

EXECUTIVE SUMMARY

INTRODUCTION

By virtue of Executive Order No. 25 issued on April 25, 1936, the Budget Commission was established under the direction and control of the Office of the President. Pursuant to the Revised Administrative Code of 1987, it was converted into the Department of Budget and Management (DBM).

The DBM is tasked with the formulation and implementation of the National Budget with the goal of attaining the country's national socio-economic plans and objectives. It is also responsible for the efficient and sound utilization of government funds and revenues to effectively achieve our country's development objectives. Its mission is to assist the President in the preparation and management of a national resource and expenditure budget; and to take the lead in promoting quality spending and pursuing fiscal and management reforms in the operation of the bureaucracy.

FINANCIAL HIGHLIGHTS

The comparative financial highlights for Fund 101 for CYs 2005 and 2004 are as follows:

	2004	2005	Increase(Decrease)
Allotment Received	P416,373,409	P481,975,489	P 65,602,080
Continuing Appropriations	97,725,094	24,895,135	(72,829,959)
Obligations Incurred	486,498,971	436,830,353	(49,668,618)
Unexpended Balance	27,599,532	70,040,270	42,440,738

SCOPE OF AUDIT

The audit was made on the accounts and operations of the Department of Budget and Management for the calendar year 2005. The audit was aimed to ascertain the propriety of the financial transactions and to determine the fairness of the presentation of the agency's financial statements.

AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of DMB due to the immediately following audit observations, which affected the fair presentation of financial statements.

OBSERVATIONS AND RECOMMENDATIONS

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

1. In the Main Office and Cordillera Administration Region, cash advances granted to officers and employees totaling ₱155,478 and ₱59,943, respectively, remained unliquidated as of December 31, 2005 contrary to Section 89 of PD 14455 and COA Circular No. 97-002.

We recommend that a) the Main Office Management send a letter to the former DBM Secretary demanding the immediate refund of her remaining cash advances pursuant to Section 89 of PD 144 and COA Circular No. 97-002 dated February 10, 1997; and b) the CAR Management require the immediate liquidation of the said cash advances, and henceforth, procurements of equipment should be made in accordance with the provisions of the Procurement Reform Act (RA 9184).

Main Office Management commented that they are aware of the pertinent provisions of PD 1445, however, due to the exigency of the attendance of the former Secretary to the 11th APEC Finance Ministers Meeting in Chile, they have to process another cash advance in her favor and that they have been reminding the staff of former Secretary Boncodin for the immediate settlement of these balances.

2. In Region IV-A, the year-end balance of the *Receivables – Disallowances/Charges* account of ₱66,617.25 does not tally with the schedule of ₱67,247.04, and that ₱58,647.22 of which are receivable from 14 former employees.

We recommend that the Regional Director enforce collection of the receivables – disallowances and charges, and those found to be uncollectible should be requested for write-off in accordance with COA Circular No. 97-01 dated 05 February 1997. We also recommend that the management cause the reconciliation of the balance of the *Receivables - Disallowances/Charges* per books and that of the schedule to present the accurate balance of the account.

3. In Region IV-B, the Accountant failed to record the issuance of *Office Supplies* and *Other Office Supplies* due to the failure of the Supply Officer totaling P42,662.30 and ₱10,200.00, respectively, to submit Reports of Supplies and Materials Issued (RSMI), thus, overstating the *Office Supplies Inventory* and *Other Supplies Inventory* by P42,662.30 and ₱10,200.00, respectively, while understating the appropriate inventory expense accounts by the same amount.

We recommend that the Regional Director require:

- a) The Supply officer to prepare and submit to the Accountant the RSMI as basis for recording the issuance made, and the Accountant to record the issuance by drawing a Journal Entry Voucher (JEV) debiting *Prior Years' Adjustments* and crediting the appropriate Inventory accounts for the amount of the RSMI;
 - b) The Supply Officer and the Accountant reconcile their respective records with the reports on physical count of inventories.
4. In Main Office, equipment totaling ₱31,073,949, which were destroyed by fire, were still included in the books of accounts, thus. Overstating the appropriate equipment account while understating the *Loss of Assets* account

We recommend that Management require

- a) The Supply officer to submit the report of lost of equipment to the Accountant, who shall record the dropping thereof from the books of accounts by drawing a JEV debiting *Prior years' Adjustments* and crediting the appropriate equipment accounts;
- b) The concerned Property Officer concerned to request for relief from property accountability from COA pursuant to COA Memorandum No. 92-751 dated February 24, 1992.

Management commented that they sought comprehensive insurance only for the agency's motor vehicles since these are moving and considered as relatively high risk, and take exception in the case of buildings and their contents, including equipment and supplies, as a matter of policy and budget prioritization all these years; that they do not have appropriations for premium payments for buildings and contents; and that they recognized that insurance proceeds might not really be enough to fully restore/rehabilitate lost or damaged properties, thus, they deemed that replacement might just as well be funded from regular appropriations.

Although recoverable amount from insurance proceeds may not fully restore or rehabilitate lost or damaged properties, it would still be beneficial to the government. It should bear in mind and that all transactions entered into by the management should not be at the detriment of the government.

5. In Region II, the land, where the building of DBM Regional Office was constructed, was not recorded in the books, thus, resulting in the understatement of both the *Land* and the *Government Equity* accounts.

We recommended that the Regional Director coordinate with the Regional Development Council (RDC) officials who are in-charge of the development of the

regional center in Cagayan Valley to determine the proper/correct valuation or assessed value of the said lot as basis for recording in the books of account.

Management assured that necessary actions would be taken to address the proper valuation of said land, which will be immediately booked-up upon securing the value/cost of the lot from the RDC or from the Assessor's Office.

6. In Region III, no physical count was conducted on Property, Plant and Equipment with total book value of ₱1,834,441, thus, casting doubts on its reliability.

We recommend that the Regional Director include in their Work or Action Plan for CY 2006 the conduct of physical count of PPE pursuant to the NGAS.

Management commented that due to some intervening activities conducted by the Regional Office during the year, the Inventory Committee were not able to conduct physical count of agency properties. On February 28, 2006 the Regional Director instructed the Chairman of the Committee to convene and act on the recommendations as soon as possible.

7. Unserviceable properties of four offices totaling P3,729,417 were not yet reclassified as *Other Assets*, thus, affecting the fair presentation of the PPE accounts.

- a) Main Office – ₱2,324,975

We recommend that Management:

- a) Proceed with its disposal through transfer without cost to other government agency using the prescribed Invoice-Receipt of Property (IRP) pursuant to Sections 76 and 77 of PD 1445 and the Manual on the Disposal of Government Property (DBM National Budget Circular No. 425 dated January 29, 1992), which will be the basis of the Accountant to record the transfer; or
- b) Require the Property Officer to submit to the Accountant the corresponding Inventory and Inspection Report on Unserviceable Property (IIRUP) as basis to effect the reclassification by drawing a JEV debiting *Other Assets* account and crediting *Motor Vehicles* account.

- b) Region I – ₱682,882

We recommend that the Regional Director require the Property Officer to submit to the Accountant the corresponding Inventory and Inspection Report on Unserviceable Property (IIRUP) as basis to effect the reclassification by drawing a JEV debiting *Other Assets* account and crediting the affected PPE accounts.

Management commented that disposal of said unserviceable properties will be made during the first quarter of CY 2006.

c) Region III – ₱41,377

We reiterate our recommendation that the Regional Director consider the immediate disposal of all unserviceable and obsolete properties as one of the priority activities, pursuant to DBM NBC 425, and other existing laws, rules and regulations, and to avoid further their deterioration.

Management commented that the activity had not been done due to some intervening activities conducted by the Regional Office during the year. The Regional Director instructed the Chairmen of the two committees to convene and act on the recommendations as soon as possible.

d) Region IX – ₱771,934

We recommend that the Regional Director pursue its effort of disposing the unserviceable property pursuant to DMB NBC 425, including the accomplishment of the prescribed IIRUP.

Management noted this observation and agreed to dispose these properties. Last January 2006, office chairs valued at ₱11,040.00 were turned over without cost to the PNP-RMG, while TESDA IX expressed their desire to receive the PCs and printers for their vocational technical courses.

8. In Region V, Subsidiary Ledgers (SL) for Cash, Property, Plant and Equipment and Inventories were not maintained, thus, casting doubts on the reliability of the records and reports.

We recommend that the Regional Director require the Accountant to regularly maintain Subsidiary Ledgers pursuant to Sec.12 of the NGAS Manual, and that the Accountant and the Property Officer to regularly reconcile their records.

Management noted this observation and agreed to implement the recommendation effective January 2006.

9. In Region IV-B, the balances of the PPE per books and per count of ₱2,311,738.95 and ₱2,326,062.35, respectively, as of year-end do not reconcile by ₱14,323.40, due to the absence of regular reconciliation, and the failure to update the PPE Ledger Cards and Property Cards, thus, casting doubts on their accuracy.

We recommend that the Regional Director require the Accountant and the Property Officer to reconcile their records with the physical count, and to regularly update their respective records such as the PPELC and the PC.

10. In Region V, the eight (8) telephone lines maintained by the Regional Office appear to be excessive, thus, contrary to EO 103.

We recommend that the Regional Director limit their telephone lines to a moderate number, say five (5) lines only. This could generate savings, which could be utilized to other operating expenses.

Management promised to comply with the recommendations made and would limit their telephone lines to 5.

IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of nine (9) audit recommendations embodied in the CY 2004 Annual Audit Report, six (6) were fully implemented, two (2) were partially implemented, and 1 was elevated to LAO awaiting decision.