

EXECUTIVE SUMMARY

A. INTRODUCTION

After the Philippine declaration of independence on June 12, 1898, the first Philippine President, Emilio F. Aguinaldo, signed a decree on June 23, 1898 forming the Bureau of Navy or Marine under the Department of Foreign Relations, which was tasked to consider all matters relating to the creation and organization of a Navy and the arrangement of war expeditions. This marked the birth of the Philippine Navy (PN). On the eve of World War II in February 1939, a sea going unit of the Philippine Army called the Off-Shore Patrol (OSP) was created and commenced a new era for the PN. Two years after the war in October 1947, the OSP was renamed the Philippine Naval Patrol (PNP), which became one of the major commands of the AFP. Finally, in January 1951, by virtue of EO No. 389, the PNP was reorganized to become the Philippine Navy.

The Philippine Navy, as one of the major services of the AFP is mandated by the 1987 Constitution to confront and neutralize all foreign aggression threats and encroachments beyond or at the external limits of national territory. It shall secure its internal sea lines of communications to ensure rapid shifting of defense forces and resources from any area of operation to a threatened portion on the territory.

The mission of the PN is to organize, train, equip, maintain, develop and deploy forces for prompt and sustained naval and maritime operations in support of the Unified Commands in the accomplishment of the AFP mission.

The Philippine Navy is headed by Vice Admiral Caesar C. Taccad AFP, the Flag Officer In Command (FOIC) and assisted by the Naval Vice Commander, nine (9) offices under the Personal Staff, ten (10) Central Offices (N-1 to N-10) and seventeen (17) offices for Special and Technical staffs.

There are twelve (12) Field Accounting Service Units (FASU) and one (1) Naval Accounting Service Office (NASO) that cater twenty-four (24) PN units. Each unit prepares reports and financial statements for consolidation by the NASO, namely:

NASO- Naval Station Jose Francisco
Bldg. No. 30, Ipil Street, Fort Bonifacio, Taguig City

- 1) Headquarters Philippine Navy (HPN)/
Headquarters Service Group (HSG)

1. **FASU-** Naval Station Jose Francisco
Ipil Street, Fort Bonifacio, Taguig City
 - 2) Bonifacio Naval Station (BNS)
 - 3) Naval Intelligence and Security Force (NISF)

- 4) Naval Combat Engineering Brigade (NCEBDE)
 - 5) Philippine Navy Finance Center (PNFC)
 - 6) Civil Military Operations Group (CMOG)
 - 7) Naval Reserve Command (NRC)
 - 8) Fleet Marine Warfare Center (FMWC)
2. **FASU-** Marine Barracks Rudiardo Brown, NSJF
Fort Bonifacio, Taguig City
 - 9) Philippine Marine Corps (PMC)
 - 10) Manila Naval Hospital (MNH)
 3. **FASU-** Naval Station Pascual Ledesma
Fort San Felipe, Cavite City
 - 11) Naval Sea Systems Command (NSSC)
 - 12) Cavite Naval Hospital (CNH)
 4. **FASU-** Naval Station Pascual Ledesma
Fort San Felipe, Cavite City
 - 13) Naval Logistic Center (NLC - 101&72-100)
 5. **FASU-** Naval Base Heracleo Alano
Sangley Point, Cavite City
 - 14) Philippine Fleet (PFLT)
 - 15) Naval Installation Command/Naval Base Command (NIC/NBC)
 - 16) Fleet-Marine Ready Force (FMRF)
 - 17) Naval Information and Communication Technology Center (NICTC)
 6. **FASU-** Naval Station Leovigildo Gantioqui
San Antonio, Zambales
 - 18) Naval Education and Training Command (NETC)
 7. **FASU-** Naval Station Ernesto Ogbinar
Poro Point, San Fernando City, La Union
 - 19) Naval Forces Northern Luzon (NFNL)
 8. **FASU-** Naval Base Rafael Ramos
Brgy. Looc, Lapu-Lapu City
 - 20) Naval Forces Central (NFC)
 9. **FASU-** Naval Station Felix Apolinario
Panacan, Davao City
 - 21) Naval Forces Eastern Mindanao (NFEM)
 10. **FASU-** Naval Station Julhasan Arasain Regional Site
Rawis, Legazpi, Albay
 - 22) Naval Forces Southern Luzon (NFSL)

11. **FASU-** Naval Station Apolinario Jalandoon
 San Miguel, Puerto Princesa City
 23) Naval Forces West (NFW)

12. **FASU-** Naval Station Romulo Espaldon
 Lower Calarian, Zamboanga City
 24) Naval Forces Western Mindanao (NFWM)

For CY 2015, PN had a total personnel complement of 22,641, as follows:

Unit	Military	Civilian	Total
HPN	1,500	105	1,605
PHILFLT	4,194	25	4,219
NSSCOM	563	217	780
NSJF	418	35	453
PMC	8,418	7	8,425
NCBDE	930	21	951
NCEISC	247	57	304
NLC	227	34	261
NETC	1,362	14	1,376
PNFC	143	16	159
NISF	494	68	562
NAVRESCOM	244	3	247
NBSC	265	62	327
MLA NAV HOS	63	75	138
CAV NAV HOS	59	76	135
NAVFORNOL	123	12	135
NAVFORCEN	176	8	184
NAVFORWEM	251	19	270
NAVFORWEST	224	11	235
NAVFOR SOL	160	3	163
NAVFOREM	178	6	184
AFP MC	65		65
DND	53		53
CENTCOM	37		37
SOLCOM	34		34
NOLCOM	31		31
AFP RESCOM	6		6
OTAG	4		4
CRS AFP	33		33
GHQ AFP	228		228
AFPCSC	171		171
AFPPS	48		48
NCRCOM	18		18
GHQ HSC	189		189
ISAFP	115		115
PMA	97		97
PSG	183		183
AFPFC	10		10
WESCOM	74		74

Unit	Military	Civilian	Total
WESTMINCOM	90		90
EASTMINCOM	42		42
TOTAL	21,767	874	22,641

B. OPERATIONAL HIGHLIGHTS

The Philippine Navy's CY 2015 Annual Accomplishment Report describes the significant contribution of the Sailors, Marines and Civilian Employees of the PN towards the vision of the organization of becoming strong and credible.

One of the primary duties of the PN is to defend and secure our territory and maintain its stability; thus its MFO is *Territorial Defense, Security and Stability Services* with the following targets and accomplishment for the year under audit:

Performance Indicator	Targets	Actual Output
Number of mission-ready fleet marine units	116	116
Percentage of readiness of fleet marine units	76.75%	74.10%
Number of mission-ready support and sustainment units	58	58
Percentage of readiness of support and sustainment units	61.97%	58.54%
Average response time of fleet units that can be mobilized as instructed by higher authorities	24 hours	24 hours
Average response time of marine units that can be mobilized as instructed by higher authorities	6 hours	6 hours

In addition to the above accomplishments, the PN provided security requirements for visiting foreign dignitaries, such as during the visit of His Holiness Pope Francis in January 2015 and during the conduct of the APEC Economic Leaders' Meeting (AELM) 2015.

The PN focused its *Intelligence Efforts* against the government vessels of foreign countries and intrusions/poaching conducted by fishermen from China, Taiwan, Malaysia, Vietnam and Indonesia inside the Philippines' territorial waters and Exclusive Economic Zone (EEZ).

In the conduct of *Maritime Security*, the Command collected and processed Summaries of Information (SOIs) pertaining to smuggling, illegal fishing, illegal transport of logs, Trafficking in Persons (TIPs), and piracy that led to successful intelligence-driven counteraction operations, and in support to *Internal Security Operations (ISO)*, the Command collected, processed, and disseminated SOIs that led to the neutralization of ASG and NPA members.

The PN, under the *Disaster Risk Reduction and Response Services*, is preparing for the possibility of the movement of the West Valley Fault, which might lead to a 7.2 magnitude earthquake, in order to mitigate the impact of a major earthquake in Metro Manila and nearby provinces.

On *Civil Military Operations*, the Command carried out dialogues and symposia in Basilan, Tawi-Tawi, Jolo, Sulu, Palawan, Manila and Cavite, which also strengthened ties with the navy counterparts, government agencies, sectors and local communities. This had been evident through the construction of different schools around the country.

For the period in review, various doctrines, journals, strategic assessments, special reports and other pertinent reading materials were promulgated and are currently for publication that kept the PN readers updated on the current international and local issues.

C. FINANCIAL HIGHLIGHTS

For CY 2015, the Philippine Navy has an approved budget of ₱13,450,574,000.00 with an appropriation of ₱8,354,347,000.00 for Personnel Services, ₱4,598,114,000.00 for Maintenance and Other Operating Expenses and ₱498,113,000.00 for Capital Outlay.

	CY 2015 (Thousands of Pesos)	CY 2014 (Thousands of Pesos)
Total Appropriation	₱ 13,450,574	₱ 13,874,987
Total Allotment Received	17,507,526	15,263,856
Total Obligations Incurred	16,230,729	14,596,739
Unexpended Balance	₱ 1,276,797	₱ 667,117

The ₱17,507,526,012.09 allotments received comprised of releases from DBM, GHQ and releases for Continuing Appropriation, as shown below:

Particulars	Allotments	Obligations	Balances
Regular Allotments	₱ 13,450,574,000.00	₱12,283,697,641.47	₱ 1,166,876,358.53
Automatic Appropriation (RLIP)	12,021,000.00	12,021,000.00	0.00
From GHQ:			
Special Purpose Fund (includes GHQ & PA)	3,368,693,792.09	3,282,098,168.05	86,595,624.04

Particulars	Allotments	Obligations	Balances
GHQ and PA Transferred Fund	27,642,638.60	21,638,187.40	6,004,451.20
Sub-total from GHQ	<u>3,396,336,430.69</u>	<u>3,303,736,355.45</u>	<u>92,600,075.24</u>
Continuing Appropriation	648,594,581.40	631,273,856.07	17,320,725.33
Additional Allotments	4,044,931,012.09	3,935,010,211.52	109,920,800.57
Total Allotments Received	P17,507,526,012.09	P16,230,728,852.99	P 1,276,797,159.10

The details of allotments, obligations and balances are presented in **Annex A**.

The following are the presentation of the PN's financial position and financial performance, together with the information on the sources and application of funds (*in thousand pesos*).

a. Financial Position:

Account Group	2015	2014
Asset	P19,994,463	P19,277,060
Liability	756,882	498,927
Net Assets/Equity	P 19,237,581	P18,778,133

b. Financial Performance:

Account Group	2015	2014
Total Revenue	<u>P 10,643</u>	<u>P 373,551</u>
Current Operating Expenses		
Personnel Services	11,369,656	10,090,417
Maintenance and Other Operating Expenses	2,967,347	3,128,596
Financial Expenses	3	0.00
Non-Cash Expenses	745,303	610,808
Total Current Operating Expenses	<u>15,082,309</u>	<u>13,829,821</u>
Surplus (Deficit) from Current Operations	(15,071,666)	(13,456,270)
Net Financial Assistance/Subsidy	15,503,359	14,519,811
Other Non-Operating Income	0.00	15
Surplus (Deficit) for the Period	P 431,693	P 1,063,556

D. SCOPE OF AUDIT

The audit covered the operation and financial transactions of the Philippine Navy for calendar year 2015 and the results of audit included the 24 PN Units nationwide.

E. AUDITOR'S REPORT

The auditor rendered an adverse opinion on the fairness of the presentation of the financial statements of the Philippine Navy, in view of the significance of the accounting errors and deficiencies as shown in the matrix of Analysis on the Effects of the Misstatements on the Financial Statements marked as **Annex B** and enumerated below together with the recommendations:

1. The reliability on the balances of accounts Cash in Bank-LCCA, Inter-Agency Payables (Due to GSIS, Pag-IBIG, PhilHealth) and Other Payables amounting to ₱614,819,889.77, ₱40,878.35 and ₱48,951,334.20, respectively as of December 31, 2015 were doubtful due to Management's deviation from established procedures and guidelines in recording the payroll of Philippine Navy officers and employees where (a) funds are transferred from MDS Regular to PN Payroll account at gross earnings and (b) premiums, contributions and payments to government and other lending institutions totaling ₱4,837,511,458.44 were simultaneously recorded as withheld and remitted where ₱722,562,052.58 could not be properly accounted due to non-submission of supporting documents. Moreover, the deviation from established procedures and guidelines is irregular, in violation of COA Circular No. 2012-003 entitled "*Updated Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures*". (Observation No. 1)

We recommended that Management only transfer from the MDS Regular to PN Payroll account the net earnings based on the SENE, in accordance with the established procedure and guideline, and also to avoid violation of COA Circular No. 2012-003 on the prevention of IUEE.

It is further recommended that FASU (a) immediately submit the documents that support the remittance of withheld premiums, contributions and payments to government and other lending institutions for CY 2015, totaling ₱4,837,511,458.44; (b) facilitate with extra effort the preparation of the CY 2015 Bank Reconciliation Statements (BRS) of LBP accounts 1682-1016-08 and 1682-1023-29 and submit the same, including the BRS for CY 2013 and 2014; and (c) henceforth, support all remittances of withheld mandatory premiums and contributions with DVs and ORs, and prepare BRS regularly.

2. Failure to collect and impose appropriate sanctions to delinquent occupants of government quarters and concessionaires of the different stalls of NBC and NETC resulted in the accumulation of receivables totaling ₱5,291,700.27 and ₱1,186,720.66, respectively. Meanwhile, the HPN failed to also collect ₱294,758.46 representing the light and water consumption of Philippine Navy Officers' Club for CY 2015 due to non-preparation and consequently non-issuance of billing statements. (*Observation No. 3*)

We recommended and Management agreed to (a) pursue the collection of long outstanding receivables from the delinquent consumers; (b) adhere strictly to the provisions of AFP Comptroller Letter No. 2000-13 and provide penalty clause in the Revocable Permits for delinquent tenants; (c) send demand letters to occupants of military quarters who are still in active service; and (d) exert effort to locate the whereabouts of those who were already retired from the service and owners of closed establishments for settlement of their back accounts.

It is further recommended that (a) Management direct the SSU to prepare and issue PNOC's billing statement monthly and collect the unpaid bill from PNOC; and (b) NASO strictly monitor the issuance of billing statement for a complete and timely recording of receivables and collections.

3. The Inventory account balance of ₱1,392,020,004.07 was unreliable due to the (a) failure of NLC, NFWM, NISF and NFNL to submit the Report on the Physical Count of Inventories (RPCI), which represented 97.72 percent of the total PN inventories; (b) unrecorded issuances of supplies and materials amounting to ₱11,556,954.60, caused by the late submission of Report of Supplies and Materials Issued (RSMI) by the FSPAOs to FASUs; (c) unrecorded deliveries of supplies and materials worth ₱2,882,743.48; and (d) simultaneous recording as inventory and expense of procured spare parts and materials totaling ₱18,915,722.75. (*Observation No. 8*)

We recommended and Management agreed to prepare and submit the RPCI as required under Section 65 of MNGAS, Vol. II.

We also recommended that Management (a) require the FSPAO to prepare and submit the RSMI to the Accounting Office monthly or as necessary; (b) advise the NASO to immediately prepare a JEV to record the delivered supplies and materials; and (c) advise the Accountant to record the acquisition and issuance of inventory items in accordance with Sections 43 and 53, Volumes I and II, respectively of the MNGAS.

4. The year-end balance of PPE totaling ₱15,834,748,213.65 was unreliable due to (a) discrepancy of ₱1,412,013,840.87 between Accounting records and Property reports, and discrepancy of ₱17,773,770.50 between the GL and Ledger Cards; (b) Land amounting to ₱119,375,500.00 were not covered by

transfer certificate of title; (c) unrecorded medical equipment amounting to ₱991,330.00 and inclusion of unserviceable equipment and the burned 5-door apartment building costing ₱750,000.00; (d) simulation system and server worth ₱19,918,280.00 were recorded as inventory; (e) some PPEs counted/Found in Station were not included in the Accounting and Property records; (f) misclassification of assets within PPE accounts; (g) small tangible items were recorded as PPE; (h) equipment and fabricated furniture were not taken up in the books; and (i) failure to conduct physical count/non-preparation of RPCPPE. (*Observation No. 9*)

We recommended that:

- a) PN management monitor the progress of the “Task Force Reconcile” and require it to exert more effort in its reconciliation of PPE accounts; and advise NASO and the Property Office to strictly comply with Section 43 of the MNGAS requiring them to maintain and regularly update the PPELC and PC; thus, no reason for discrepancy in their records;
- b) Management seek assistance from the appropriate office of the Headquarters Philippine Navy to secure the necessary documents that would vest title of these parcels to NFSL, thereby enhancing reliability of the accounts presented;
- c) (1) NFWM management create an Inventory Committee to conduct an actual physical count of all PPE of the agency and submit to the Auditor the duly certified and approved RPCPPE for each type of PPE; (2) the Supply Accountable Officers (SAO) of NFWM and WMC coordinate and submit the accomplished receipt of the transferred property; (3) the SAO of NFWM furnish a report to the Accounting Unit of all items that were turned-in and the report of unserviceable properties; and (4) the Accounting Unit record the newly procured medical equipment and all the transferred PPEs from WMC to the GL accounts;
- d) (1) FMWC management re-study its procurement priorities and objectives in order to accurately capture in its Procurement Plan what the agency actually needs, specifically, a budget for Capital Outlay; (2) when necessary, request from DBM a realignment of budget from MOOE to Capital Outlay, as prescribed in the GAA; (3) the Field Accountant (i) refer to the Revised Chart of Accounts for proper account classification, (ii) prepare the necessary adjustment to reflect the correct balance of inventory and PPE accounts, and (iii) update the PPE records; and (4) the FSPAO (i) conduct actual physical count of his/her

accountabilities, (ii) prepare a correct and accurate RPCPPE, and (iii) maintain PC of PPE;

- e) (1) SAO (i) properly conduct a physical count of PPEs, (ii) prepare an accurate RPCPPE and in its proper form and promptly submit the same, including the documents to support the movement of PPEs, to the Accountant for adjustments in the books, and (iii) furnish a copy to the Audit Team; and (2) the Accounting and Property offices (i) prepare and update their records to facilitate the reconciliation of the PPEs under their accountability, and (ii) record the PPEs found within and owned by the BNS and MNH;
 - f) (1) FASU make the necessary reclassification of PPEs to their proper accounts, in compliance with PPSAS No. 1 and COA Circular No. 2013-002; and (2) SAO prepare an accurate RCPPE and in its proper form with a copy submitted to the Audit team, and report to FASU all changes noted in his property accountability (addition, loss, unserviceable, etc.) in compliance with Section 490, Volume I of the GAAM;
 - g) the FSPA and FASU and they agreed to exclude from the PPE accounts those items considered as semi-expendable and issue instead an ICS to the end-users;
 - h) (1) NFSL management request for an appraisal of the unrecorded assets; (2) the Property Custodian conduct physical inventory and attach property tags to all the PPE under his accountability; and (3) both the Accountant and the Property Custodian include in their reports all those items found unrecorded; and
 - i) NFNL conduct annual physical count of PPE and the SAO prepare, reconcile the RPCPPE with the property and accounting records, and furnish the Auditor a copy, pursuant to existing rules and regulations.
5. Four military personnel aged more than 56 years and/or had rendered at least 30 years of active service, that were compulsorily retired pursuant to the provisions of PD No. 1638, series of 1979 as amended by PD No. 1650, were not dropped from the roll immediately upon compulsory retirement; thus, resulted in overpayment in salaries, wages and other remunerations totaling ₱2,366,065.00. The overpayment likewise resulted in the overstatement and understatement of the expense and receivable accounts respectively, which affected the fair presentation of the financial statements. (*Observation No. 13*)

We recommended that Management coordinate with the AC of NS, Personnel (N1) for the (a) strict monitoring of personnel due for retirement/compulsory retirement from the service. A personnel status report should be regularly furnished the CPMU, or a control measure should be installed/established as basis of discontinuing or dropping the names of concerned military personnel from the payroll; and (b) regular update of the master list used in the preparation of payroll.

It is also recommended that (a) Management take appropriate action to recover the overpayment of ₱2,366,065.00 from the four compulsorily retired military personnel without prejudice to the filing of proper charges for their violation of the law; (b) FASU set up the amount due from the concerned military personnel; and (c) CPMU immediately delete the names of the retired personnel in the payroll.

6. The Accumulated Surplus/Deficit and Depreciation Expense accounts were understated by ₱35,758,946.42 and ₱33,290,041.23 respectively; while the Accumulated Depreciation were overstated by ₱2,468,905.19, due to the retrospective application by the Accounting Office of the change in accounting estimate on residual value rate from 10 percent to 5 percent, contrary to Par. 41 of PPSAS No. 3, affecting the fair presentation of financial statements. (*Observation No. 14*)

We recommended that the Accounting Office compute the accurate and correct depreciation of the affected assets, and make the necessary adjustments, in compliance with Par. 27 of PPSAS No. 1 and Par. 41 of PPSAS No. 3.

7. Contrary to the provisions of PPSAS No. 9, the hospital fees earned by the Cavite Naval Hospital (CNH) totaling ₱1,184,186.41, and the rental of concessionaires' space and PN personnel quarters amounting to ₱4,581,351.91 were recorded as revenue of HPN instead of a trust liability; thus, revenue was overstated while trust liability was understated, affecting the fair presentation of the Financial Statements as of December 31, 2015. (*Observation No. 15*)

We recommended that NASO reclassify the Hospital Fees and Rental Income to Trust Liabilities account pursuant to paragraph 12 of PPSAS.

8. In the books of HPN/HSG, the balances of Accounts Payable, Consultancy Services, Inventory accounts and Accumulated Surplus/Deficit were understated by ₱3,366,353.37, ₱1,471,091.43, ₱2,882,743.48 and ₱9,533.83 respectively, and the Advances to Contractor account was overstated by ₱977,947.71 due to various inaccuracies of records brought about by inadequate review of transactions by the Accounting Office resulting in (a) incorrect postings to the General Ledger, (b) charging to Accounts Payable

account without prior set-up of liabilities, and (c) erroneous adjusting/correcting entries. Further, errors in the recording of repairs and maintenance in NISF resulted in the understatement of P795,000.00, P300,000.00 and P359,122.00 in Intangible Assets, Subscription Expenses and Accounts Payable accounts; and overstatement of P735,878.00 in Repairs and Maintenance. (*Observation No. 16*)

We recommended that the NASO and FASU Accountants prepare adjusting and correcting entries to reflect the correct balance of the affected accounts.

We, further recommended that the Accountant (a) meticulously analyze and review the work of staff systematically; thus minimizing if not eliminate errors in accounting entries and postings in the GL; and (b) instruct staff to be mindful of inaccuracies and make them aware of their duties, responsibilities and accountabilities.

9. The inadequate monitoring of the funds received for the implementation of the Asia-Pacific Economic Cooperation (APEC) activities resulted to the non-return to the source agencies of the unused funds of ₱1,621,746.00 and disbursement of ₱5,082,356.00 which have not been reported yet, in violation of COA Circular 94-013. Moreover, double recording of liquidations erroneously reduced the account balance by ₱1,264,550.00, affecting the fair presentation of financial statements. (*Observation No. 18*)

We recommended that Management (a) immediately return the unutilized APEC funds to the AFP; (b) strictly monitor the implementation of projects funded out of transferred fund and the corresponding liquidation thereof; and (c) direct the concerned OUs to submit immediately the Report of Disbursements for proper accounting of the account.

It is further recommended that the NASO prepare the necessary adjusting entry to correct the liquidations that were recorded twice.

F. OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

10. Out of the ₱338,844,635.31 year-end balance of the account Deposit on Letters of Credit, ₱63,879,026.55 or 18.9 percent had been dormant/not utilized depriving the agency of the ultimate usage of the intended project. (*Observation No. 2*)

We recommended that (a) NLC management instruct the FASU and Naval Management and Fiscal Office (NMFO) to immediately revert the unused fund to the General Fund in compliance with COA Circular No. 2015-001; and (b) NSSC management follow up with the contractor for the expedition

of the project for the benefit of the intended beneficiaries, and impose liquidated damages, if warranted.

11. Cash advances totaling ₱171,435,413.85 granted to Special Disbursing Officers were mostly used for the procurement of common and regularly-used goods and services thru Over-the-Counter Purchase, contrary to the provisions of COA Circular No. 97-002 dated February 10, 1997 and pertinent provisions of RA 9184. (*Observation No. 4*)

We recommended that Management (a) strictly adhere to the provisions of RA 9184 in its procurement of supplies and services; (b) henceforth, consolidate common and regularly-used supplies and services and submit for public bidding to avail of better bargains advantageous to the government; (c) procure under the alternative method of procurement only if qualified; and (d) may designate a Petty Cash Custodian for small, emergency, and unforeseen expenses.

12. The Special Disbursing Officer's cash advances were utilized to procure operating requirements of HPN/HSG offices that were not within the scope of his designation/authority as SDO of the Office of Assistant Chief of Naval Staff for Ships and Yards – N10. Moreover, the FASU failed to indicate the date of receipt of the said SDO's Liquidation Reports (LRs); hence, the reckoning date for the accountant to complete the verification, recording and submission of the LR to the office of the Auditor could not be ascertained. (*Observation No. 5*)

We recommended that (a) HPN/HSG management submit justification on why the SDO's CAs were utilized for purposes not within the scope of his designation/authority; (b) HPN/HSG may designate an SDO specifically to cater to the needs of other HPN/HSG offices or otherwise include/specify in the SDO's authority the necessity for him to serve other offices; and (c) FASU acknowledge the receipt of LR by indicating the actual date of receipt thereon for monitoring purposes.

13. Cash advances granted to officers and employees of HPN for foreign travel totaling ₱11,947,577.84 remained unliquidated as of December 31, 2015, of which ₱3,201,067.58 were unutilized but were not refunded immediately upon return to their official station. Moreover, officers/employees and SDOs with unliquidated prior cash advances for foreign travel amounting to ₱1,040,090.93 and operating expenses of ₱1,734,759.81 were granted additional cash advances totaling ₱395,062.17 and ₱2,712,362.44, respectively. Further, cash advances were drawn even after transactions were concluded and completed, contrary to the rules and regulations on cash advances stipulated in COA Circular 97-002. (*Observation No. 6*)

We recommended that (a) HPN Management strictly enforce the provisions on the grant and liquidation of cash advances, including the sanctions thereof, as prescribed in COA Circular 97-002; (b) Commanding Officers refrain from approving the request for salary deduction so that the accountable officer will be obliged to immediately refund the unused cash advances; thus avoiding the treatment of unused cash advances tantamount to a loan; and (c) NASO prepare the Notice of Obligation Request and Status Adjustment for the overpaid per diem/subsistence allowance and submit to NMFO for proper adjustment of the obligated allotment.

It is further recommended that Management (a) strictly enforce the provisions on the grant and liquidation of cash; (b) review and analyzes the events where MCA were exceeded in order to identify and rectify any deficiencies in the management of cash; and (c) analyze the financial needs of each office/unit with the end in view of timely release of fund. It is also recommended that a review of cash advance system be made to determine where the delay occurred; thus preventing or avoiding such occurrence in the future.

14. Fund transfer to NFSL intended for the repair and rehabilitation of one unit 10-door Military Officers Quarter (MOQ), 10-door Military Enlisted Quarters (MEQ) and other facilities amounting to ₱2,623,281.02 remained unutilized as at year-end, thus defeating the purpose for which it was granted. (*Observation No. 7*)

We recommended that Management secure immediately the required documents necessary for the project implementation to avoid the delay or if not, return immediately the unutilized fund transfer for the use of the government important activities.

15. The agency split payments intended for the procurement of various supplies and materials wherein similar items were purchased, on the same date or at about the same time, from different suppliers, in violation of COA Circular No. 76-41 and contrary to the provisions of PD No. 1445. (*Observation No. 10*)

We recommended that Management (a) submit explanations/justifications on why splitting of payments were made and why said transactions should not be disallowed in audit; and (b) henceforth, stop the practice of splitting payments, and strictly enforce and adhere to all laws, rules and regulations and policies to prevent or prohibit splitting in any form or all forms for the protection and interest of the government.

16. Various deficiencies were noted in the procurement activities of the agency characterized by (a) allowing partial delivery of medical supplies by NFWM depriving the patients/hospital in times of need; and (b) release of 15 percent advance payment to contractors in NBC and NSSC despite incomplete

documentations and lack of approval by proper officials, in violation of Section 138 (e) and (f), Volume I of the GAAM. Moreover, procurements undertaken in NFW during the year were not in accordance with its Annual Procurement Program (APP), in violation of Section 7.2, Rule II of the Revised IRR of RA 9184. (*Observation No. 11*)

We recommended that Management (a) stop the practice of accepting partial deliveries and compel the suppliers to deliver completely on the scheduled dates; (b) impose the applicable liquidated damages of one tenth (1/10) of one percent (1%) for every day of delay in accordance with RA 9184; (c) adhere strictly to Section 138 (e) and (f) of the GAAM for propriety and validity of the claim; and (d) justify the release of the 15 percent advance payment to contractors Christine Haresco General Services and One Commerce International Corporation, otherwise these will be disallowed in audit.

We further recommended that the Chief of the 405th Contracting Office in coordination with the MFO (a) comply with the provisions of the Revised IRR of RA 9184 to be assured that only those authorized under the APP are procured; (b) justify the deviations from the approved APP; and (c) henceforth, prepare and submit a duly approved amended APP and/or supplemental APP whenever necessary, in accordance with paragraph 8.b of the AFP Procurement System.

17. Semi-expendable or tangible assets with serviceable life of more than one year but small enough to be considered as PPE totaling ₱2,229,395.65, procured out of cash advances of SDOs, were not documented with Inventory Custodian Slip (ICS) when issued to end-users, in violation of COA Circular No. 2005-02 dated April 14, 2005. (*Observation No. 12*)

We recommended that Management advise the (a) Disbursing Officers to coordinate with the Field Supply and Property Accountable Officer (FSPAO) to monitor all semi-expendable assets procured out of cash advances through the issuance of ICS to end-users; and (b) FSPAO to include in the RPCI the semi-expendable assets, as required in Section 65, Volume II of the MNGAS.

18. The PN formulated a plan and implemented programs for gender and development and incurred total expenses of ₱70,934,418.34. (*Observation No. 19*)

We recommended that Management continue to maximize the use of allocated budget for GAD related activities.

19. No over-all plans and projects concerning the senior citizens and persons with disabilities were included in the programmed activities of the PN. (*Observation No. 20*)

We recommended that Management comply with the provisions of Section 35 of the GAA and to maximize their program and plans for Senior Citizens and Persons with Disability in accordance with the provisions of Section 35 of the GAA.

20. Quick Response Fund (QRF) amounting to ₱62,321,760.68 were used in the procurement of materials and equipment and in the conduct of training programs categorized under “Disaster Preparedness”, contrary to Section 22(c) of Republic Act (RA) 10121 and defeating the purpose for which the fund was allocated. (*Observation No. 21*)

We recommended that Management (a) strictly adhere to the intended purpose of the QRF as expressly required in Section 22(c) of R.A. 10121, which is to provide quick relief and recovery programs so that situation and living conditions of people in communities or areas stricken by disasters, calamities, epidemics, or complex emergencies, may be normalized as quickly as possible; and (b) coordinate with the DND thru the NMFO, HPN for the appropriate identification of programs and projects listed in the Program of Expenditures to best reflect the true spirit and intent of the DRRM Fund, specifically the proper utilization of the QRF, which should focus mainly on quick relief activities rather than on disaster preparedness, to avoid disallowance in audit.

The above findings and recommendations contained in the report were discussed with the concerned officials of the agency in the exit conference held on May 19, 2016. Management views and reactions were considered in the report, where appropriate. The details of the above observations were discussed in the Part II of this report.

G. STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS

Out of the 51 audit recommendations contained in the CY 2014 Consolidated Annual Audit Report, 18 were fully implemented, 23 were partially implemented and 10 were not implemented.