories were not recorded in the ASPA due to non-preparation of RSMI despite the availability of various Requisition and Issuance Slips (RIS) of undetermined amount.
- 3.10 In addition, out of the *FOL Inventory* balance of ₱891,996,610.13, ₱682,091,355.30 or 76 percent of which remained unreconciled as at December 31, 2021 and were recorded in three (3) separate SLs marked as “For Recon”. No credits or issuances were recorded in the *FOL Inventory* account due to non-submission of the corresponding RSMI for the FOL balances by the PAO-GS to the ASPA which shall serve as documents to support JEVs drawn to record issues of FOL.

*Non-recognition of delivered inventories under LCs*

- 3.11 Verification disclosed that deliveries of inventories from CYs 2015 to 2020 totaling ₱1,602,780,653.11 under LCs were not recorded in the books due to non-submission of the liquidating documents by the PAO-GS to the ASPA.

*Unrecorded Receipts and Issuance of Military, Police and Traffic Supplies Inventory*

3.12 In the 2ID, receipt of ammunition from the HPA in CY 2021 and the subsequent issuances thereof to the field units were not recorded in the books due to non-submission of supporting documents by the 4FPAO to the 4FAU, resulting in the unrecorded balance of the MPTSI account amounting to ₱77,525,497.27 as of December 31, 2021 and understatement of the *Subsidy from Central Office and Military, Police and Traffic Supplies Expense* accounts by the same amount.

*Non -maintenance of SLCs and SCs and non-conduct of physical inventory*

3.13 In the HPA, the PAO-GS failed to conduct a physical count of inventory thus, not able to submit the RPCI to the COA while the RPCIs in the IID, 9ID, 54EBde and 55EBde were not prepared in accordance with the GAM. Moreover, the instructions prescribed in the GAM for the preparation, maintenance and submission of SCs in the IID, 54EBde and 55EBde were not strictly complied with.

3.14 In effect, the agency failed to reconcile the accounting and property records, in violation of Instructions in Appendices 57, 58 and 64 of the GAM Vol. II and ultimately, Section 15, Chapter 2, Vol. I of the GAM, as regards fair presentation of the financial statements.

3.15 **We recommended and Management agreed to require the:**

**a) Chief, PAO-GS and concerned Field Property Accountability Offices (FPAOs) to immediately submit to the Accounting Service, Philippine Army (ASPA) and Field Accounting Units (FAUs) the required RSMIs with the corresponding RIS and record the issued inventories;**

**b) Chief, ASPA to record the goods delivered under LCs; and**

**c) Chiefs, ASPA/FAUs and PAO-GS/FPAOs to maintain SLCs and SCs, respectively, and the PAO-GS/FPAOs to conduct physical count of inventories and reconcile the results thereof with the SLCs and SCs.**

3.16 Management commented that in compliance with the recommendation, the PAO-GS submitted partial RSMIs with a total amount of ₱1,044,050,317.19 for various expensed items which would be subject to

the review and evaluation of the ASPA for the subsequent preparation of JEVs.

*Inventories recorded as outright expenses*

**4. Inventories in the Headquarters Philippine Army (HPA) and 3<sup>rd</sup> Infantry Divisions (3ID) totaling ₱64.822 million were recognized as outright expenses upon purchase instead of coursing through the appropriate inventory accounts contrary to Section 9, Chapter 8 of the Government Accounting Manual (GAM) Volume (Vol.) I, casting doubt on the reliability of the balances of inventory and expense accounts.**

- 4.1 Section 9, Chapter 8 of GAM for NGAs Vol. I states that regular purchases of supplies and materials shall be coursed through the inventory account and issues thereof shall be recorded as they take place except for supplies and materials purchased out of the Petty Cash Fund for immediate use or for emergency cases which shall be charged directly to the appropriate expense accounts.
- 4.2 GAM Volume III prescribes that inventory accounts are credited for the issuance of inventories to end-users, transfers, loss or disposal while the corresponding expenses accounts are used to recognize costs of inventories issued.
- 4.3 In HPA, verification showed that inventories amounting to ₱63,983,188.34 were not recorded in the corresponding Inventory account upon purchase/delivery. Instead, receipt of inventories were directly recognized in the books under the expense accounts.
- 4.4 As a result, the inventory and related expense accounts were understated and overstated by the same amount.
- 4.5 In addition, the 3ID purchases of supplies and materials during the year amounting to ₱838,528.50 were directly treated as expenses by the 6FAU instead of coursing it through its appropriate inventory accounts.
- 4.6 This practice is contrary to Section 9, Chapter 8 of the GAM, Vol. I where it requires that regular purchases shall be coursed through the inventory account, therefore, potentially resulting in inventory and expenses account misstatements and consequently, casting doubts on the reliability of respective balances.
- 4.7 Overall, inventories costing ₱64,821,716.84 were recorded directly as expenses and not recognized as inventories upon purchase.

- 4.8 **We recommended and Management agreed to direct the Chief Accountants of the Headquarters Philippine Army (HPA) and 3<sup>rd</sup> Infantry Division (3ID) to record to the related inventory accounts all purchases of supplies and materials and other inventories upon receipt and to the corresponding expense accounts upon issuances thereof.**

*Unreliable balances of Property, Plant and Equipment accounts*

5. **The reliability and accuracy of Property, Plant and Equipment (PPE) account balances could not be ascertained due to: a) unreconciled difference of ₱2.782 billion between the balances per property and accounting records; b) PPEs totaling ₱53.786 million recorded in the accounting records but not included in the RPCPPE; c) unrecorded PPE found at station totaling ₱221,108.42; d) unrecorded transfer of 1,322 motor vehicles totaling ₱953.397 million; e) non-recognition of completed/delivered projects under Letters of Credit (LC) and Repairs, Maintenance and Construction (RMC) Fund totaling ₱182.405 million; f) misclassification of PPE accounts totaling ₱8.460 million; g) non-reclassification of completed projects under the *Construction in Progress (CIP)* accounts to the appropriate PPE accounts totaling ₱50.494 million; and h) non-recognition of PPE received from the HPA by the field unit. Moreover, other deficiencies were observed, as follows: (i) absence of common reference numbers for PPE items in the records of accounting and property offices; (ii) non-conduct of physical count of PPE; and (iii) guidelines prescribed in the preparation and maintenance of Property Cards (PC) were not strictly complied.**

- 5.1 Section 111 of PD No. 1445 states that: a) 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 the information needed by fiscal or agencies of the government; and b) the highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.

- 5.2 Section 42, Chapter 10 of the GAM Vol. I provides that the Chief Accountant shall maintain PPE Ledger Card (PPELC) for each category of PPE. The PPELC shall be kept to record promptly the acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal and other information about the asset. For check and balance, the Property and Supply Office/Unit shall likewise maintain PC for PPE in their custody to account for the receipt and disposition of the same. The balance per PC shall be reconciled with PPELC maintained by the Accounting Division/Unit. They shall also be reconciled with other property records like the Property Acknowledgment Receipt (PAR).

5.3 Section 42 (g) thereof states that the RPCPPE shall be used to report the physical count and condition of PPE by type as at a given date, including those which are unrecorded and those which could not be accounted for. It shows the balance of PPE per PC and per count and the shortage, if any. It shall be rendered by the Inventory Committee, on its yearly physical count of properties owned by the entity.

*Unreconciled balance between the accounting and property records*

5.4 Comparison of the accounting and property records showed a total discrepancy of ₱2,782,021,917.45, as follows:

<b>Table No. 11 – Unreconciled discrepancy between the accounting and property records</b>			
<b>Office/Unit</b>	<b>Per Accounting</b>	<b>Per Property</b>	<b>Unreconciled Balance</b>
HPA	₱69,098,705,587.76	₱69,818,959,718.66	₱1,027,534,369.76
4ID	9,227,053,891.28	9,153,546,712.01	176,986,753.51
5ID	1,736,373,959.86	1,720,755,573.83	38,777,394.77
7ID	8,465,782,943.23	8,172,654,143.61	1,514,883,576.78
52EB	810,608,615.86	786,768,793.23	23,839,822.63
<b>Total</b>	<b>₱89,338,524,997.99</b>	<b>₱89,652,684,941.34</b>	
<b>Unreconciled</b>			<b>₱2,782,021,917.45</b>

5.5 In the HPA, the total unreconciled difference of ₱1,027,534,369.76 as at December 31, 2021 was due to the non-reconciliation of records between the Accounting (ASPA and 15FAU) and Property (PAO-GS and 15FPAO) Divisions.

*PPEs recorded in the accounting records but not included in the RPCPPE*

5.6 The following PPE items under the Buildings and Other Structures (BOS) account were recorded in the PPELC but not in the RPCPPE:

<b>Table No. 12 – Unaccounted Buildings and Other Structures</b>		
<b>PPE Account</b>	<b>Particulars</b>	<b>Cost</b>
Buildings		₱ 52,271,681.69
Other Structures:		
10604990-00-24ISU-A-12-24	24ISU-A-12-24-Gas Dam-52 Sqm	150,000.00
10604990-00-ASPA-2019-OS-001	Container Van 20ft, ASPA-2019-OS-001	296,000.00
10604990-00-HHCo-Modular Barracks	HHCo-5.8M X 2.5M Modular Barracks	158,000.00
10604990-00-HHSBN-ASC-LOT NR-07	HHSBN-ASC-LOT NR-07-Perimeter Fence-07	350,000.00
10604990-00-K-9 BN-18	K-9 BN-18 Parking Bay	350,000.00
10604990-00-SSTS 17-0010-Water System	SSTS 17-0010-Water System-Water Supply System – Myres 1HP Water	97,000.00

<b>Table No. 12 – Unaccounted Buildings and Other Structures</b>		
<b>PPE Account</b>	<b>Particulars</b>	<b>Cost</b>
	Pump – 1 Fortress Water Tank (Plastic) – 1 Overhead Tank (Stainless) – Assembled Water Tank Frame – Water Pipes (PVC and GI)	
10604990-00-SSTS 17-0011-Water System	SSTS 17-0011-Water System-Water Supply System – Elettropompe 1.5HP Water Pump – 2 Overhead Tank (Plastic) – 1 Water Tank (Stainless) – Assembled Water Tank Frame – Water Pipes (PVC and GI)	113,000.00
<b>Total</b>		<b>₱53,785,681.69</b>

*Found at station - ₱221,108.42*

- 5.7 In the 15FAU, the following *ICT Equipment* were found in the RPCPPE but not in the books of 15<sup>th</sup> FAU:

<b>Table No. 13 – ICT Equipment reported in the RPCPPE but not in the 15<sup>th</sup> FAU records</b>		
<b>Description</b>	<b>Reference No.</b>	<b>Amount</b>
Canon DSLR Camera EOS200DII	--	₱ 45,713.42
Jabra Speak 810 MS Wireless HD Conference Speakerphone w/ Camera	2021-G5-ICT-020	35,800.00
Jabra Conference Speakerphone w/ Camera	2021-G5-ICT-021	16,600.00
Laptop SN: FVFFPK58Q6L4	2021-G5-ICT-016	53,500.00
Printer	2021-G5-ICT-039	15,995.00
Laptop SN: FVFFPVWXQ6L4	2021-G5-ICT-017	53,500.00
<b>Total</b>		<b>₱221,108.42</b>

*Motor vehicles dropped from the property records but not from the accounting records*

- 5.8 Per data provided by the Army Support Command, the HPA transferred 1,397 motor vehicles (MV) with a total cost of ₱1,086,618,952.01 to various PA Major Units (PAMU) in CY 2021. The 1,397 MVs were already dropped from the property records evidenced by the Property Transfer Reports issued to the recipient units, however, only 75 MVs were dropped from the accounting records leaving 1,322 MVs totaling ₱953,397,333.90 still recorded in the books as of December 31, 2021.

*Non-recognition of completed/delivered projects under LC and RMC Fund totaling ₱182,405,004.88*

- 5.9 Deliveries totaling ₱118,150,418.21 procured through LCs from CYs 2015 to 2020. Non-recognition of completed projects. Moreover, review of the

SLs and status of projects disclosed that the RMC balance under the *Other Receivables* account includes completed projects totaling ₱64,254,586.67 which overstated the *Other Receivables* account and understated the appropriate PPE accounts by the same amount.

*Misclassification of accounts*

5.10 In the 3ID, records showed that various properties were erroneously recorded as follows:

<b>Table No. 14 – Misclassification of PPE accounts</b>		
<b>PPE</b>	<b>Recorded As</b>	<b>Amount</b>
Buildings	Other Structures	₱3,077,000.00
Water Supply Systems		1,128,945.25
Power Supply Systems		60,000.00
<b>Subtotal</b>		<b>₱4,265,945.25</b>
Office Equipment	Communication Equipment	1,775,510.00
Other Office Equipment		468,922.00
Technical and Scientific Eqpt.		273,549.00
MPS Equipment		100,000.00
<b>Subtotal</b>		<b>₱2,617,981.00</b>
Other Land Improvements	Buildings	936,014.00
Other Structures		640,000.00
<b>Subtotal</b>		<b>₱1,576,014.00</b>
<b>Total</b>		<b>₱8,459,940.25</b>

*Non-reclassification of completed projects from the CIP to the appropriate PPE accounts*

5.11 Sec. 8(g), Chapter 10 of the GAM Vol. I provides that during construction period, all expenses incurred in relation to the construction of PPE shall be taken up in the books as Construction in Progress (CIP) with the appropriate asset classification. As soon as the construction is completed, the “Construction in Progress” account shall be reclassified to the proper asset account. Likewise, all expenses such as interests, license fees, etc., during the construction period shall be capitalized.

5.12 In the Armor Division, records showed that the CIP account had a balance of ₱36,755,569.35, which pertains to projects implemented and completed in CY 2009 under the Kalayaan Barangay Program (KBP). However, properties were not yet reclassified to the proper asset accounts contrary to Sec. 8(g), Chapter 10 of the GAM Vol. I.

5.13 In the 54Ebde, four (4) completed projects remained recorded in the *CIP-BOS* and *CIP-Infrastructure Assets* accounts amounting to ₱7,843,191.04



and ₱5,894,908.82, respectively. Three (3) of the projects were already turned over to the 11ID.

- 5.14 Overall, the non-reclassification of CIP accounts resulted in overstatement of the CIP accounts and understatement of the appropriate PPE accounts by ₱50,493,669.21.

*Non-recognition of PPE received from the HPA by the field unit*

- 5.15 PPE transferred from the HPA totaling ₱18,723,857.60 were not recorded in the books of 2ID due to pending receipt of PTRs and supporting documents from the 4FPAO; hence, understating the related PPE, Depreciation Expense, Accumulated Depreciation and Subsidy from Central Office accounts, contrary to Section 14, Chapter 10, GAM, Vol. 1 which provides that intra-agency transfers of PPE shall be recognized at the carrying amount of the asset received. The receiving department/office shall recognize the asset at its original historical cost less accumulated depreciation and accumulated impairment loss.

*Absence of common reference numbers for the PPE items*

- 5.16 It was also noted that the accounting and property offices did not maintain common reference numbers for properties recorded making the reconciliation even more challenging.

*Non-conduct of physical count of PPE*

- 5.17 In the HPA, the PAO-GS did not conduct annual physical inventory of properties, hence, was not able to prepare and submit the RPCPPE for CY 2021. The balances per property records consist of balances per 2021 RPCPPE of the 15FPAO and per report provided by the PAO-GS based on its records only, as certified by the Chief, PAO-GS. Therefore, the accuracy of balances could not be relied upon and complete verification of PPE items in the property records could not be conducted due to the absence of the complete PPE listings based on the physical count.
- 5.18 Likewise, the 16FPAO in the 54Ebde was not able to submit the RPCPPE for CY 2021.

*Non-preparation of Property Cards in accordance with the GAM*

- 5.19 In 11ID, 54EB and 55EB, the PCs only include records of the receipt of the PPE but no entries were made for issuances thereof, not in pursuance to the provisions of the GAM.

5.20 The reconciliation of property and accounting records is vital for the fair presentation of PPE account balances in the agency books at year-end. Failure of the Accounting Offices (ASPA/FAUs) and Property Offices (PAO-GS/FPAOs) to reconcile their records rendered PPE accounts unreliable/inaccurate, contrary to Sec. 42, Chapter 10 of the GAM Volume I and finally, to Section 111 of PD 1445.

**5.21 We recommended and Management agreed to direct the:**

- a) **Chiefs, ASPA and PAO-GS to reconcile records and determine cause/s of difference and draw adjusting entries as necessary;**
- b) **Chief, ASPA to recognize in the books all reconciling items; and**
- c) **Concerned Accountants and Property Officers to assign reference number to each PPE item, conduct annual physical inventory and prepare and maintain PCs for each PPE.**

*Deposit on Letters of Credit*

**6. The closure of Letters of Credit (LC) for completed and terminated projects amounting to ₱1.721 billion and ₱34.600 million, respectively, were not facilitated and balances thereof were not reverted and remitted to the Bureau of the Treasury (BTr) contrary to Section 5.2 of Treasury Circular No. 3-2019 dated May 10, 2019.**

6.1 Treasury Circular (TC) No. 3-2019 dated May 10, 2019 provides the guidelines on Banking Arrangements on the Use of Letter of Credit. It states that the NGAs shall be responsible in closing outstanding amount of LC if goods/services are already fully delivered/rendered. In addition, Government Servicing Banks (GSB) shall recommend closure of LC outstanding for goods/services already delivered/rendered based on documents submitted by the NGAs.

6.2 The same Circular also states that concerned NGAs shall be required to review their outstanding LCs and revert any balances for those LC already fully delivered, those without movement or activities and those that are no longer valid.

6.3 The DLC account of the HPA has a balance of ₱9,118,617,547.12 as of December 31, 2021. This pertains to deposits with United Coconut Planters Bank, Development Bank of the Philippines and Landbank of the Philippines for LCs in favor of various suppliers for the procurement of goods and services under various contracts, aged as follows:

<b>Table No. 15 -Aging schedule of DLC Account</b>	
<b>Age</b>	<b>Amount</b>
Less than 1 year	₱3,024,290,276.90
Over 1 year but less than 3 years	5,573,475,744.39
Over 3 years but less than 5 years	386,857,875.25
Over 5 years	133,993,650.58
<b>Balance as of 12/31/21</b>	<b>₱9,118,617,547.12</b>

- 6.4 Review of the status of contracts under LC provided by the Philippine Army Procurement Center (PAPC) disclosed that the balance of the DLC account as of December 31, 2021 amounting to ₱9,118,617,547.12 includes balances of contracts that were already completed and terminated totaling ₱1,720,931,071.32 and ₱34,600,005.00, respectively.
- 6.5 The balance of ₱1,720,931,071.32 pertains to projects/contracts that were completed in various dates from CYs 2015 to 2020.
- 6.6 Likewise included in the DLC account were contracts that were already terminated as of December 31, 2021, as detailed below:

<b>Table No. 16 – Terminated Contracts Still Included in the DLC Balance</b>		
<b>Contract No.</b>	<b>Particulars</b>	<b>Amount</b>
ORD-072-09-13	Procurement of 1,305 rounds Ctg 105mm WP, ASA No. 0118 dated 07 February 2013 (Kopanija Sloboda A.D.)	₱5.00
ORD-017-12-19	Procurement of 50,000 units of Magazine Assembly (20 rounds capacity/steel) M14 under ORS Nr. 2200-19-12-736 dated 27 December 2019	18,000,000.00
ORD-020-12-19	Procurement of 40,000 untis of Magazine Assembly (30 rounds capacity/steel) AK47 under ORS Nr. 2200-19-12-735 dated 27 December 2019	16,600,000.00
<b>Total</b>		<b>₱34,600,005.00</b>

- 6.7 Completed projects were not recorded in the appropriate PPE accounts while terminated contracts were not reverted to the BTR as required under the aforecited Treasury Circular.
- 6.8 There should have been periodic monitoring and review of the status of outstanding LCs and close those with order/projects fully delivered/completed/terminated.
- 6.9 **We recommended that Management direct the Chiefs, PAPC and ASPA to facilitate the closure of the LCs pertaining to the completed projects and terminated contracts and the reversion and remittance of the corresponding amounts to the BTr.**

- 6.10 Management commented that per records of the PAPC, there are 60 projects with unliquidated balance totaling ₱5,902,320,375.73 as follows:

<b>Table No. 17 – DLC Unliquidated Balance per PAPC</b>	
<b>Particulars</b>	<b>Amount</b>
Unpaid retention	₱139,725,693.92
Paid projects with documents still with the bank	1,537,732,563.81
Delivered projects for processing of payment	1,595,573,315.60
Undelivered projects	2,291,109,845.40
For termination	338,178,957.00
<b>Total</b>	<b>₱5,902,320,375.73</b>

- 6.11 Management added that the PAPC has been coordinating with ASPA to reconcile their records based on the available documents and committed the submission of all liquidation documents to the ASPA once obtained from the banks.

***Unreliable Balance of Accounts Payable***

- 7. The accuracy and reliability of the year-end balance of the *Accounts Payable* account amounting to ₱2.074 billion is doubtful due to the recognition of *Due to BIR, Guaranty/Security Deposits Payable* and *Other Payables* upon delivery, instead of upon payment of inventory/equipment, resulting in the overstatement thereof and understatement of the *Accounts Payable* account by ₱176.484 million.**

- 7.1 Under the GAM for NGAs Vol. III, the *Accounts Payable* account is used to recognize receipt of goods and services on account in the normal course of trade and business operation. The account is debited for payment or settlement of liabilities.
- 7.2 Section 18(d), Chapter 8 and Section 8(b), Chapter 10 of the GAM for NGAs Vol. I provides that *Accounts Payable* shall be recognized in full upon purchase of Inventory/PPE on account. Other liability accounts such as *Due to BIR* shall be recognized only upon payment of the *Accounts Payable*. As of December 31, 2021, the *Accounts Payable* account as presented in the Financial Statements (FS) had a balance of ₱2,074,216,482.36.
- 7.3 Review of the account disclosed that upon delivery, the *Accounts Payable* was not being recognized for the full amount of the inventory/equipment. Instead, other liability accounts such as *Due to BIR, Guaranty/Security Deposits Payable* and *Other Payables* were simultaneously recorded. In

essence, the accounts payable recorded was net of the amounts recognized for the other liability accounts.

- 7.4 Per inquiry, *Guaranty/Security Deposits Payable* was used to record retention fees while *Other Payables* was used to set up liabilities related to procurement of FOL.
- 7.5 In view of the foregoing, the *Accounts Payable* account balance of ₱2.074 billion was understated by ₱176.484 million as of December 31, 2021 while the following liabilities accounts were understated as shown below:

<b>Table No. 18 – Amount of Misstatements to the Accounts Payable</b>	
<b>Account</b>	<b>Amount</b>
Due to BIR	₱98,799,730.35
Guaranty/Security Deposits Payable	71,804,464.59
Other Payables	5,880,148.64
<b>Total</b>	<b>₱176,484,343.58</b>

- 7.6 **We recommended that Management direct the Chief Accountant to record the accounts payable in full amount corresponding to the amount of deliveries.**
- 7.7 The ASPA commented that the PA is subject to yearly tax assessment by the BIR and to comply with Sec. 2.57.4 of R No. 2-98, the withholding of taxes is recognized in the books at the time of payment or when the obligation becomes due, demandable and legally enforceable whichever comes first. Moreover, the withholding of retention money from creditors as *Guaranty/Security Deposits Payable* is recognized under Sec. 62 of RA 9184. In relation to procurement of FOL products, a percentage of the amount payable is withheld due to the agreement between the DND and Petron Corporation and recorded in the *Other Payables*.

***Auditor’s Rejoinder***

- 7.8 Under the COA rules as indicated in the GAM for NGAs, the full amount of Accounts Payable (AP) is to be recognized upon delivery of PPE/Inventory, while other liability accounts are to be recognized upon payment. Notably, it was observed that although other liabilities were already recognized upon delivery of goods/services, corresponding remittances to the BIR were made upon payment/settlement of APs as evidenced by the occurrence of unremitted withholding taxes totaling ₱98.80 million representing unpaid APs.

***Repair, Maintenance and Construction (RMC) Fund***

**8. Utilization of the RMC Fund of ₱309.210 million was not maximized. Out of the ₱87.688 million, or 28 percent of the fund, 11 construction/rehabilitation projects were programmed in CYs 2015 to 2018, of which eight projects costing ₱73.988 million were unimplemented as of December 31, 2021, depriving the agency of the intended benefits that could have been derived therefrom.**

8.1 The DND and PETRON Corporation entered into a contract for the supply and delivery of DND-Wide Petroleum Requirements Nationwide. The contract states that in consideration of payments to be made by the agency/military command to the supplier, the latter shall provide the Petroleum, Oil and Lubricants (POL) products required and the services relevant to its delivery.

8.2 Moreover, the DND entered into a MOA with PETRON Corporation wherein the latter shall allocate a certain percentage (rebates) of the year's DND-Wide POL Program to serve as RMC Fund. The fund is intended for the repair, maintenance and construction (RMC) of AFP's POL Dumps/Bulk Plants as well as the provision of additional POL storage facility or equipment.

8.3 Records of the HPA showed that the RMC fund had a balance of ₱309,210,465.97 as of December 31, 2021 recorded under the *Other Receivables* and *Other Payables* accounts, as follows:

<b>Table No. 19 - RMC Fund Balance</b>			
<b>Year</b>	<b>Per Subsidiary Ledger (SL)</b>		<b>RMC Fund Balance</b>
	<b>Other Receivables (Accumulated balance)</b>	<b>Other Payables (Withheld and deposited)</b>	
2017	₱96,278,264.48	₱ --	₱96,278,264.48
2018	173,491,160.97	--	173,491,160.97
2019	146,734,607.74	--	146,734,607.74
2020	146,734,607.74	57,269,617.86	204,004,225.60
2021	146,734,607.74	162,475,858.23	309,210,465.97

8.4 From CY 2017 up to CY 2019, the rebates from payments to PETRON were recognized in the books as *Other Receivables* while starting in CY 2020, the rebates were set up as *Other Payables* and recorded to *Cash-Treasury/ Agency Deposit* account upon deposit thereof.

***Delayed/non-implementation of RMC projects***

8.5 The report on the status of RMC Fund Projects provided by the Office of the Chief Army Quartermaster (ACQM) as of December 31, 2021 showed

eight projects with total cost of ₱73,987,980.94 which are yet to be completed/ not yet started, details are as follows:

<b>Table No. 20 - Incomplete RMC Projects as of December 31, 2021</b>					
<b>No.</b>	<b>CY</b>	<b>Project</b>	<b>Approved POE Amount</b>	<b>% of Completion</b>	<b>Status</b>
1	2016	Construction of New POL Storage-5ID, PA (Phase 1)	₱4,227,313.95	0	Approved BOMCE submitted last December 2012 to Petron Corporation for implementation
2	2018	Construction of New POL Storage-11ID, PA	26,000,000.00	0	Awarded to LG General Construction, conducted Pre-Construction Meeting last December 16, 2021 via zoom. For site inspection prior to the implementation of the project. The ETC is after 4 months upon implementation of project.
3	2018	Construction of New POL Storage- 5ID, PA (Phase 2)	19,552,686.05	0	Forwarded to Petron Corporation for implementation last December 17, 2021. The ETC is after 4 months upon implementation of project.
4	2018	Construction of New POL Storage-2MIB, MID, PA	8,800,000.00	95	Ongoing 95 percent completed. Awarded to Base One Plus Enterprise. For tapping of electrical lines by end user and pump commissioning.
5	2018	Rehabilitation of existing POL Storage-MID, PA	5,149,434.33	0	Awaiting approval of evaluated MDP and concurrence of submitted DAEP and BOME by Petron Corporation from OG4, PA. The ETC is after 4 months upon implementation of project.
6	2018	Rehabilitation of existing POL Storage-7ID, PA (Phase 2)	5,149,434.32	0	For evaluation of revised scope of works and cost estimate based on joint site inspection last December 21, 2021. The ETC is after four months upon implementation of project.
7	2018	Rehabilitation of 7ID POL Dump, Palayan City (Phase 3)	2,109,112.29	0	For evaluation of revised scope of works and cost estimate based on joint site inspection last December 21, 2021. The ETC is after four months upon implementation of project.
8	2018	Maintenance of POL Storage-PA Wide	3,000,000.00	0	25 percent utilized for the maintenance of PA-Wide POL Dumps
		<b>Total</b>	<b>₱73,987,980.94</b>		

- 8.6 As of December 31, 2021, the above projects remained unimplemented by the Petron Corporation and were being monitored by the ACQM through coordination and monthly status reports from the former.
- 8.7 Seven projects from CYs 2016 and 2018 totaling ₱65,187,980.94 remained unimplemented showing zero percentage of completion and one project costing ₱8,800,000.00 was 95 percent completed.
- 8.8 Moreover, three (3) projects totaling ₱13,700,000.95 were 100 percent completed but not yet inspected and accepted as of December 31, 2021:

<b>Table No. 21 - Incomplete RMC Projects as of December 31, 2021</b>					
<b>No.</b>	<b>CY</b>	<b>Project</b>	<b>Approved POE Amount</b>	<b>% of Completion</b>	<b>Status</b>
1	2015	Construction of New POL Storage-3ID, PA	₱1,118,400.00	100	TIAC inspection on January 2022
2	2017	Construction of New POL Storage-3ID, PA (Phase 2)	4,753,877.95	100	TIAC inspection on January 2022
3	2018	Construction of New POL Storage-3ID, PA (Phase 2&3)	7,827,723.00	100	TIAC inspection on January 27-28, 2022
		<b>Total</b>	<b>₱13,700,000.95</b>		

- 8.9 The contract agreement/MOA did not indicate the timelines for the implementation of projects under the RMC Fund.
- 8.10 As shown above, out of the ₱309.210 million balance of the RMC Fund as of December 31, 2021, only ₱87.688 million or 28 percent was programmed in CYs 2015 to 2018 for projects which were unimplemented or with delayed implementation. The non-implementation of the RMC projects after the lapse of three to five years resulted in unutilized RMC funds and non-attainment of the purpose to which the fund was set up for, thus, depriving the agency of the benefits that could have been derived therefrom.
- 8.11 **We recommended and Management agreed to direct the Army Chief Quartermaster to make necessary representation and coordination with PETRON Corporation officials to expedite implementation and completion of RMC funded projects, and henceforth, to take full advantage of the use of RMC funds by increasing the number of projects to be implemented and/or facilities/equipment to be acquired thru the fund.**
- 8.12 Management commented that a follow-up letter was forwarded to Petron Corporation for updates and timelines of completion for the ongoing



projects. On the RMC fund balance, the ASPA sent a request for records of payment by contract and current RMC Fund Status from the ASCOM.

***Terminated construction projects remained under Construction in Progress - 51<sup>st</sup> Engineer Brigade***

**9. The 51<sup>st</sup> Engineer Brigade had no concrete back-up plans for further implementation of 20 construction projects with total contract cost of ₱372.840 million which were terminated seven to 10 years ago, thus, hindering the achievement of modernization and provision of support to the Base Development Program of the Philippine Army.**

9.1 Section 2 of PD No. 1445 provides that it is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring, efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government Brigade concerned.

9.2 As one of the ground operating units, the Brigade's function, among others, is to undertake construction projects in support to the Base Development Program of the PA. It is critical for the Brigade to effectively manage, execute, and monitor construction projects entered into with third-party contractors.

9.3 Validation of the Brigade's action on the CY 2020 audit recommendations involving undetermined status of 61 on-going construction projects revealed that 13 out of 61 projects had already been completed and were recently transferred to the appropriate PPE accounts. However, twenty out of the 61 construction projects, with total contract cost of ₱372,840,432.21 had already been terminated seven to ten years ago.

9.4 Review of records disclosed that there were terminated projects which had percentage of completion of as low as nine percent (i.e., Construction of Water System Phase 2) to as high as 94.27 percent (i.e., Construction of Student Officer Quarters 3). On the other hand, there are no available data on the percentage of completion, fund utilization rates and amount, and remaining balances as of December 31, 2021 for several terminated projects, namely: Construction of Medical Dispensary, Construction of Parking Area, Construction of 7ID Battalion Retraining Facilities, Construction of Roads & Drainages, Construction of Water System Phase 2, Construction of Known Distance Range, and Construction of FSRR Training Facilities.

- 9.5 Although updates on the Brigade’s action plan on terminated projects were given, there is no concrete and formal continuity or back-up plans for the further implementation of the projects in accordance with Item D.3 *Take-Over of Contracts*, Section V - Specific Guidelines, Annex “H” Consolidated Guidelines for the Alternative Methods of Procurement, Revised Rules and Regulations of RA 9184.
- 9.6 It was also noted that the Construction of Circumferential Road by RHR Construction was recorded in the books in the amount of ₱10,321,538.21, which is ₱1,321,420.69 higher as compared to its contract cost of ₱9,000,117.52. No verified report on the status of the project was submitted; thus, preventing further validation of the variance noted.
- 9.7 **We recommended that Management direct the concerned officials to initiate the immediate take-over process for terminated construction projects in accordance with Item D.3, Annex “H”, Revised Rules and Regulations of Republic Act 9184 to facilitate immediate completion thereof.**
- 9.8 Management commented that the Brigade intends to complete the project “by Administration” as mode of implementation in accordance with GPPB Resolution No. 05-2019 instead of “by Contract” following the procedure prescribed in Annex H, Consolidated Guidelines For the Alternative Methods of Procurement of the 2016 Revised IRR of RA 9184. The Brigade will abide by the provisions of RA 9184 and shall expedite continuation of the terminated projects.

***Unrecouped advances to contractors - 51<sup>st</sup> Engineer Brigade***

- 10. Advances to Contractors account includes unrecouped mobilization fees of ₱4.815 million paid to contractors whose infrastructure projects had been terminated from CYs 2016 to 2019 due to non-performance of obligations under their respective contracts, thus may result to wastage/loss of government funds in case the Brigade fails to recover the same.**
- 10.1 Annex E, Section 4.3 of the Revised Implementing Rules and Regulations of RA No. 9184 provides that the 15 percent advance payment shall be repaid by the contractor by deducting fifteen percent (15%) from his periodic progress payments a percentage equal to the percentage of the total contract price.
- 10.2 Analysis of *Advances to Contractors* account as of December 31, 2021 revealed that the account includes payments of 15 percent mobilization fees to two contractors in CYs 2015 and 2016 totaling ₱4,815,191.43.

- 10.3 The subject infrastructure projects had already been terminated due to total non-performance of obligations by the concerned contractors. The 15 percent mobilization fees paid to the contractors have not been recovered despite the demand letters sent to the contractors to recover the same.
- 10.4 If not recovered, significant amount of government funds will be wasted or lost, to the disadvantage of the office.
- 10.5 **We recommended that Management direct the concerned official to demand from the contractors the return of the mobilization fees; and in case of non-compliance, undertake other options/remedies available to recover the same.**
- 10.6 Management commented that the Brigade referred the matter to 112<sup>th</sup> Contracting Office dated August 19, 2021 and October 21, 2021 requesting to facilitate the issuance of demand letters to the contractors to recoup the paid advance payment to said contractors and to initiate appropriate legal actions against said contractors in cases the advance payment is not returned in favor of the government. Currently, the Brigade is closely monitoring the progress of the coordination made by the 112<sup>th</sup> Contracting Office to the contractors.

## COMPLIANCE

### *Non-submission of Financial Reports within the prescribed period*

11. **Disbursement vouchers (DVs), trial balances, financial statements (FS) and supporting schedules in the HPA and nine PA field units were not submitted within the prescribed period, incurring delays of 12 days to seven months, contrary to Section 122 of PD No. 1445 and Section 60 Chapter 19, Vol. I of the GAM; thereby precluding the prompt audit of accounts and financial transactions, early detection and correction of errors/deficiencies and timely reporting of the audit results to Management.**
- 11.1 Section 122 of PD No. 1445 otherwise known as the Government Auditing Code of the Philippines provides that the Commission may require responsible officials of various agencies to submit trial balances, physical inventory reports, current plantilla of personnel, and such other reports as may be necessary for the exercise of its functions. Failure on the part of the officials concerned to submit the documents and reports mentioned herein shall automatically cause the suspension of payment of their salaries until they shall have complied with the requirements of the Commission.
- 11.2 While Section 60 (c), Chapter 19, Vol. I of the GAM prescribes the deadlines on the submission of financial reports, to wit:

Entity/Office	Statement/Report	Deadline	Submit to
Monthly	Trial Balances and Supporting Schedules	10 days after the end of the month	Auditor, DBM, Management
Quarterly	Trial Balances, Financial Statements, and Supporting Schedules	10 days after the end of the quarter	Auditor, DBM, Management
Year-end	Trial Balances, Financial Statements, and Supporting Schedules (combined CO, ROs and OUs)	February 14 of the following year	COA Auditor, DBM, COA-Government Accountancy Sector (GAS)

- 11.3 In the HPA, trial balances/financial statements (FS), checks and LDDAP-ADA with disbursement vouchers (DVs), journal entry vouchers (JEVs) and official receipts (ORs) were not submitted within the prescribed period incurring significant delays, as shown in the table below:

Table No. 22 – Schedule of delays in the submission of reports					
Unit	FS	Checks	LDDAP-ADA	JEV	OR
HPA (ASPA)	2 - 6 months	2 - 7 months	2 - 6 months	2 - 9 months	2 - 8 months
HPA (15 <sup>th</sup> FAU)	6 days - 1 month	12 days - 4 months	12 days - 3 months	26 days - 3 months	12 days - 5 months

- 11.4 The same observation had been noted in the submission of financial reports of the PA field units particularly 2ID, 3ID, 4ID, 7ID, 9ID, 10ID, 51EB, 52EB and CMOR.
- 11.5 The delayed submission of the required financial reports and supporting documents precluded the timely conduct of audit and consequently, prevented the early detection and correction of errors and deficiencies as well as the timely reporting of audit results to Management.
- 11.6 **We recommended that Management direct the concerned accountants to immediately submit the required financial reports and supporting documents and strictly observe the deadline set for the submission thereof.**
- 11.7 In the HPA, management acknowledged the significant delays in the submission of FS and documents and commented that these were caused by varying circumstances particularly when the ASPA was seriously affected by the pandemic, notwithstanding the deficiency in the actual strength of the office.

- 11.8 Management added that the ASPA in coordination with the Office of the Assistant Chief of Staff for Financial Management, G10, is developing a Document Management System to efficiently manage the consolidation of necessary supporting documents. Further, ASPA is reviewing its personnel strength requirement to address the capacity management problem.

*Non-submission of Final Accountability Reports*

**12. Special Disbursing Officers (SDOs) in the HPA and Civil-Military Operations Regiment (CMOR) did not submit final report of accountability upon ceasing to act in their official capacity, contrary to PD No. 1445; thus, precluding the audit team to exercise its oversight function through conduct of mandatory cash examination on a timely manner.**

- 12.1 PD No. 1445 provides that an accountable officer (AO) shall submit to the auditor of the agency concerned a report of his accountability upon ceasing to act in his official capacity.
- 12.2 The final report of accountability serves as notice to the audit team that a mandatory cash examination is to be conducted before the concerned AO ceases to act in his official capacity pursuant to the guidelines provided in COA Memorandum No. 2013-04 which states that a mandatory cash examination shall be conducted before the AO retires or is separated from the service; transferred to another station or office; or goes on extended leave of absence and another AO is designated in his place.
- 12.3 The entire process of cash examination involves a comprehensive review that aims not just to establish the actual existence of cash in the custody of the AOs but also to provide an overall determination of whether the agency's practices and procedures provide adequate safeguards against fraud and losses of government funds, among others.
- 12.4 Audit disclosed that SDOs in the HPA and CMOR failed to prepare and submit the required final accountability reports to the COA despite cessation or being relieved of their function as SDO in CY 2021.
- 12.5 Consequently, non-submission of final reports before the transfer precluded the conduct of the mandatory cash examination, thus, the correctness and existence of the cash balance, the validity of cash transactions, the reliability of the cash records maintained and conformance with prescribed procedures were not established.
- 12.6 Per inquiry, some SDOs had allegedly settled their accountabilities in full so their cashbooks and journals were closed and processed prior to their reassignment. However, as of this writing, this Office has yet to receive

any supporting documents to establish the validity of the said claims. We were likewise informed that other SDOs were not able to settle accountabilities due to their immediate transfer to another unit.

- 12.7 It is recognized that the assignment/designation of military personnel as AOs requires their full commitment and attention in order to accomplish numerous tasks accompanying the said assignment/designation. While being an AO may be considered as additional workload on top of their regular duties as military personnel, the duties and responsibilities of which should never be taken lightly. As discussed, the submission of final report of accountability by outgoing AOs is a trigger event or notice to auditors that a mandatory cash examination is to be performed.
- 12.8 **We recommended and Management agreed to require SDOs to submit final reports of their accountabilities as required under PD No. 1445 and to all outgoing accountable officers to comply the same requirement prior to their transfer to another unit/station.**

*Non-disposal of Unserviceable Property, Plant and Equipment*

**13. Unserviceable properties totaling ₱901.273 million turned-in by the Philippine Army Major Units (PAMU) to the Army Support Command (ASCOM) from the calendar years (CY) 2014 to 2021 remained undisposed as of December 31, 2021, which is not in keeping with Section 79 of PD No. 1445. These undisposed unserviceable properties were exposed to further deterioration and diminution of value; thereby depriving the agency of additional income that may be derived from its disposal.**

- 13.1 Section 79 of PD No. 1445 states that when government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder.
- 13.2 Review of the Property Accountable Office-General Support (PAO-GS) report disclosed the existence of unserviceable properties totaling ₱901,272,742.90, as follows:

<b>Table No. 23 - Turned-in Unserviceable Properties</b>	
<b>Year</b>	<b>Amount</b>
2014	₱61,671,975.02
2015	30,517,947.81
2016	69,494,672.85

<b>Year</b>	<b>Amount</b>
2017	29,514,455.91
2018	106,786,596.07
2019	297,077,711.13
2020	122,267,373.52
2021	183,942,010.59
<b>Total</b>	<b>₱901,272,742.90</b>

- 13.3 These properties were turned-in from CYs 2014 to 2021 by the PAMUs to the Forward Service Support Units, ASCOM duly covered by Property Turn-in Slips. However, said properties remained undisposed as of December 31, 2021.
- 13.4 The delayed disposal exposes the unserviceable properties to further deterioration, which may subsequently diminish/reduce whatever amount that may be recovered from the sale/disposal of the same.
- 13.5 **We recommended and Management agreed to require the PAO-GS in coordination with the ASCOM to immediately facilitate inspection and disposal of the unserviceable properties.**
- 13.6 Management commented that the Command acknowledges its deficiencies in the disposal of unserviceable properties and assured that necessary actions are being undertaken.

## **COMPLIANCE WITH OTHER MANDATORY AREAS**

### *Gender and Development*

- 14. The Philippine Army allocated a budget of ₱11.002 billion for Gender and Development (GAD) representing 11.27 percent of the total agency appropriations of ₱97.625 billion. The agency implemented 62 GAD programs/projects/activities during CY 2021, incurring actual expenditures of ₱13.813 billion or 14.15 percent of the agency's appropriations.**

- 14.1 Section 32 of the General Provisions of Republic Act (RA) No. 11518, also known as the GAA FY 2021, requires that the GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation economic empowerment especially of marginalized women, protection, promotion, and fulfilment of women's human rights, and practice of gender-responsive governance are considered sufficient compliance with said requirement. Utilization of GAD budget shall be

evaluated based on the GAD performance indicators identified by said agencies”.

- 14.2 Paragraph 6.1 of the PCW-NEDA-DBM JC No. 2012-01 also provides that: “at least five per cent of the total agency budget appropriations authorized under the GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency’s maintenance and other operating expenses (MOOE), capital outlay (CO) and personnel services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency’s total budget appropriations.”
- 14.3 The total appropriation of the Philippine Army for CY 2021 was ₱97,625,021,000.00, of which ₱11,002,406,211.20 was allocated to GAD representing 11.27 percent, in compliance with the provisions of the FY 2021 GAA and PCW-NEDA-DBM JC No. 2012-01.
- 14.4 Review of the annual GAD Accomplishment Report (AR) showed that the agency was able to implement 62 GAD activities with actual expenditures totaling ₱13,812,708,423.45 under the following key programs/projects:

<b>Table No. 24 – GAD Programs CY 2021</b>	
<b>GAD Programs/Projects</b>	<b>Actual Expenditures</b>
Conduct of Community Dialogue and Awareness Raising on NAP WPS, CEDAW and MCW together with the CSO	₱4,920,810.69
Conduct signing of formal agreements such as MOU, MOA and MOP with partner agencies to implement and institutionalize NAPWPS	1,275,404.32
Conduct Meetings and Focused Group Discussions (FGDs) with LGUs and LGAs on NAPWPS	5,079,910.75
Conduct of GAD lectures during Youth Leadership Summit (YLS)	45,785,090.40
Provision of psycho-social and legal services to gender-based violence victim survivors during the conduct of lectures on VAWC law under the Community Support Program of PA	4,390,745.07
Conduct various symposium on anti-VAWC laws conducted during Community Support Program (CSP) activities	12,319,591.05
Organization-Focused Activities	2,369,678,857.13
Trauma Risk Management (TRM)	2,591,021.41
Intelligence Capability Development Program	12,627,676.36
CAFGU Auxiliary Active (CAA) Operations Management and Administrative Support Program	4,744,770,562.60
PA Sustainment Program	6,483,993,400.56
Education and Training Program	125,275,353.11



<b>Table No. 24 – GAD Programs CY 2021</b>	
<b>GAD Programs/Projects</b>	<b>Actual Expenditures</b>
<b>Total</b>	<b>₱13,812,708,423.45</b>

- 14.5 We recommended that Management continue to allocate budget for programs/projects/activities related to GAD in accordance with the General Provisions of the GAA.

*Senior Citizens (SCs) and Persons with Disability (PWD)*

15. The Philippine Army is compliant with the provisions of Section 33 of the General Provisions of RA No. 11518, otherwise known as the GAA for FY 2021 and Batas Pambansa (BP) Blg. 344 and R.A. No. 7277, as amended in addressing the concerns and welfare of senior citizens (SCs) and persons with disability (PWDs).

15.1 Section 33 of the General Provisions of RA No. 11518 requires that all agencies of the government shall formulate plans, programs, and projects intended to address concerns of SCs and PWDs, insofar as it relates to their mandated functions, and integrate the same in their regular activities.

15.2 Moreover, all government infrastructures and facilities shall provide architectural or structural features, designs or facilities that will reasonably enhance the mobility, safety and welfare of PWDs pursuant to BP Blg. 344 and RA No. 7277, as amended.

15.3 For CY 2021, the PA, has allocated the total amount of ₱2,011,915.00 for programs related to the concerns of SCs and PWD:

<b>Table No. 25 - Programs for SCs and PWDs</b>		
<b>Unit</b>	<b>Projects</b>	<b>Project Cost</b>
3ID	Repairs and maintenance of handlebar, access road and parking bay for PWD and SCs.	₱279,700.00
	Medical Mission/Outreach Program (haircut, feeding) and Gift Giving to former members of 11IB, SCs and PWDs.	105,800.00
	Realignment to support the Covid 19 logistical requirements.	51,000.00
	Construction/Repair of wheelchair ramps, handrails, and comfort rooms for PWD and Senior Citizen.	320,732.00
	Repairs & Maintenance of Multi-purpose building & construction of railings and ramps	90,000.00
10ID	Repairs & Maintenance of recreation hall, railings at EP Barracks comfort room, construction of	200,400.00

<b>Table No. 25 - Programs for SCs and PWDs</b>		
<b>Unit</b>	<b>Projects</b>	<b>Project Cost</b>
	pathways, rampage, comfort rooms with railings for PWD's and SCs and putting of signboards	
51EBde	Conduct livelihood seminar, PWD Awareness Seminar, feeding program, gift giving to PWDs and SCs.	58,400.00
	Enhancement/repairs & maintenance of CRs, ramps, mess hall, parking bay intended for PWD's and SCs.	497,160.00
52EBde	Repairs/Enhancement of ramps for PWD of Admin building.	79,850.00
54EBde	Conduct Troop Information & Education (TI&E) on rights of PWD and SCs.	14,200.00
55EBde	TI&E/Seminar, Repairs & Maintenance of parking area (Admin Building), Comfort rooms, for PWDs, ramps and installing PWD Marker intended for PWDs	190,673.00
CMOR	Installation of Handrail in Comfort Room for Senior Citizens and PWD's and Urban Gardening	43,000.00
AAR	Repair and Maintenance of Unit Admin for PWD	81,000.00
<b>Total</b>		<b>₱2,011,915.00</b>

***Compliance with Tax, GSIS, PhilHealth and Pag-IBIG Fund Laws***

16. For CY 2021, the balances of unremitted taxes and mandatory deductions as of December 31, 2021 are as follows:

<b>Table No. 26 – Schedule of Balances of Unremitted Taxes and Mandatory Deductions</b>			
<b>Particulars</b>	<b>Balance 12/31/2021</b>	<b>Remittance</b>	<b>Remarks</b>
Due to BIR	₱532,456,041.91	₱409,867,558.48	A total of ₱409,867,558.48 was remitted as of May 10, 2022 leaving a balance of ₱122,588,483.43 which was not remitted as of date.
Due to GSIS	5,148,627.72	3,407,356.97	The balance of ₱1,741,270.75 is still for remittance to GSIS.
Due to PhilHealth	53,236,045.48	53,226,706.61	The balance of ₱1,162,214.64 is still for remittance to Pag-IBIG.
Due to Pag-IBIG	10,671,166.57	9,508,951.93	The balance of ₱9,338.87 is still for remittance to PhilHealth.
<b>Total</b>	<b>₱601,511,881.68</b>	<b>₱476,010,573.99</b>	

### *Remittance of GSIS Contributions*

**17. Government Service Insurance System (GSIS) premium contributions already deducted from the employees/employee's share since CYs 2018 to 2021 totaling ₱5.449 million were not yet remitted to the GSIS as at December 31, 2021, due to unreconciled entries of information with the GSIS records.**

- 17.1 The IRR of RA No. 8291, otherwise known as the Revised Government Service Insurance Act of 1997, requires the government agency to deduct from the fixed monthly compensation of employees and remit to the GSIS their premium contributions; loan amortizations; premium payments for optional, pre-need and other non-life insurance; and other amounts due from the employees within ten days of the calendar month following the month to which the contributions apply or when the deductions were effected.
- 17.2 Verification revealed that the GSIS contributions already deducted from payrolls of employees since CYs 2018 to 2021 totaling ₱5,448,549.06 were not yet remitted to the GSIS by the FCPA as at December 31, 2021.
- 17.3 The delayed/non-remittance of contributions was due to non-acceptance by the GSIS of payments owing to unreconciled entries of information against GSIS records. Remittance of corresponding contributions/loan payments for employees with the same information with the GSIS records were remitted and accepted, while those with unreconciled information were excluded.
- 17.4 Failure to promptly remit premium contributions and loan amortizations to the GSIS within the prescribed period violated the IRR of RA 8921 and the incurrance of penalties for delayed/non-remittance by the FCPA.
- 17.5 **We recommended that Management require the FCPA to immediately make representations with the GSIS in order to resolve, reconcile and settle the unreconciled information and facilitate immediate payment of unremitted amount of contributions.**

### *Non-compliance with the Property Insurance Law*

**18. The Philippine Army failed to fully comply with the Property Insurance Law (PIL) prescribed under RA No. 656, as out of the total PPE account balances amounting to ₱67.249 billion, excluding motor vehicles (MV) acquired in CY 2021, only ₱5.220 billion or 7.76 percent was covered with insurance.**

- 18.1 The Property Insurance Fund, renamed as General Insurance Fund (GIF), was established under Section 2 of RA No. 656 or the PIL promulgated on

June 6, 1951, to indemnify or compensate the government for any damage to, or loss of, its properties due to fire, earthquake, storm, or other casualty. The law also requires government agencies to insure its properties with the GIF administered by the Government Service Insurance System (GSIS).

- 18.2 Records show that PPE balances, excluding MVs acquired in CY 2021, of the HPA totaled ₱67,248,839,084.32 as of December 31, 2021 per FS:

	<b>ASPA</b>	<b>15<sup>th</sup> FAU</b>	<b>Total</b>
Balance as of 12/31/2021	₱5,741,741,859.20	₱63,356,963,728.56	₱69,098,705,587.76
MVs acquired in CY 2021	1,790,099,803.44	59,766,700.00	1,849,866,503.44
<b>Balance, net</b>	<b>₱3,951,642,055.76</b>	<b>₱63,297,197,028.56</b>	<b>₱67,248,839,084.32</b>

- 18.3 The PA paid insurance premiums to GSIS totaling ₱17,018,691.13 for the total insurable amount of PPE of ₱5,220,288,075.07, details as follows:

<b>Office</b>	<b>Insurance Expenses</b>	<b>PPE Account Acquisition Cost</b>		<b>Total PPE Insured</b>
		<b>Motor Vehicle</b>	<b>Buildings</b>	
ASPA	₱410,422.75 254,883.78 <sup>a</sup> 7,323,186.30 4,758,963.87 <sup>b</sup>	₱95,775,157.84 --	5,124,512,917.23 --	
<b>Subtotal</b>	<b>12,747,456.70</b>	<b>95,775,157.84</b>	<b>5,124,512,917.23</b>	<b>5,220,288,075.07</b>
15 <sup>th</sup> FAU	4,271,234.43	--	--	--
<b>Total</b>	<b>₱17,018,691.13</b>			<b>₱5,220,288,075.07</b>
<b>PPE balance excluding MVs acquired in CY 2021</b>				<b>₱67,248,839,084.32</b>
<b>Insured PPE Percentage to PPE balance</b>				<b>7.76%</b>

<sup>a</sup> Premiums paid for motor vehicles insured which were not recorded in the books of accounts

<sup>b</sup> Premiums paid for buildings in the field units and recorded in the respective FAUs

- 18.4 Since newly acquired vehicles are covered with free insurance, the balance of MVs purchased and recorded in CY 2021 totaling ₱1,849,866,503.44 was excluded in the total PPE to arrive at the balance of ₱67,248,839,084.32 used for the comparison against the amount of PPE insured. As shown above, the insured PPE of ₱5.220 billion represents only 7.76 percent of the PPE balance as of December 31, 2021 amounting to ₱69.099 billion.
- 18.5 It was also noted that insurance expenses amounting to ₱254,883.78 pertain to 32 unrecorded MVs while ₱4.759 million pertain to buildings which were recorded in the FAUs.
- 18.6 Moreover, the corresponding amounts of PPE covered by the insurance expenses of ₱4.271 million recorded in the 15<sup>th</sup> FAU could not be determined due to the absence of data from the accounting unit.

- 18.7 We recommended and Management agreed to direct the Office of the Assistant Chief of Staff, Logistics, G4 and other concerned officials to ensure that all insurable assets of the Philippine Army are adequately insured with the GIF of GSIS in compliance with the Property Insurance Law.

*Enforcement of Settlement of Audit Suspensions, Disallowances and Charges*

19. Audit disallowances totaling ₱112.391 million remained unsettled as at year-end due to failure of Management to strictly enforce settlement thereof, which is not consistent with Sections 7.1.1 and 10.4 of COA Circular No. 2009-006 dated September 15, 2009.

19.1 Section 7.1.1 of COA Circular No. 2009-06 dated September 15, 2009 provides among others that *the head of the agency, who is primary responsible for all government funds and property pertaining to his agency, shall ensure that, (a) xxx; (b) the settlement of disallowances and charges is made within the prescribed period; (c) the requirements of transactions suspended in audit are complied with; xxx.*

19.2 Section 10.4 of the same circular also provides that *the disallowance shall be settled within six months from receipt of the ND by the persons liable.*

19.3 The disallowances as of December 31, 2021 are as follows:

<b>Table No. 29 - Status of Notice of Disallowance (ND)</b>				
<b>Particulars</b>	<b>Beginning Balance, 01/01/21</b>	<b>January 1 to December 31, 2021</b>		<b>Ending Balance, 12/31/21</b>
		<b>NS/ND/NC</b>	<b>NSSDC<sup>1</sup></b>	
ND	₱112,785,766.39	0.00	₱394,961.79	₱112,390,804.60
<b>Total</b>	<b>₱112,785,766.39</b>	<b>0.00</b>	<b>₱394,961.79</b>	<b>₱112,390,804.60</b>

19.4 Details of disallowances per unit/office are as follows:

<b>Table No. 30 – Details of Notice of Disallowances</b>				
<b>Office/Unit</b>	<b>Prior Years</b>	<b>Issued during the year</b>	<b>Settlement/ Adjustment</b>	<b>Balance, 12/31/21</b>
HPA	₱26,934,236.10	--	--	₱26,934,236.10
10ID	40,342,028.51	--	--	40,342,028.51
51EB	394,961.79	--	₱394,961.79	0.00
52EB	45,114,539.99	--	--	45,114,539.99
<b>Total</b>	<b>₱112,785,766.39</b>	<b>0.00</b>	<b>₱394,961.79</b>	<b>₱112,390,804.60</b>

<sup>1</sup> Notice of Settlement of Suspensions, Disallowances and Charges

19.5 ND/NC/NS issued prior to the effectivity of the 2009 RRSA are not included in the reflected balance but are deemed disallowances/charges which shall continue to be enforced in accordance with the Rules as provided under Section 28 thereof.

19.6 **We recommended that Management strictly enforce prompt settlement of suspensions and disallowances.**

***Covid-19 Funds***

**20. The agency disbursed a total of ₱266.691 million for the procurement of supplies intended for the prevention/mitigation of Covid-19 virus.**

20.1 On June 1, 2021, President Rodrigo Duterte issued AO No. 43 authorizing the grant of hazard pay to government personnel who physically report for work during the period of implementation of an Enhanced Community Quarantine (ECQ) and Modified ECQ, amending AO No. 26 (S.2020).

20.2 For CY 2021, the Philippine Army has received an appropriation of ₱309,368,353.60 for the procurement of supplies necessary for the prevention/mitigation of Covid-19. Details are as follows:

<b>Table No. 31 – Schedule of Appropriations, Obligations, Disbursements and Balances of Covid-19 Funds</b>					
<b>Reference</b>	<b>Purpose</b>	<b>Appropriations/ Allotments (a)</b>	<b>Obligations (b)</b>	<b>Disbursements</b>	<b>Balance (a - b)</b>
SARO- BMB-D-20- 0008075 (Continuing)	PPEs, Antigen Test kits, and COVID	₱3,432,054.00	₱3,432,054.00	--	--
RA11518 (2021 GAA)	Related Requirements	305,936,299.60	303,413,058.72	266,690,524.54	2,523,240.88
<b>Total</b>		<b>₱309,368,353.60</b>	<b>₱306,845,112.72</b>	<b>₱266,690,524.54</b>	<b>₱2,523,240.88</b>

20.3 **We commended Management for taking measures to mitigate/prevent the effects of the Covid-19 virus.**

***Marawi Funds***

**21. The Headquarters Philippine Army (HPA) received donations in CYs 2017 to 2019 for Marawi Funds totaling ₱237.233 million. Out of which, ₱232.146 million were utilized and ₱5.087 million were returned to the donors/source agencies.**

21.1 The HPA received Marawi Funds totaling ₱237,233,155.32 from the Armed Forces of the Philippines (AFP)-General Headquarters (GHQ) and other private donors on various dates from CYs 2017 to 2019.

21.2 The status of the fund as of December 31, 2021 is as follows:

<b>Table No. 32 – Schedule of Utilization of Marawi Funds</b>				
<b>Year</b>	<b>Funds Received</b>	<b>Utilized</b>	<b>Returned</b>	<b>Balance</b>
2017	₱146,082,000.00	₱144,815,600.00	₱1,266,400.00	--
2018	88,945,155.32	85,198,088.50	3,747,066.82	--
2019	2,206,000.00	2,132,000.00	74,000.00	--
<b>Total</b>	<b>₱237,233,155.32</b>	<b>₱232,145,688.50</b>	<b>₱5,087,466.82</b>	<b>--</b>

21.3 Of the total amount received by the HPA amounting to ₱237,233,155.32, ₱232,145,688.50 were disbursed for financial assistance to beneficiaries affected by the Marawi Crisis and as support the foreign travel of officers and personnel for the Observation Tour on Safety and Security.