

EXECUTIVE SUMMARY

A. INTRODUCTION

The Philippine Veterans Affairs Office (PVAO) was created pursuant to Presidential Decree No. 1 dated 24 September 1972 through Letter of Implementation No. 19 dated 24 December 1972 under the supervision of Department of National Defense (DND) which consequently phased out the Philippine Veterans Administration. As the primary government office that caters to the needs of the veterans, PVAO administers old age, disability, and death pension payments to veterans and beneficiaries under Republic Act Nos. 6048 and 7696 and other Philippine laws. PVAO also administers burial claims, educational and hospitalization benefits to veterans and surviving spouses and dependents.

Pursuant to Executive Order 366 dated 4 October 2004, the PVAO Rationalization Plan was approved on 29 June 2010 changing the Agency’s “benefit based” structure to an “activity/process-oriented” or function-based organization.

The agency’s functions include the following:

- a. Formulate policies concerning ex-servicemen’s affairs, including their placement and training, as well as assistance to widows, dependents and retired personnel;
- b. Adjudicate and administer their benefits, pensions and other privileges granted to veterans, their heirs and beneficiaries; and
- c. Provide medical care and treatment to veterans pursuant to existing laws.

As of 31 December 2015, PVAO has 370 authorized plantilla positions of which 356 positions were filled-up and augmented by 98 contractual employees. It is headed by LtGen. Ernesto G. Carolina, AFP (Ret), Administrator and assisted by MGen. Raul Z. Caballes, AFP (Ret) as Acting Deputy Administrator.

B. OPERATIONAL HIGHLIGHTS

Particulars	CY 2015		
	Target	Actual	%
Major Final Output (MFO)			
MFO 1: Administration of Veterans’ Pension and Benefits Program			
a. Ave. number of pension payments made	210,816	202,810	96
b. Ave. number of pensioners (Warmbodies)	174,465	168,976	96
c. No. of other benefit payments & beneficiaries made:			
c.1 Hospitalization Benefits			
c.1.a Hospitalization	187	316	169

Particulars	CY 2015		
	Target	Actual	%
c.1.b Personal Reimbursements	0	1,557	NA
c.2 Educational Assistance	1,849	2,287	124
c.3 Burial Assistance	3,750	5,836	156
MFO 2: Preservation and Development Services for Military Shrines			
a. Number of Shrines Maintained	7	8	114
b. Satisfactory Rating by Shrine visitors as to facility maintenance and customer service	90%	92%	102

The detailed PVAO's 2015 accomplishments are presented in Annex A.

C. FINANCIAL HIGHLIGHTS

The agency's financial conditions for CY 2015 with comparative figures for CY 2014 are as follows:

Financial Position:

Particulars	2015	2014
Assets	₱3,621,014,917.97	₱2,198,896,430.29
Liabilities	₱970,020,250.89	₱587,822,751.45
Government Equity	₱2,650,994,667.08	₱1,611,073,678.84

Results of Operation:

Particulars	2015	2014
Total Revenue	₱8,702,798.53	₱271,926,110.03
Current Operating Expense	₱11,203,386,188.36	₱10,871,646,837.55
Surplus (Deficit) from Current Operations	₱(11,194,683,389.83)	₱(10,599,720,727.52)
Net Financial Assistance/Subsidy from National Government	₱10,309,043,254.10	₱11,016,963,985.22
Surplus (Deficit) for the period	₱ (885,640,135.73)	₱417,243,257.70

Sources and Application of Funds:

The Sources and Application of Funds, inclusive of continuing allotments are as follows:

Particulars	CY 2015	CY 2014
Allotment Received	₱10,320,025,606.60	₱11,048,014,307.00
Obligations Incurred	₱ 10,312,611,566.91	₱11,026,790,872.31
Unexpended Balance	₱ 7,414,039.69	₱21,223,434.69

The Statement of Allotment, Obligations and Balances as of 31 December 2015 is attached as Annex B.

D. SCOPE OF AUDIT

The audit covered the transactions and operations of the PVAO for CY 2015.

E. AUDITOR'S REPORT

The auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the PVAO considering the materiality of the accounting errors and deficiencies as shown on the Analysis of the Effects on the Misstatements in the FS marked as Annex C and presented below including the recommendations:

1. The difference of ₱508,769,029.33 between the book balance of *Cash in Bank – Local Currency, Current Account (CIB-LCCA)* of ₱1,419,653,141.18 and the adjusted bank balance of ₱910,884,111.85 remained unadjusted in the books despite having been identified in CY 2011, thereby rendering the account balance unreliable and indicative of weak internal control in the reconciliation of bank accounts. (*Observation No. 4*)

We reiterated our previous recommendations that Management: (a) study and evaluate the existing internal control system in the preparation of the bank reconciliation statements, including revisiting the MOA with servicing banks to define the functions and responsibilities of the parties therein as well as the imposition of penalties/sanctions for non-compliance therewith, in order to present a reliable balance for the CIB-LCCA; (b) make strong representation with the concerned banks for the speedy submission of the list of pensioners to which the debit memos relate together with all necessary documents in support thereof; and (c) direct the Bank Reconciliation Unit to undertake an immediate and speedy reconciliation of all bank accounts relating to pension remittances and liquidations with servicing banks to eliminate all discrepancies between the book and bank balances by analyzing all the reconciling items.

2. The *Advances to Officers and Employees* amounting to ₱5,432,494.04 included unreconciled balances of ₱5,103,915.73, hence, unreliable. Further, cash advances amounting to ₱328,578.31 remained not liquidated as of year-end, contrary to paragraph 5.8 of COA Circular No. 97-002 dated 10 February 1997. (*Observation No. 5*)

We recommended and Management agreed to: (a) demand the immediate liquidation of the amount of ₱328,578.31, otherwise, effect the withholding of salaries of concerned employees and apply to their cash advances; (b) request authority from the COA for the write off of the advances to officers and employees amounting to ₱5,103,915.73 it appearing that all efforts exerted to reconcile the same yielded negative results; and (c) henceforth, ensure that all cash advances are liquidated/settled at year-end, in pursuance to the provisions of Section 89 of PD 1445 and COA Circular No. 97-002;

3. The *Due from NGAs* of ₱58,449,842.69 was unreliable due to the undocumented and unaccounted prior years' fund transfers of ₱3,640,983.56 and unreconciled discrepancy of ₱1,480,841.53 between the balances per Procurement Service - Department of Budget and Management (PS-DBM) and PVAO's books of ₱6,125,592.65 and ₱7,606,434.18, respectively. (*Observation No. 6*)

We reiterated our previous year's recommendations that Management: (a) direct the Chief Accountant to closely monitor the submission of reports of disbursements by Veterans Memorial Medical Center (VMMC) and refrain from granting additional fund transfers until the outstanding balances have been liquidated to prevent further accumulation of unliquidated fund transfers; (b) require the staff in charge of the account PS-DBM to strictly monitor, reconcile and coordinate with the PS-DBM to ensure prompt and complete delivery of goods for the Agency Procurement Requests (APRs) issued, reconcile balances per PVAO's accounting and property records against PS-DBM statement of account. Prepare a monthly reconciliation statement to keep track of the undelivered supplies and equipment; and (c) require the Chief, Administrative Division to review all the contracts/Memorandum of Agreement (MOA) supporting the fund transfers and see to it that all the mandatory provisions on the responsibilities of both parties are clear and complete, and the timelines for the duration of the project and for submission of liquidation reports are included; (d) direct the Project Management Team to closely monitor the implementation of the projects in order to ensure completion within the time frame thereby immediate use thereof by the intended beneficiaries is enjoyed; and (e) conduct inventory of all the accounting records/reports and documents stored in their present office and in all of the stockrooms that the Accounting Unit is currently and has previously maintained to finally locate the documents pertaining to unaccounted/unreconciled prior years' fund transfers to establish the correctness of the account balance of ₱3,640,983.56. Document all the actions taken by management and use these documents as supporting requirements to the

request for dropping from the books dormant accounts to be filed with the COA. Comply strictly with the procedures set forth in COA Circular No. 97-001 for proper disposition of dormant accounts.

4. The year-end balance of account *Other Receivables* amounting to ₱415,682,592.97 and *Pension Benefits Payable* of ₱953,497,000.00 were doubtful due to (a) the existence of dormant other receivables of ₱239,666,789.67 or 58 percent of the total *Other Receivables*; and (b) absence of documents to support the validity of recorded receivables amounting to ₱218,274,958.63 representing 53 percent of the *Other Receivables*. Further, the provision of the MOA on the submission of liquidation of remittances within a prescribed period was not strictly enforced against savings and loan associations and commercial banks resulting in low liquidation rate of pension remittances and retention of cash amounting to ₱154,422,742.15 by these entities, depriving PVAO of the interest income that could be derived therefrom. (*Observation No. 7*)

We reiterated our previous year's recommendations and Management agreed to: (a) make strong representation with the officials of the Rural Banks for the submission of liquidation documents and/or refund of pension funds outstanding in their custody; (b) Obtain from Philippine Deposit Insurance Commission certification of closed rural banks and consequently file request for write-off of dormant accounts maintained in these banks; (c) order the thorough analysis, verification and documentation for the receivables amounting to ₱238,520,886.44 representing the accounts of Development Bank of the Philippines-Camp Aguinaldo, Centennial Bank, First Macro Bank, and PVAO Pension; (d) direct the Head, Accounting Unit to (i) exert cautiousness in the recording of transaction particularly adjustments/corrections of previous entries to ensure reliability of information presented in the financial statements; and (ii) review and validate all Asian United Bank PYs reconciliation statements undertaken and/or documents submitted by the Bank Reconciliation Unit to ensure the correctness of liquidation of pension remittances recorded in the books and adjust over liquidation accordingly; and (e) require the Finance Division to exert more compelling actions in demanding for liquidation documents from Maybank and Composite Wing Savings and Loan Association Inc. to ensure settlement of long outstanding balances.

5. The *Inventories* account with an aggregate balance of ₱43,384,942.19 was unreliable due to (a) discrepancy of ₱23,647,440.45 between the books and the Report of Physical Count of Inventories (RPCI) for *Office Supplies Inventory, Drugs and Medicines for Distribution* and *Fuel, Oil and Lubricants Inventory*; (b) the non-conduct of physical count of three inventory accounts in the total amount of ₱8,756,484.55; (c) the continued existence in the books of unreconciled SL balances amounting to

₱2,847,413.13; and (d) accounting errors resulting in overstatement/understatement of balances. (*Observation No. 8*)

We reiterated our previous year's recommendations that Management: (a) direct the Inventory Committee to conduct physical count of all inventories, prepare and submit the RPCIs for all types of Inventories and henceforth, prepare and submit every semester a duly certified and approved RPCI to the Auditor not later than July 31 and January 31 of each year; (b) require the Accounting Unit and General Services Section to analyze and reconcile their records with the intention of eliminating the discrepancies; (c) assign one accounting staff to identify/analyze the unreconciled inventory accounts SL balances to come up with the necessary adjustments in the books of accounts; and (d) instruct the Head, Accounting Unit to draw a JEV correcting the overstatement and understatement of ₱374,627.00 of account Office Supplies Inventory and Construction Materials Inventory account, respectively.

6. The balances of the *Property, Plant and Equipment* (PPE) accounts with aggregate balances of ₱376,217,676.74 were doubtful due to the: (a) discrepancy of ₱77,780,868.69 between the eight PPE accounts balances appearing in the Accounting records and Report of Physical Count of Property, Plant and Equipment (RPCPPE); (b) non-conduct of physical inventory of five PPE accounts of ₱14,580,206.23; (c) uncertain ownership of a parcel of land and a number of Motor Vehicles in the aggregate amount of ₱5,179,712.93; (d) demolished condemned Office Building of ₱22,561,515.51 still carried in the books; (e) recorded costs of donated Office Buildings of ₱260,091,000.00 not supported with documents; (f) unrecorded disposal of PPE amounting to ₱8,484,036.65; (g) two lost vehicles of ₱1,699,000.00 remained in the Motor Vehicles account; and (h) unadjusted prior years' various accounting errors of ₱18,670,862.59. (*Observation No. 9*)

We reiterated our prior year's recommendations and Management agreed to: (a) require the Head, General Services Section to conduct the inventory of property in Central Office and in all Field Service Extension Offices (FSEOs) under all PPE accounts, once every year and prepare and submit the RPCPPE; and to submit and coordinate with the Chief Accountant on the requirements and corrections to the Inventory and Inspection Report of Unserviceable Property (IIRUP) for the disposed PPEs in the total amount of ₱5,877,466.09 so that the amount could be finally dropped from the books; (b) require the Heads of the Accounting Section and General Services Section to reconcile the property records and accounting records using a complete and accurate RPCPPE and IIRUP; and direct the Accounting Unit to reclassify the erroneous entries to the appropriate PPE account in order to reflect the correct balances of the affected accounts; (c) direct the Chief, Administrative Division to (i) prioritize and exert efforts to obtain a certification on the building condemnation from the proper office at the Manila City Hall to support the dropping from the books of the condemned Arroceros Building to present

fairly in the financial statement the balance of Office Buildings account. Moreover, determine the appraised value and the ownership of the existing buildings at Arroceros, Manila, for recording in the PVAO books of accounts; (ii) make representations with the Land Transportation Office regarding the registration of donated serviceable motor vehicles in the name of PVAO; and (iii) formulate a Standard Procedures on Disposal of Unserviceable PPE in FSEOs to include timelines and responsible official/employee so that a uniform/consistent and fast tracked procedures will be followed. Moreover, disseminate this guidelines to all Heads of the FSEOs so that they will be guided and act accordingly on their perennial problem of disposing very old unserviceable PPEs occupying their very small office spaces; (d) direct the Chief, Veterans Memorial and Historical Division to provide the Accounting Section/Unit reference documents to serve as basis for the value of the two donated buildings that may warrant adjustment of recorded amount thereof; thus, reflecting in the books the correct valuation of the properties consistent with with Section 27 of PPSAS 17; and (e) direct the Accounting unit to reclassify the erroneous entries to the appropriate PPE accounts in order to reflect the correct balances of the affected accounts.

7. Dormant payables totaling ₱7,299,994.25, or 58 percent of the recorded *Accounts Payable* of ₱12,646,346.50, were not reverted to surplus account contrary to Section 98 of PD 1445. (*Observation No. 10*)

We recommended that Management direct the Chief Accountant to review, analyze and verify dormant balances of Accounts Payable with the view of reverting to the surplus account those which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record.

F. OTHER OBSERVATIONS AND RECOMMENDATIONS

8. The balance of *Due to GSIS* account was unreliable due to the inclusion of Unreconciled SL account with a negative balance of ₱914,305.72 and negative balances from four SL accounts in the aggregate amount of ₱19,394.81. (*Observation No. 11*)

We recommended and Management agreed to verify, analyze and reconcile the unreconciled and negative SL balances of account Due to GSIS to present accurate balance in the financial statements.

9. The correctness and validity of the payments for salaries and wages of the employees for the period January 1 to December 31, 2015 totaling ₱43,465,153.01 could not be ascertained due to non-observance of the Civil Service rules and regulations on government office hours and non-compliance with the basic requirements for disbursements. Moreover, errors in the

posting in the Leave Index Cards of the vacation and sick leaves earned and enjoyed by employees resulted in the over/under deduction of the employees' earned leaves which either benefited or deprived the concerned employees. (*Observation No. 12*)

We recommended and Management: (a) require the Chief, Administrative Division to: (i) strictly follow the provisions of Sections 5 and 8 of Rule XVII of the Civil Service Law and Rules regarding the official government office hours; (ii) instruct the personnel in charge of Attendance and Leave Monitoring to exert cautiousness and diligence in the computation of leave credit balance and hold him liable for any errors committed. Further, require the responsible staff to re-compute the leave earned, enjoyed and balance recorded in the leave cards of all officers and employees from their first day in service in PVAO up to the present; and (iii) issue an office policy on the strict filing of application for leave whenever an employee incurs absences and the corresponding sanction for its non-compliance in accordance with CSC laws, rules and regulations; (b) impose disciplinary actions to officers and employees who are consistently tardy to instill discipline and honesty to public servants; and (c) require the Cashier to see to it that, payroll for salaries and wages is complete with all the required signatures particularly of the Head, Accounting Section and the Administrator before the corresponding check is prepared, otherwise, she shall be held liable for the unfunded and unauthorized disbursement.

10. The mandate of the Field Service Extension Offices (FSEOs) under Section 22 of Letter of Instruction No. 19 dated 3 December 1972 to revalidate and assist in the implementation of hospitalization and educational benefit programs was not fully achieved due to lack of coordination and consistent directives from PVAO. (*Observation No. 1*)

We recommended that Management conduct a comprehensive study and evaluation of the operations of the FSEO with the end view of decentralizing the revalidation program, evaluation and monitoring on the availment of educational benefit and hospitalization programs, thereby rendering effective and efficient service to the veterans.

11. The 10-day processing period of educational benefit (EB) and burial assistance (BA) was not achieved, inconsistent with the PVAO charter, to the disadvantage of the veterans and their beneficiaries.

We reiterated our previous year's recommendation that Management revisit the existing BA and EB processing system to determine duplication/weaknesses and breakdowns therein with the view of improving and streamlining the processes to ensure that BA and EB claims are released within 10 days from filing, consistent with PVAO's charter. Further,

investigate significant delay and provide sanctions against personnel causing unreasonable delay. (*Observation No. 2*)

12. The ISO 9001:2008 certified adjudication time of ten to 20 days for new pension claims (NPC) was again not attained in 2015 as adjudication ranges from one month to a number of years. Alternatively, the certified processing time for delivery of pension from receipt of bank confirmation slip (BCS) to actual remittance thereof cannot readily be determined because the Integrated Veterans Database Management System (IVDMS) does not have a feature capturing the date of receipt of BCS. (*Observation No.3*)

We reiterated our recommendations that Management revisit its Standard Operating Procedures on Pension Management to ensure that the ISO Certification for Adjudication Time of NPC be maintained and renewed annually. Further, review and re-assess the processing time for delivery of pension in order to achieve a more realistic number of days so that new pensioners will be given the exact waiting time to receive their initial pension. Further, enhance the IVDMS for a ready determination of processing time on the delivery of pensions.

The above findings and recommendations contained in the report were discussed with the concerned officials of the agency during the exit conference on 25 May 2016. Management's views and reactions were considered in the report, where appropriate.

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

Validation of the implementation of the prior years' audit recommendations disclosed that out of 48 prior years' audit recommendations, 19 were fully implemented, 20 were partially implemented and nine remained unimplemented. The results are discussed in details in Part III of this report.