

EXECUTIVE SUMMARY

Financial Highlights

The following comparative data show the financial condition and results of operations for CY 2005 of the Department of Transportation and Communications (DOTC) composed of the DOTC - Office of the Secretary, DOTC – Cordillera Administrative Region (CAR), DOTC-CARAGA Administrative Region, Land Transportation Office (LTO), Land Transportation Franchise and Regulatory Board (LTFRB), Air Transportation Office (ATO) and Philippine Coast Guard (PCG):

	2005 <i>(in thousands)</i>		2004 <i>(in thousands)</i>
<u>Financial Condition</u>			
<i>Total Assets</i>	₱ 75,393,821	₱	75,628,301
<i>Total Liabilities</i>	10,968,829		11,621,409
<i>Government Equity</i>	64,424,992		64,006,892
<u>Results of Operation</u>			
<i>Income</i>	₱ 7,956,460	₱	17,517,076
<i>Expenses</i>	5,872,237		7,175,172
<i>Excess of Income Over Expenses</i>	2,084,223		10,341,904

The allotments received by the Department during the year as authorized under Republic Act No. 9336, otherwise known as the General Appropriations Act of 2003, as reenacted in 2004 and 2005, as well as the obligations incurred and balances with comparative figures for 2004 are shown below:

	2005 <i>(in thousands)</i>		2004 <i>(in thousands)</i>
<u>Sources and Application of Funds</u>			
<i>Allotments Received</i>			
<i>Current Year Appropriation</i>	₱ 13,363,877	₱	10,901,934
<i>Continuing Appropriation</i>	<u>536,859</u>		<u>2,178,980</u>
<i>Total</i>	<u>13,900,736</u>		<u>13,080,914</u>
<i>Obligations Incurred</i>	(12,095,354)		(12,379,932)
<i>Sub-allotted to Other Agencies</i>	<u>(33,619)</u>		<u>(308,525)</u>
<i>Unobligated Balance</i>	₱ <u>1,771,663</u>	₱	<u>392,457</u>

The total income generated by the Department during the year, as recorded under the National Government Books, amounted to ₱ 12.936 billion. Compared to CY 2004 income of ₱ 13.354 billion, CY 2005 income is lower by ₱418 million or 3.13% due to the transfer of TELOF to CICT under the Office of the President.

Scope of Audit

The audit covered the financial transactions and operations of the Department of Transportation and Communications and all attached agencies for the period January 1 to December 31, 2005. It was conducted to (a) verify the level of assurance that may be placed on Management's assertions on the financial statements; (b) determine the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior year's audit recommendations.

Auditor's Report

The Auditor rendered an adverse opinion on the fairness of presentation of the consolidated financial statements of the Department of Transportation and Communications and attached agencies as of December 31, 2005.

Observations and Recommendations

The following are the significant audit observations and the corresponding recommendations:

1. Collections amounting to ₱ 97.84 million were not deposited intact and promptly to the Bureau of the Treasury, in violation of Section 21 of the NGAS Manual and the DBM-DOF Joint Circular No. 1-81, thereby exposing funds to possible theft and misuse.

We recommended that the Chiefs of Agencies concerned instruct their collecting officers to deposit their collections promptly and regularly especially during Fridays or days prior to long holidays to mitigate the risk of loss, theft and misuse of government funds.

2. Various dormant/unremitted collections totaling ₱15.04 million have not been reclassified to the accounts Other Receivables and Due from Officers and Employees and properly disclosed as to their status in the Notes to Financial Statements, contrary to Sections 28 and 38 of Volume III and Section 80 of Volume I of the NGAS Manual and COA Circular No. 97-001, thus negating the disclosure assertion of management.

We recommended that Management direct the Chief Accountant of the concerned agencies to reclassify the long dormant/unremitted collections to accounts Due from Officers and Employees and/or Other Receivables whichever is applicable, in compliance with the NGAS Manual and COA Circular No. 97-001.

3. Cash advances totaling ₱71.23 million remained unsettled as of year-end due to the agency's failure to exercise appropriate measures against erring officials and employees who failed to submit their liquidation documents within the period prescribed in COA Circular No. 97-002 dated February 10, 1997 and stop the practice of granting additional cash advances to those with long outstanding cash advances which is prohibited in Section 89 of P.D. 1445 resulting in the overstatement of the total assets account and understatement of expenses in previous years.

We recommended that the concerned heads of agencies require the liquidation of all unsettled cash advances pursuant to COA Circular No. 97-002 and instruct the Accountant to closely monitor cash advances and refrain from granting additional cash advances to those with unsettled accounts pursuant to Section 89 of PD 1445. Stop the practice of granting multiple cash advances to Special Disbursing Officers to prevent violation of the allowable limit of the approved Fidelity Bond and circumvention of Section 4.1.2 of COA Circular No. 97-002.

4. Cash transferred to Communication Project Management Office (CPMO) and the Project Management Office-Philippine Coast Guard (PMO-PCG), as shown in the bank accounts, does not reconcile with the balances per books of the DOTC-OSEC with a noted difference of ₱22.08 million, thus the account Cash-Disbursing Officers is overstated and the corresponding asset and expense accounts are understated.

We recommended that the Chief, Accounting Unit cause the reconciliation of the balances of Cash-Disbursing Officers account (CPMO and PMO-PCG) as recorded in the books of accounts of the DOTC-OSEC and the respective balances in the bank accounts maintained by these PMOs and demand from the concerned PMOs the submission of the liquidation reports and/or refund of the fund balances that have remained outstanding for more than one (1) year.

5. The non-compliance by ATO - Area Centers I, IV, VII, VIII and IX with DBM NBC 488 dated 22 May 2003 and EO 338 dated 17 May 1996 that require agencies with cash balances to remit to the Bureau of the Treasury (BTr) denied the national government of the use of funds amounting to ₱37.17 million for its various projects and activities and resulted in idle and unused funds.

We recommended that the Chief, Finance and Management Division (FMD) of the ATO-Head Office direct the heads of the accounting units of ATO - Area Centers I, IV, VII, VIII and IX to remit to the BTr the cash balances amounting to ₱ 37.17 million as of 31 December 2005 under their CIB-LCCA accounts in compliance with DBM NBC No. 488 and EO No. 338. Henceforth, monitor the remittance of cash balances to the BTr at the end of the year to guarantee compliance with DBM NBC No. 488 and EO No. 338.

6. There is an unreconciled difference of ₱35.60 million between the SL and GL balances of the Head Office and an understatement of ₱2.62 million of the CIB-LCCA account of the ATO - Area Center VIII due to improper maintenance and non-maintenance of the SLs by the ATO - Head Office and ATO - Area Center VIII, respectively, thus the total reported balance of the CIB-LCCA account of ATO is not reliable.

We recommended that the Accounting Units of the ATO-HO and the ATO - Area Center VIII appropriately prepare the SL and use the source documents in posting financial transactions to ensure the accuracy and completeness of the reported balance of the CIB-LCCA account in the financial statements as well as the availability of information of the cash balances of projects/fund transfers for decision-making purposes.

7. Cash balance of the CIB-LCCA account of the ATO-Head Office amounting to ₱242.57 million representing fund transfers from the DOTC for infrastructure projects remained idle and unused owing to the low rate of fund utilization resulting in the delay in the productive use of the funds, depriving the intended beneficiaries of the benefits of the projects.

We recommended that the Management of the ATO-HO provide due dates for the submission by the project implementers of the project status/accomplishment reports and by the Accounting Unit of the status of cash balances by project. We also recommended that the Management of the ATO-HO determine the causes for the non/delayed completion of the projects funded out from the transferred funds. If warranted, hold officials responsible and accountable for the unnecessary delay/non-completion of the projects.

8. Absence of specific procedures that could have facilitated the immediate recording of collections received by LTO from applicants for vanity license plates whose payments were made through the bank has resulted in the monthly understatement of the accounts Cash in Bank - Local Currency, Current Account and Guaranty Deposits Payable of ₱19,000.00 to ₱158,000.00 from September 2004 to December 2005 which, if not immediately addressed, becomes a perennial problem.

We recommended that Management require the VLP Finance Committee to submit to the Accounting Office the faxed copies of the deposit slips as soon as the amounts have been confirmed by the bank and require the Chief Accountant to cause the recording of the same by drawing the appropriate Journal Entry Voucher for recording of payments in the agency's General Journal for revolving fund; and the Chief Accountant to perform regular reconciliation of book and bank balances to ensure timely recording of collections done through the bank to prevent understatement of the Cash in Bank – LCCA, Guaranty Deposits Payable and Sales Revenue accounts, whatever is appropriate.

9. The Collection Unit of the ATO - Head Office failed to facilitate the issuance by the Land Bank of the Philippines, its Authorized Government Depository Bank (AGDB) of the Credit Notices needed to withdraw, for peso conversion, from the ATO's Dollar Savings Account, the account which holds collections from foreign airline companies amounting to \$2.61 million, hence the amount remained unremitted and idle, depriving the government of the use of this fund for its various projects.

The Audit Team recommended that the concerned Accountant immediately draw a Journal Entry Voucher (JEV) to record the dollar deposits made by foreign airline companies in the dollar savings account as well as the amounts subsequently remitted to the BTr using the prescribed accounting entries; to make representation with the LBP to facilitate issuance of Credit Notices and identification of paying airlines. Update the Accounts Receivable balance in the GL and SL using as reference the telegraphic transfers credited in the dollar savings account passbook; and to revisit the Memorandum of Agreement (MOA) with LBP with the end-view of incorporating provisions on how to protect the interest of the government from unfavorable situations such as delay in the remittance of collections and reflecting inaccurate account balances of the agency's clients and to address the problem on the continuous accumulation of unremitted collections and unrecorded payments.

10. The implementation of the ATO of a deficient billing and collection system resulted in the accumulation of a huge amount of overdue Accounts Receivable amounting to ₱3.82 billion, ₱2.57 billion or 67% of which pertains to the overdue accounts of the PAL ATO-wide, unremitted terminal fees amounting to ₱91.24 million that are only held in trust by airline companies in ATO - Area Centers VII, VIII and IX and unbilled income from concessionaire/rental fees amounting to ₱2.64 million in ATO - Area Centers I and VIII, depriving the government of the use of much needed financial resources to fund its projects.

We recommended that ATO Management intensify collection of Accounts Receivable by formulating a strategy that will inform the concerned parties, e.g., through Statements of Account of their overdue accounts, and for the unremitted terminal fees, unbilled income from concessionaires/rental fees, etc. and initiation of institution of legal action against delinquent debtors.

11. Accounts Receivable relating to communications in the amount of ₱42.59 million was not transferred to the Commission on Information and Communications Technology (CICT), contrary to Section 3 of Executive Order No. 269 resulting in the overstatement of the recorded receivables.

We recommended that the Chief, Accounting Division effect the transfer of Accounts Receivable from Digital Telecom Philippines Incorporated and Philippine Long Distance Telephone Company to the Commission on Information

and Communications Technology (CICT) to achieve proper valuation and fair presentation of the Accounts Receivable in the financial statements of DOTC and CICT.

12. Long overdue and unreconciled account balances composing the Due from National Government Agencies (NGAs) accounts of DOTC - OSEC amounting to ₱462.88 million and ₱204.45 million, respectively, misstated the account balance of ₱482.89 million as of December 31, 2005.

We recommended that the Chief, Accounting Division intensify efforts in causing the liquidation of the long outstanding amounts due from national government agencies and strictly adhere to COA Circular No. 94-013 dated December 13, 1994 in the granting, utilization and liquidation of funds transferred to implementing agencies.

13. Dormant funds totaling ₱3.58 million remained in the books of accounts of the DOTC – Cordillera Administrative Region (CAR) for more than five (5) years because the procedures outlined in COA Circular No. 97-001 dated February 5, 1997 were not adopted, hence accuracy of the affected accounts could not be ascertained.

We recommended that Management analyze, review, validate and reconcile the dormant accounts amounting to ₱3.58 million. A concrete action should be undertaken on the affected accounts. After review and validation, the procedures prescribed in Nos. III.A.3 and III.A.9 to 10 of COA Circular No. 97-001 dated February 5, 1997 should be followed for the write-off of the amount.

14. Deficiencies in the implementation by ATO – Area Centers of transferring funds to the satellite airports resulted in huge unliquidated fund transfers, unmonitored bank balances and several accounting errors.

- 14.1 The late/non-submission of liquidation reports of the satellite airports of ATO - Area Centers II and III resulted in the huge amount of unliquidated fund transfer amounting to ₱84.22 million and ₱29.13 million, respectively, and non-recognition of expenses in the year of incurrence. Total unliquidated fund transfers registered at ₱136.50 million.

We recommended that the Finance and Management Division of the ATO-HO spearhead the setting up of control mechanism for dissemination to the Area Centers to ensure the immediate submission of liquidation reports on fund transfers to prevent accumulation of unliquidated fund transfers and allow the appropriate recognition of expenses during the year the expenses were incurred.

- 14.2 The use of the “Due from Operating Units” account by the ATO - Area Centers in recording fund transfers is not proper because the satellite airports and airport facilities have no books of accounts.

We recommended that the Accounting Units of the ATO - Area Centers refrain from using the “Due from Operating Units” account in transferring funds to the satellite airports and reclassify the balance of this account to Cash in Bank- Local Currency, Current Account.

- 14.3 The Accounting Unit of the ATO - Area Center III does not maintain Subsidiary Ledgers (SLs) for the fund transfers to the satellite airports/facilities to provide the details of the reported balance of the “Due from Operating Units” account in the financial statements amounting to ₱29.14 million.

We recommended that the Accounting Unit immediately set up the Subsidiary Ledgers by satellite airport/facility to provide the details of the controlling account in the General Ledger as well as to supply the information on the amount of the unliquidated cash advances pertaining to each satellite airport/facility out of the reported balance of the “Due from Operating Units” account.

- 14.4 The Accounting Unit of ATO-Area Center III does not prepare Bank Reconciliation Statements (BRSs) for the different bank accounts maintained for the satellite airports/facilities, in violation of Section 74 of PD 1445 thus the difficulty in monitoring bank balances for decision-making purposes.

We recommended that the Accounting Unit of the ATO-Area Center III request the LBP for copies of the Bank Statements (BSs) and for them to be furnished monthly with the BSs and prepare the Bank Reconciliation Statements (BRS) in compliance with Section 74 of PD 1445 and to monitor bank balances for decision-making purpose.

- 14.5 The Satellite Airports did not comply with the preparation of the prescribed simplified accounting forms required under COA Circular Nos. 2003-006 dated 2 December 2003 and 2004-003 dated June 24, 2004 for use by government units without complete set of books and the liquidation reports submitted by them were not duly supported with appropriate documents evidencing disbursements.

We recommended that the FMD spearhead the adoption of the prescribed simplified accounting forms, such as the Petty Cash Register, the Cash in

Bank Register and the Cash Disbursements Register, which are required to be submitted monthly, for the financial transactions of satellite airports in accordance with COA Circular No. 2003-006 dated December 2, 2003 and COA Circular No. 2004 – 003 dated June 24, 2004.

- 14.6 Cash advances for maintenance and other operating expenses of ₱45.39 million and for traveling expenses of ₱18.36 million or a total amount of ₱63.75 million at the ATO – Head Office and ATO - Area Centers remained unliquidated as of year-end due to breakdown of accounting controls and non-compliance with the provisions of COA Circular No. 97-002.

We recommended that the Accounting Unit of the ATO-Head Office implement strictly the specific provisions of COA Circular No. 97-002 on the granting, utilization and liquidation of cash advances to prevent accumulation thereof. Likewise, Management should issue demand letters to Special Disbursing Officers (SDOs) with long unliquidated cash advances and in the event of failure to comply with such demand, withhold the salaries and other amounts due the accountable officers concerned;

15. The PCG's procurement of office supplies and other supplies in the total amount of ₱61.47 million was not properly planned and ₱22.49 million cash advances granted to various Disbursing Officers were expended for supplies and other supplies, in violation of Republic Act (R.A.) No. 9184 and Section 16 of the General Provisions of the General Appropriations Act of 2005.

We recommended that Management improve the system of procurement and strictly adhere to the provisions of R.A. 9184. The Command should prepare the Annual Procurement Plan (APP) as the basis of all government procurement, as prescribed under Rule II, Section 7.1 of R.A. 9184 and its Implementing Rules and Regulations. In order to avail of discounts, purchases must be made in bulk. Commonly-used supplies must be purchased from the Procurement Service of the Department of Budget and Management. Observe Section 16 of the General Provisions of the GAA, FY 2005.

16. Of the total returned LTO accountable forms of 2,001,135 pieces, 69% or 1,373,447 pieces costing ₱ 2.10 million remained undisposed as of December 31, 2005, in violation of Section 99, Volume I of GAAM, thus exposing them to risk of fraudulent use. On the other hand, 77,670 pieces of returned defective/questionable forms with a total cost of ₱2.96 million were not restored to the inventory account thereby understating the Accountable Forms Inventory account and Government Equity account.

We recommended that Management direct the Property Officer to implement the procedures of the GAAM on the disposal of obsolete and defective accountable forms such as the preparation of the required inventory report and presenting the forms to the Audit Team for inspection to facilitate the disposal of obsolete accountable forms and preclude its use by unscrupulous individuals and to require the Chief Accountant to restore the cost of returned accountable forms to the Accountable Forms Inventory account and adjust prior year's expenses using the Prior Year's Adjustments account.

17. There were 1,509 Motor Vehicle Plates which were unaccounted in LTO - Baguio District Office as of December 31, 2005.

We recommended that Management require the Supply Officer at the LTO - Baguio District Office to account for the missing plates and give justification why it occurred. Further, Management should install an effective internal control system to prevent similar loss of plates and other accountable forms in the future. This has to be strictly adhered to by concerned personnel and sanctions should be imposed for non-compliance therewith.

18. Management did not (a) record to the inventory account the cost of inventory items that remained on hand as of year-end; (b) record the cost of inventory items already issued to clients; (c) use the Moving Average Method in costing ending inventories; (d) conduct physical count of inventory items; and (e) prepare/update Stock Ledger Card as required by GAAP and the related NGAS policies, hence the total inventory balances of ₱ 221.83 million and ₱ 6.69 million of LTO and LTFRB, respectively, could not be ascertained.

We recommended that the Property Units of Regions III-A, IV- A and B, V and VII be directed to submit copies of the year-end RAAF to the Accounting Units to facilitate the preparation of adjusting journal entries restoring the cost of unissued inventory items to the inventories account, thus correcting the understatement of the inventories and expense accounts. The Accounting Units should be advised to stop the practice of treating the inventory items transferred from the regional Property unit to the District/ extension offices as outright expenses.

19. Unissued plates and stickers at the LTO District Offices with a total value of ₱866,327.96 were recorded as expenses, thus understating Other Supplies Inventory account and overstating Other Supplies Expenses account.

We recommended that District Offices request the Region's Supply or Property Section to include inventory balances of district offices in the preparation of the Region's Inventory Reports which in turn should be reconciled periodically with the records of the Accounting Section for accurate presentation of balances in the financial reports. Expenses should only be recognized when plates and stickers are issued to end-users and not at the time when they are issued to the District

Offices for stock purposes. Further, the Accountant should record the value of supplies still on stock in the amount of ₱866,327.96 to correct the balances of Other Supplies Inventory and Other Supplies Expense.

20. The Department failed to conduct the annual physical inventory of all agency assets to establish the existence of the reported assets and to reconcile the difference between the Subsidiary Ledgers (SLs) and General Ledger (GL) balances of ₱ 22.10 million, hence the existence of the reported assets amounting to ₱52.12 billion as of December 31, 2005 was not established.

We recommended that the Secretary create an Inventory Committee to undertake the general physical inventory of all equipment of this Department in accordance with Section 490, Sub-section “a” of the GAAM, Volume I, and reconcile the result of the inventory-taking with the Property Cards and the PPELC of the Accounting Unit as required under Section 43 of the NGAS Manual. Likewise, the PUDD should maintain and update the prescribed Property Cards for each item of the property, plant and equipment, as required under the aforementioned regulation.

21. Valuation, ownership, existence and completeness assertions of ATO with respect to total reported Property, Plant and Equipment balance of ₱5.53 billion is not reliable due to the absence of proof of ownership of Land with a land area of 8,086,468 sq. m. in Area Centers III and VIII, Office Buildings with a floor area of 7,283.40 sq. m. in Area Center VII, unrecorded Land Improvements in ATO - Area Centers III and VIII amounting to ₱314.04 million, and unrecorded Office Buildings in ATO - Area Center VIII amounting to more than ₱1.62 billion and other accounting lapses and omissions.

We recommended that the Accounting and the Property Units of the ATO - Head Office and ATO - Area Centers I, III and V maintain Property, Plant and Equipment Ledger Cards/Property Cards to ensure that recorded PPE are complete, accurate and properly valued; to establish appropriate check and balance between the Accounting and Property records; and to establish the integrity of property custodianship.

22. Property, Plant and Equipment and Other Assets accounts’ balances totaling ₱1.95 million in LTFRB are unreliable due to the agency’s failure to (a) record in the books the costs of existing assets; (b) reclassify unserviceable properties to the Other Assets account; (c) drop from the books the costs of assets that are not existing and (d) correct the erroneous recording of transactions.

We recommended that the Accountant and the Property Custodian be directed to locate the pertinent documents that contain the data needed to record the costs of existing assets. Require both to perform a reconciliation of ledgers and reports and thereafter, make the necessary adjustments on their respective records.

23. Purchases of land to be used for the Third Airports Development Project (TADP) amounting to ₱228.41 million was found to be overpriced by ₱26.47 million. Moreover, 46 of the 67 lots purchased in the amount of ₱210.90 million were not titled in the name of the Department. Similarly, the purchased relocation site for the residents affected by the New Iloilo Airport Development Project amounting to ₱2.86 million was found to be overpriced by ₱2.00 million, thus negating the regularity of the land acquisition and overstating the Land account.

We recommended that the Department cause the refund of ₱ 26.47 million, the amount representing the excessive purchase price of the 66 lots acquired by the Department intended for the expansion of the Puerto Princesa Airport. Likewise, in order that title to the land shall be transferred to the Department, the Audit Team also recommended that the concerned Project Management Office locate the landowners/authorized representatives in order to obtain the duplicate copies of TCTs/OTCs to facilitate the transfer of the titles in the name of DOTC; while on the finding of overpricing for the land acquired for the relocation of people affected by projects at the NIADP, we recommended that Management cause the refund of the amount of ₱2.0 million representing the excessive purchase price of the relocation site acquired by the DOTC for the affected residents of NIADP.

24. Implementation of the replication of Philippine Air Force (PAF) structures in the amount of ₱101.47 million is delayed, which is beyond the two (2) times extension previously granted by DOTC to the contractor to the detriment of the project and the government.

We recommended that the Project Management Office concerned submit an explanation/justification for the delayed implementation/completion of the replication of PAF structures.

25. The appraised/market values of donated lands to LTO - Regional Office Nos. VI, VIII and XI were not recorded in the books of the concerned agencies due to lack of Transfer Certificates of Title (TCT), causing the understatement of the Land account as of December 31, 2005.

We recommended that Management of the concerned LTO regional offices create a committee to appraise the cost of donated lots to safeguard government investments and interests and consequently give the Accountant a basis for recording the value of the lands in the books of accounts. Also, secure the original or certified true copies of all records and documents involving the sale and or donation of lots to establish real ownership and coordinate with the Register of Deeds where the property is located, so that files of the original copy of the Transfer Certificate of Title and Tax Declaration in the name of LTO can be issued.

26. The purchase price for the Integration and Upgrading of the DOTC Network and Various Facilities and Equipment in the amount of ₱6.89 million was found to be overpriced in the amount of ₱1.55 million, depleting agency funds.

We recommended that Management cause the refund of the price difference between the contract price and COA evaluated price amounting to ₱1,545,861.70.

27. Denial by alleged recipients/beneficiaries of receipt of equipment procured out of the Priority Development Assistance Fund (PDAF) of various lawmakers negated the occurrence assertion of Management on the delivery of the procured items totaling ₱ 40.23 million.

We recommended that the Department Secretary initiate the conduct of an investigation on the procurement, delivery and transfer of subject equipment to end-users/beneficiaries in view of the denial of the supposed beneficiaries to have received the equipment and filing of appropriate charges against persons or parties responsible for the alleged falsification of signatures, if warranted.

28. Completed project amounting to ₱3.8 million funded by the Priority Development Assistance Fund (PDAF) remained in the books of the DOTC – Cordillera Administrative Region (CAR), contrary to Department Order No. 80, series of 1989 dated July 10, 1989 overstating Total Assets presented in the financial statements.

We recommended that Management direct the technical personnel to account for all issuances of the equipment; to cause the transfer of the completed project to the local government of Mt. Province, the end-user. The Accountant should draw a Journal Entry Voucher (JEV) dropping the transferred/accepted project from the books of accounts in order not to overstate the PPE account. Subsequently, the Accountant of the recipient agency should be furnished a copy of the JEV to facilitate the proper recording of the transferred asset in their books of accounts.

29. Non-procurement of the Aeronautical Fixed Telecommunications Network and Airport Information System (AFTN/AIS) to be funded out of an Asian Development Bank loan could result in the downgrading of Manila in the International Civil Aviation Organization (ICAO) Asia-Pacific regional network and the risk of isolation of Manila due to its failure to interconnect with Hongkong and Singapore which are using the new ICAO communications protocol.

We recommended that the Undersecretary for Air Transportation cause the immediate procurement for the supply and installation of the AFTN/AIS equipment given the importance and the need to replace and upgrade the

AFTN/AIS equipment the soonest possible time. In case the procurement for the supply and installation of the AFTN/AIS equipment was not included in the DOTC's Medium Term Public Investment Plan (MTPIP), DOTC should make representations with the Department of Budget and Management (DBM) and the National Economic and Development Authority (NEDA) for the cancellation of the implementation of least priority project/s to be able to fund the said procurement.

30. The accuracy and validity of the Motor Vehicles account balance reported in the amount of ₱181.40 million are doubtful due to inadequate information stated in the records maintained by the Accounting Division of the Department, absence of physical inventory and incomplete records maintained by the Property Utilization and Disposal Division (PUDD).

Conduct a thorough analysis/verification of the subject account in order to present a more accurate and reliable account balance. Create a committee who shall undertake the annual inventory-taking of all properties of the Department in order to determine, not only the existence, but also the actual physical condition thereof as well as to identify the present end-users/assignees of vehicles. The results of physical inventory shall be compared with Property Cards maintained by PUDD and compared against the Property, Plant and Equipment Ledger Cards maintained by the Accounting Division and the totals thereof shall be compared with those in the general/subsidiary ledger. All discrepancies between the physical and book inventories must be investigated and reconciled immediately.

31. Four (4) out of the nine (9) motor vehicles procured under the vehicle procurement program of the Metro Manila Air Quality Improvement Sector Development Program (MMAQISDP) were not utilized for the purpose these were intended thus the attainment of the objectives of the program is compromised.

We recommended that the Undersecretary for Land Transportation cause the transfer of ownership of the vehicles to their rightful beneficiaries/end-user since the program was already concluded. Require also the PSPMS to use the Acknowledgment Receipt for Equipment (ARE) forms in lieu of MRs as required under the Manual on the New Government Accounting System (NGAS), Volume II. In the conduct of similar programs or projects in the future, coordinate with the Secretary regarding the assignment and distribution of the program/project resources to proper officials and channeling of the use of these assets to the activities that will promote the intentions of the program.

32. The DOTC-OSEC and the PCG failed to compute for the provision for Accumulated Depreciation for the year of at least ₱ 108.69 million in the DOTC-OSEC and of an undetermined amount in the PCG on agency assets amounting to ₱1.17 billion and ₱1.37 million, respectively, resulting in the overstatement of the

asset accounts and understatement of the reported expenses as of December 31, 2005.

We recommended that the Chief, Accounting Unit compute for the provision for Accumulated Depreciation and effect the necessary adjusting entries for each of the PPE accounts, in conformity with the provisions of Sections 67 and 68 of the NGAS Manual, Volume I, COA Circular No. 2003-007, COA Circular Letter No. 2004-003 dated October 4, 2004 and COA Circular No. 2004-005 dated August 9, 2004, to assure fair presentation and proper valuation of the asset accounts in the financial statements. Likewise, recognize the Depreciation Expenses during the accounting period and the prior years' Depreciation Expenses using the Prior Years' Adjustments account.

33. Advance payment to Petron Corporation amounting to ₱18.74 million was treated as outright expense, thus overstating Gasoline, Oil and Lubricants Expenses and understating Gasoline, Oil and Lubricants Inventory account.

We recommended that Management use the Gasoline, Oil and Lubricant Inventory account for all deliveries of gasoline, oil and lubricants paid thru advance payment and record expenses only upon consumption and submission of the RSMI.

34. Several completed projects amounting to at least ₱16.59 billion were still recorded in the Construction in Progress (CIP) accounts resulting in overstatements of the CIP accounts and the understatement of Other Public Infrastructures account.

We recommended that the Accounting Division, in coordination with the Project Management Service (PMS) and Project Management Offices (PMOs) of the Department, exert extra effort in determining the proper cost of completed projects included in the CIP accounts so that reclassification thereof to Other Public Infrastructure account as well as the recording of properties to the respective PPE accounts could be made and in order to fairly present the actual financial position of the Department. Accordingly, the Chief Accountant should drop from the books the value of completed projects already turned over to other government units so that the transfer of said projects could be taken up in the latter's books of accounts.

35. Payments made to Pacific Consultant International (PCI) relative to Engineering Services Contract for the Selected Airport Development Projects (SADP), Phases I and II of DOTC-OSEC showed imprudent utilization of fund amounting to ₱3.71 million, depleting project funds, while expenses totaling ₱709,339.50 were not adequately documented hence casting doubt on their incurrence or accountability was not fixed.

We recommended that Management exercise prudence in the utilization of funds by considering the terms and conditions that are advantageous and economical on the part of the government. Require PCI to execute a Deed of Conveyance to DOTC transferring the ownership of all properties leased from PCI Asia, Inc.

36. Due to lack of appraisal and disposal committees, unserviceable assets amounting to ₱ 782,157.95 and ₱ 1.68 million in the books of LTO and LTFRB, respectively were not properly disposed, of in violation of Section 79 of P.D. 1445 and/or reclassified to Other Assets account at year-end.

We recommended that Managements of the agencies mentioned create their respective appraisal and disposal committees that will undertake the appraisal and disposal of the unserviceable property and the Accountant effect necessary adjusting entries.

37. Fully depreciated equipment and unserviceable motor vehicle with total cost of ₱1.54 million and total salvage value of ₱154,408.96 were not reclassified to Other Assets but still included in the Property, Plant and Equipment (PPE) accounts hence, overstating the PPE accounts and understating the Other Assets account.

We recommended that the Accountant reclassify the salvage value of the fully depreciated equipment and the unserviceable motor vehicle to the Other Assets account in accordance with the provision of NGAS and prepare an adjusting entry to reverse/close the acquisition cost and accumulated depreciation.

38. Failure of the Accountants to adjust the Accounts Payable account for payables which are outstanding for more than two (2) years, without specific creditors, with abnormal balances, etc. amounting to ₱5.79 billion of the DOTC-OSEC, ₱12.92 million of the PCG and ₱ .46 million of the LTO or a total of ₱5.80 billion resulted in the overstatement of the payable balances as of December 31, 2005.

We recommended that the Chief, Accounting Division draw a Journal Entry Voucher taking up the adjustment of Accounts Payable which remained outstanding for two (2) years after project completion date and those obligations without specific creditors/adequate documentation pursuant to the provisions of DBM-COA Joint Circular No. 99-6 and EO No. 109, to reclassify some Accounts Payable to appropriate accounts in conformity with the NGAS and to close to Government Equity obligations for cash advances/fund transfers;

39. Failure of the Accounting Division to reconcile and adjust individual account balances resulted in the overstatement of Other Payables account in the amount of ₱24.73 million, thereby negating Management assertion of valuation and measurement.

We recommended that the Chief, Accounting Division investigate, verify and adjust all abnormal balances and misclassifications.

40. Long overdue accounts of various transport cooperatives for remittance by the Department to the Bureau of the Treasury amounting to ₱164.10 million have not been collected and remitted, denying the national government the much needed funds. In addition, there were late recording of income earned and collected from Digital for the last quarter of 2005 and non-remittance of interest income earned from bank accounts maintained at PNB amounting to ₱50.55 million.

We recommended that the Chief, Accounting Division reconcile the difference of ₱895,601.03 between the balances of the three cooperatives of the MMTTC account and the amounts shown in their respective demand letters. Make strong efforts in collecting the receivable accounts of ₱164.10 million from transport cooperatives. DOTC Management should take the necessary measure to collect from the said cooperatives.

41. Late recording of MRT III collections, cash deposits, overages, collection from sale of flash cards and interest income from deposits amounting to ₱141.02 million resulted in the understatement of Other Payables-MRTC account and other accounts affected.

Investigate causes of delay of recording in the GL of MRT III collections, cash deposits, overages, collections from sale of flash cards and interest income from deposits and implement measures for prompt recording to make the financial statements truly reflective of the financial transactions for a certain period, and negotiate with MRTC for the offsetting of obligations (DRP and Rental Fees).

42. Staffing and Administrative Cost totaling ₱48.87 million was paid to MRTC although it is DOTC which is paying for the MRT III staffing and administrative cost. Special repairs of ₱6.28 million were reimbursed MRTC despite absence of supporting documents that casts doubt on the recorded transactions.

We recommended that the Assistant Secretary for MRT III operations and the Director, Comptrollership Service request MRTC to submit a schedule showing details as to whom the staffing and administrative costs are being paid to substantiate its claim as this is an unreasonable and onerous expenditure on the part of the national government through DOTC. Failing to do so, demand the refund of the total amount of ₱108.20 paid for staffing and administrative costs. It would be unfair and against public policy to pay government money for an expenditure not being incurred even if it is included in the BLT Agreement. Negotiate with MRTC for the striking off of this provision in the BLT Agreement; and require MRTC to submit the documents relative to the payment of Special Repairs in the amount of ₱6.28 million especially the evidence that Sumitomo received the said payments because Sumitomo must have asked for reimbursements from MRTC as per Maintenance Agreement.

43. The Contract for Consultancy Services with SYSTRA was extended seven (7) times mostly for work covered under the original agreement contrary to Section 8.3 of the NEDA Guidelines on the Procurement of Consulting Services that resulted in increase in contract costs totaling FF 166.61 million and ₱ 910.17 million for the FF portion and peso portion, respectively, and expensive extensions.

We recommended that Management evaluate the extent of compliance of the Consultant to the agreement insofar as the training in the operation, use, maintenance and repair of the rolling stock and other aspect of operation of the train system as enumerated in Annex E of the Agreement with SYSTRA.

44. The agency did not effect accrual adjusting entries as of December 31, 2005 resulting in the understatement of expenses by ₱ 24.84 million, understatement of Accounts Payable and overstatement of Government Equity as well as negated Management assertion of completeness of recorded transactions and the accounting policy stated in 3.1 of the Notes to Financial Statements.

We recommended that the Chief, Accounting Division require the submission of reports from various units to determine cost already incurred and accrued and effect adjusting entries to ensure completeness of recorded transactions at year-end.

45. Prior year's expenditures for Maintenance and Other Operating Expenses (MOOE) in the total amount of ₱4.89 million were taken up as current year's expenses, contrary to the provisions of Section 4, Volume I of the Manual on the New Government Accounting System (NGAS) resulting in the understatement of Accounts Payable and overstating expenses.

We recommended that districts, stations, detachments, as well as the PCG Headquarters closely monitor prompt payments of monthly mandatory expenditures.

46. Personal Services and advertising expenses amounting to ₱1.77 million were charged to Property, Plant and Equipment (PPE) accounts of DOTC-OSEC and capitalized resulting in the overstatement of the particular asset accounts and understatement of various expense accounts.

We recommended that the Chief, Accounting Division and the Chief, Budget Division strengthened budgetary controls on expenditures and reclassify expenses charged to asset accounts to the proper expense accounts.

47. The Department paid Collective Negotiation Agreement (CNA) Incentive and Welfare Allowance to its officers who are not covered or entitled to the benefit in

the amount of ₱1.10 million contrary to Administrative Order No. 135 dated December 27, 2005, thereby rendering the payment without legal basis and overstated the expense accounts.

We recommended that the Chief, Accounting Division require the concerned DOTC officials regularly receiving RATA to refund the CNA Incentive and Welfare Allowance they received in view of the limitation set forth in Administrative Order No. 135. We also recommended the reclassification of charges to Rent Expense account and General Services account to Other Personnel Benefits account.

48. The lack of funding for the procurement of magnetic tickets to maintain the desired levels in the inventory which should be harmonized with the increase in the patronage of the train system, may result in the shortage of tickets and the repetition of the ticket shortage problem in 2005. Other deficiencies which infringe on provisions of R.A. 9184, GAA, Contract between DOTC and DIGICOM, among others were likewise noted.

We recommended that the Assistant Secretary, MRT III Operations and the Undersecretary for Finance and Comptrollership Service cause strict adherence to R. A. 9184 and its IRR to ensure that the agency is procuring at the most advantageous price to the government, to train procurement personnel on R. A. 9184 and its IRR and to review and study the MRT operations and plan procurement of magnetic tickets as comprehensively as possible and make the procurement early on so as not to hamper operations and incur losses.

49. The slow availment of loan proceeds and delayed implementation of the projects by DOTC-OSEC resulted in the incurrence of commitment fees totaling ₱40.43 million or US\$723,243.85 for years 2004 and 2005 and might aggravate the country's fiscal problem in the future since expenditures for the project after the loan closing date will have to be funded from the GOP budget.

We recommended that the Department Secretary instruct the concerned Project Managers to accelerate/maximize the utilization of loan proceeds to get back on track of the disbursement schedule embodied in the loan agreement/appraisal report and to address all problems in the land acquisition and resettlement before entering into a loan agreement to ensure the smooth implementation of the project.

50. The Department was not able to organize the Internal Audit Service during the year as required under DBM Circular No. 2004-4 to complement/supplement the work of the Auditor/Audit Teams in performing various types of audit.

We recommended that the Assistant Secretary, Finance and Comptrollership Service and the Director, Administrative Service effect the transfer the IAS (FPCD) from the present set-up to the direct administrative supervision and control of the Secretary and/or his assistant as an independent staff unit as originally envisioned under R.A. 3456, as amended by R.A. 4177 and to review the qualifications and reclassify the positions of personnel manning the IAS from the present “Fiscal Examiner” to “Internal Auditor” position; and such other cases to strictly comply with the provisions of said DBM Circular in order to properly function in accordance with R.A. No. 3456, as amended by R.A. No. 4177 and other issuances mandating the creation of an independent IAS.

51. Weak monitoring control and absence of review of procurement records resulted in the overstocking of sheeting materials by ₱52.52 million as at year-end, contrary to COA Circular no. 85-55A dated September 8, 1985. Likewise, the Annual Procurement Program does not have the approval of the Assistant Secretary contrary to Section 424, Volume I of the Government Accounting and Auditing Manual (GAAM) which requires that “Chief executive shall prepare and approve an Annual Procurement Program for the ensuing fiscal year.

We recommended that Management require the Office of the Executive Director to perform proper review of the basis for the preparation of the Annual Procurement Program to correct errors in the preparation as well as the Chiefs of the Property Office and the Administrative Office to conduct close and regular monitoring of inventory to ensure that records on sheeting materials are updated.

52. The inability of the Land Transportation Office (LTO) to either secure approval of the proposed selling prices of motor vehicle, motorcycle and tricycle plates or adopt a timely sound business practice such as outsourcing the manufacture of the said inventory items at a lower cost which could have allowed the agency to generate a profit from the sale of plates or at least recoup its investment of ₱106.46 million, has resulted in additional losses of ₱25.91 million from the sale of 1,182,989 pieces of plates during the year, thereby depleting further the scarce resources of the government.

We recommended that Management set a time limit on the request for revision of administrative fees and charges submitted to DOTC for approval.

53. The reported idle driving simulator and building costing ₱11.13 million and ₱1.50 million remained unproductive as at year-end due to non-implementation of practical measures to make the equipment operational, thus depriving the agency of the opportunity to improve the efficiency and effectiveness of its licensing services and general revenues from the use of the equipment to at least recover the cost of investment thereon.

We recommended that Management consider forming a committee that will include the technical personnel who took part in the process of acquiring the equipment, to formulate strategies that will make the driving simulator functional so that it would earn revenues for the government and recoup LTO's investment.

54. Accountable officials who are no longer in the service have not returned the vehicles and equipment issued them totaling ₱ 4.40 million due to Management's lack of measures to recover them, thus depriving deserving incumbent officials and employees of the use thereof.

We recommended that Management request legal assistance from the DOTC for the issuance of strong demand letters to the officials accountable for the unreturned/missing vehicles and coordinate with the PNP for possible setting up of alarm on missing vehicles.

55. Lapses in planning the manufacture of 62,146 pieces of motorcycle/tricycle plates whose numeric alpha numbering scheme was incompatible with the programmed alpha numeric character of LTO's computerized system resulted in the production of unuseable plates. Likewise, failure to adjust the cost of the recalled 36,546 pieces of plates costing ₱1.61 million overstated and understated the Other Supplies Inventory and Prior Year's Adjustments accounts, respectively.

We recommended that Management require the Chief, Plate Making Plant, to transfer the custody of the motorcycle and tricycle plates to the Property Section for safekeeping until such time that the plates will be ready for use by the agency and the corresponding program will be setup and require the Chief Accountant to restore to inventory account the cost of returned MC plates to correct the understatement and overstatement of affected accounts.

56. The accountable officers in LTO- Region X District Offices failed to encode in the IT system the serial numbers of Temporary Operator's Permits or Impounding Receipt of Motor Vehicle issued to authorized apprehending officer, in violation of LTO Memorandum Circular No. 515-2004 dated May 25, 2004 thus, affecting the quality of services to the public and the proper accounting of accountable forms.

We recommended that the concerned accountable officers in offices with IT system be directed to encode the serial numbers of Form No. 21-A-Temporary Operator's Permit and Form No. 43-Impounding Receipt of Motor Vehicles in accordance with LTO Memorandum Circular No. 515 dated May 25, 2004 for proper accounting and monitoring. Likewise, we recommended that Management monitor the proper implementation of the Memo-Circular in the District Offices. Sanctions provided for non-compliance of the Memo-Circular should be carried out to protect the interest of the public.

57. Delivery of services on motor vehicle registration in LTO - Region XI is delayed due to failure of the Management to follow the procedures in the Motor Vehicle Registration Manual and the frequent computer breakdowns and errors.

We recommended that Management strictly follow the general work flow or procedures as embodied in the Motor Vehicle Registration Manual and revisit the implementation of its computerization program to attain its objectives.

58. Absence of feedback mechanism which could have allowed the agency to adopt strategies to improve their collection performance, inadequate information in the database and lack of coordination with other law enforcement agencies hindered the effective implementation of LTFRB decisions resulting in collection shortfall by ₱22.96 million or 42.06% and inadequate protection of passengers from unauthorized fares.

We recommended that LTFRB - Central Office Management assign to its designated Planning Officer the function to perform an analysis of the collection performance of the LTFRB and apprise the Board of the results of such analysis periodically. Likewise, Accounting Unit be directed to indicate in the abstract of collection the information as to the type and amount of application fees the agency has collected, thus facilitating the analysis of collection performance.

59. The absence of gross weight of vehicles in the database and lack of systematic procedures in the assessment and collection of Supervision Fees resulted in uncollected fees and penalties, thus depriving the government of the much needed revenues.

We recommended that the Technical Evaluation Division of LTFRB – Central Office and the records section of the regional offices be required to maintain a complete and updated database containing all information of franchise holders including the gross weight data of vehicles, necessary to attain a correct assessment of fees. Also, the reviewers be enjoined to be strict and consistent in evaluating the work of the assessors to ensure accuracy in computing the fees.

60. Failure of LTFRB-Region X to designate a personnel who is knowledgeable on assessment rules and regulations and to likewise report on update on the latest issuances pertinent to fees and charges, resulted in erroneous assessment of fees and charges, thus depriving the government of revenues totaling ₱254,604.74.

We recommended that LTFRB - Region X collect from concerned operators or franchisees the fees and charges that are still due from them and to assign the assessment function to a personnel who is knowledgeable in that field as well as provide him/her with updated copy/ies of circulars on fees and charges to serve as guide in the computation of fees.

C. Validation of Implementation of Prior Year's Audit Recommendations

Of the 121 audit recommendations embodied in last year's Consolidated Annual Audit Report, excluding those pertaining to TELOF since it was transferred to the Commission on Information and Communications Technology (CICT) pursuant to Executive Order No. 269 dated January 12, 2004, 31 were implemented, 30 were partially implemented, while 60 were not acted upon by Management.