

EXECUTIVE SUMMARY

A. Introduction

The Procurement Service (PS) is mandated to implement a central procurement system for the purpose of procuring supplies and materials for use of the national government (NG) and its agencies and instrumentalities, pursuant to Letter of Instruction (LOI) No. 755, dated October 18, 1978. The LOI is anchored on the policy of procuring supplies and materials in the most economical and efficient manner, by purchasing directly from reliable sources in economic lot sizes, observing optimum specifications, and making prompt payments. The same LOI put PS under the administrative supervision of the Department of Budget and Management (DBM).

Executive Order (EO) No. 285, dated July 25, 1987, transferred the functions of the Supply Coordination Office to the PS, while EO No. 359, dated June 2, 1989, established, as part of its regular organization structure, the Regional Depots (RDs) and Sub-Depots (SDs) from which government agencies may locally purchase their common use supplies, materials, and equipment requirements. This was followed by the launching of the government-wide Philippine Government Electronic Procurement System (PhilGEPS) under the management of the PS by virtue of EO No. 40, dated October 8, 2001.

The issuance of Administrative Order (AO) No. 17, dated July 28, reiterated to all government agencies that their procurement of common use supplies shall be done through the PS and that the PhilGEPS shall be used in all their procurement activities, including publication of all their bid opportunities and posting of all their awards and contracts, in accordance with Republic Act (RA) No. 9184.

The PS operates on its own income and does not receive any allotment from the NG. The Executive Director, as head of the PS, is in charge of the overall operations of the office. As of December 31, 2019, the PS, including in the 11 regional depots, has 465 total personnel complement, composed of 364 contractual and 101 Job Order employees.

B. Financial Highlights

The financial position and financial performance of the PS for Calendar Year (CY) 2019, with corresponding figures for CY 2018, are as follows:

Particulars	2019	2018	Increase/(Decrease)
		(As Restated)	
Amounts (in Millions)			
Financial Position			
Assets	₱25,006.150	₱21,981.866	₱3,204.284
Liabilities	19,110.997	19,455.801	(344.804)
Net Assets/ Equity	5,895.153	2,526.065	3,369.088

Particulars	2019	2018	Increase/(Decrease)
	(As Restated)		
Amounts (in Millions)			
Financial Performance			
Revenue	₱ 2,395.629	₱ 1,095.400	₱1,300.229
Expenses	(324.438)	(291.718)	(32.720)
Non-Operating Income			
Gains	0.164	189.662	(189.498)
Losses	(2.266)	(0.589)	(1.677)
Surplus for the period	2,069.088	992.755	1,076.333

For CY 2019, the PS has a DBM approved budget of ₱723.649 million compared with the CY 2018 of ₱975.433 million, details as follows:

Particular	CY 2019	CY 2018	Increase (Decrease)
	(Amounts in Million)		
Personnel Services	₱ 253.020	₱ 387.043	(₱ 134.023)
Maintenance and Other Operating Expenses	173.059	136.913	36.146
Capital Outlay	297.570	451.477	(153.907)
Total Approved Budget	₱ 723.649	₱ 975.433	(₱ 251.784)

Additional revolving fund of ₱1,300 million was released by the DBM on November 25, as stated under item no. 1 of the Special Provisions under the DBM budget for the FY 2019 General Appropriations Act.

C. Scope and Objectives of Audit

The audit covered the financial accounts and operations for CY 2019 of the PS. The audit was conducted to: (a) verify the level of assurance that may be placed on Management's assertions on the financial statements (FSs); (b) recommend agency's improvement opportunities; (c) determine the propriety of transactions as well as the extent of compliance with pertinent laws, rules and regulations; and (d) determine the extent of implementation of prior year's audit recommendations.

For CY 2019, the audit covered the review, on a sampling basis, the accounts and operations of the PS and its Regional and Local Government Units (LGUs) Depots, the result of which are consolidated in this report.

D. Audit Methodology

We adopted a risk-based audit approach in the audit of the FSs of the PS and in the review of compliance with laws, rules, and regulations. The Audit Team which carried out the audit, among others; (a) examined financial and accounting procedures adopted by the PS and other relevant documentation; (b) assessed

internal controls regulating financial operations and carried out compliance testing for determining the extent of control in operation; (c) conducted substantive testing of a representative sample of selected transactions; (d) carried out review, on test check basis, of a number of contracts and transactions related to movements in balances of assets, liabilities, revenues, and expenses; and (e) conducted interviews and held discussions with the concerned officials and staff in the PS Main Office.

The results of the audit were communicated to the Head of the Agency and the concerned officials through the issuance of Audit Observation Memoranda (AOMs)

E. Independent Auditor's Report on the Financial Statements

A qualified opinion was rendered on the fairness of presentation of the FSs of the PS for CY 2019 due to material accounting errors and deficiencies noted, which are stated in the Independent Auditor's Report, and discussed in detail in *Part II* of this report.

F. Summary of Significant Audit Observations and Recommendations

Among the audit observations and corresponding recommendations discussed in *Part II* of this report, the significant observations are summarized, as follows:

1. Unserved Agency Procurement Requests totaling ₱589.197 million resulted in decreased sales and the non-delivery of PS's service to provide client-agencies with their Common use Supplies and Equipment (CSEs) requirements for their operations.

We recommended and Management agreed to require the:

- a) Head of the Procurement Group to: (i) adopt controls and procedures that would help meet and monitor the timelines of all procurement activities to ensure completion within the required timeline; and, (ii) consider the imposition of sanctions for those Bids and Awards Committees which failed to complete the procurement process within the required timeline of 36 up to 136 calendar days from the date of advertisement to the issuance of the Notice to Proceed;**
- b) Chief of the Warehousing and Logistics Division to study and propose a policy on reorder point for each CSE that seeks to avoid the frequent out of stocks of the CSE for evaluation and approval by Management; and**
- c) Heads of the Depots in PS RDs II, III, V, and XIII to: (i) instruct the Supply Officers to monitor and maintain a regular schedule of orders of items which have not yet been delivered and to monitor the time lag of**

the delivery to client-agencies; and (ii) intensify coordination with the PS Main for the immediate delivery of inventories requested.

2. Expired and near-expiring surety bonds of ₱149.537 million under *Advances to Contractors* granted to 12 contractors for infrastructure projects totaling ₱1,421.035 million exposes these prepayments to a high risk of non-collection.

We recommended and Management agreed to instruct the Head of the Finance Group to:

- a) **Provide mechanisms for proper monitoring of surety bonds pertaining to advance payments made for contracts with extended implementation period; and**
 - b) **Require the suppliers to provide new surety bond or extend the Irrevocable Standby Letter of Credit/Surety Bonds as a replacement for expired/near expiring securities for the advance payments to contractors.**
3. Deficiencies in budgetary controls, and budgetary and financial reporting, resulted in unreliable budgetary and financial reports/records.

We recommended that Management instruct the:

- a) **Budget Officer and Chief Accountant to prepare, maintain, and submit the required budgetary and financial accounting reports within the deadline set by law, which is 30 days after end of quarter for Financial Accountability Reports (FAR) No. 2, 2-A, FAR 5, and FAR 6, and for FAR 3, which is 30 days after end of the closing year;**
 - b) **Head of Administrative and Finance Group to explain the overutilization of expenses of ₱17.046 million;**
 - c) **Chief Accountant to: (i) prepare necessary Notice of Budget Utilization Request and Status Adjustment and approve the same to adjust excess-/under-utilization for future realignments; (ii) maintain separate books of accounts of the Revolving and Trust Funds and prepare respective FSS for proper monitoring, accounting, and reporting of the operations of both in the FSS; and (iii) adhere strictly to the use of the agency's assigned Unified Account Code Structure for all financial transactions; and**
 - d) **Officer In-Charge, Treasury Division, to refrain from doing budget-related work for control purposes.**
4. Non-posting of required accountability information/reports on the Transparency Seal (TS) page in its website had undermine the participatory governance and the public's access to information on the PS.

We recommended and Management agreed to designate a Web Administrator who will be directly responsible for: (a) compliance with the TS requirements and monitoring of the same; (b) maintenance and updating of the TS page by posting the required documents; and (c) ensuring that the links to the documents will open on a new tab/page for preview, and should not be automatically downloaded.

The aforementioned observations and the corresponding recommendations were discussed with concerned Management officials during the exit conference on June 25, 2020. Management views and comments were incorporated in the report, where appropriate.

G. Status of Audit Suspensions, Disallowances and Charges

For CY 2019, the PS has suspensions, disallowances, and charges of ₱2,460.279 million, ₱91.784 million and ₱0.00, respectively. Details are shown in *Part II* of this Report.

H. Status of Implementation of Prior Years' Audit Recommendations

Of the 73 audit recommendations embodied in the CY 2018 Annual Audit Report, 28 were fully implemented, and 45 were not implemented. The details are discussed in *Part III* of this Report.

We enjoin Management to ensure full implementation of all audit recommendations to improve the financial and operational efficiency of the agency.