

## **EXECUTIVE SUMMARY**

### **A. Introduction**

When the Ministry of Finance, now Department of Finance (DOF), was reorganized under Executive Order (EO) No. 127 dated January 30, 1987, the Bureau of Customs (BOC), being one of the agencies under the DOF, also underwent reorganization. EO No. 46, signed in October 20, 2017, revived the Post Entry Audit Group (PEAG) in the BOC and renamed it as Post-Clearance Audit Group (PCAG).

The BOC is the second largest revenue collecting agency of the government after the Bureau of Internal Revenue (BIR) and is mandated with the tri-mission of revenue collection, trade facilitation, and trade border protection. Section 202 of the Customs Modernization and Tariff Act (CMTA) mandated the BOC to perform, among others, the following functions:

- 1) Assess and collect lawful revenue;
- 2) Simplify and harmonize procedures to facilitate movement of goods in international trade;
- 3) Border control to prevent entry of smuggled goods;
- 4) Prevent and suppress smuggling and other frauds;
- 5) Facilitate and secure international trade and commerce through an informed compliance program; and
- 6) Enforce this Act and all other laws, rules, and regulations related to customs administration.

The BOC is headed by Customs Commissioner Reynaldo Leonardo B. Guerrero and assisted by six Deputy Commissioners and one Assistant Commissioner who supervise the groups as follows: Internal Administration, Assessment and Operations Coordinating, Revenue Collection and Monitoring, Post-Clearance Audit, Intelligence, Enforcement, and Management Information System and Technology; and has 17 Customs Collection Districts (CCDs). It has 6,285 authorized plantilla positions and 1,125 Contract of Services (COS) as of December 31, 2019.

### **B. Financial Highlights**

The financial position, financial performance, and the sources and application of funds of the BOC for Calendar Year (CY) 2019, with comparative figures for 2018, are summarized in the next page.

Particulars	2019	2018	(Increase/ (Decrease)
	(As Restated)		
(in Million Pesos)			
<b>Financial Position</b>			
Assets	₱20,080.894	₱15,677.969	₱4,402.925
Liabilities	₱ 8,533.506	₱ 11,688.537	(₱3,155.031)
Net Assets/Equity	11,547.388	3,989.432	7,557.956
<b>Financial Performance</b>			
Revenue	643,516.214	606,297.872	37,218.342
Net Financial Subsidy	5,224.600	4,372.398	852.202
Sale of Asset	351.957	1,154.421	(802.464)
Sub-total	651,680.935	614,442.462	37,238.473
Expenses	2,383.330	2,513.388	(130.058)
Surplus for the Period	646,709.441	609,311.303	37,398.138
<b>Sources and Application of Funds</b>			
Appropriations	3,323.187	4,756.520	(1,433.33)
Allotment Received	3,203.418	4,687.275	(1,483.86)
Obligations	3,083.609	4,401.828	(1,318.22)
Unobligated Balance	119.809	285.447	(165.64)

The Statement of Appropriations, Allotments, Obligations, Disbursements, and Balances (SAAODB) as of December 31, 2019 is shown in *Appendix 5*.

### C. Scope and Objectives of Audit

The audit covered the financial audit of the accounts of the BOC for the period ended December 31, 2019. The audit was conducted to: (a) verify the level of assurance that maybe placed on Management's assertions on the financial statements (FSs); (b) recommend agency's improvement opportunities; (c) determine propriety of transactions as well as extent of compliance with pertinent laws, rules and regulations; and, (d) determine the extent of implementation of prior years' audit recommendations.

### D. Audit Methodology

We adopted a risk-based audit approach in the audit of the financial statements of BOC and in the review of compliance with laws, rules and regulations. The Audit Team which carried out the audit, among others, (i) examined financial and accounting procedures adopted by the BOC and other relevant documentation; (ii) assessed internal controls regulating financial operations and carried out compliance testing for determining the extent of control in operation; (iii) conducted substantive testing of a representative sample of selected transactions; (iv) 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 (v) conducted interviews and held discussions with the concerned officials and staff in the Central 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 and discussion in an exit conference.

#### **E. Independent Auditor's Report on the Financial Statements**

The Auditor rendered an adverse opinion on the fairness of presentation of the BOC FSs as of December 31, 2019 in view of the unadjusted accounting errors and omissions amounting to ₱1.260 billion, as well as unresolved accounting deficiencies, which had exceeded the materiality level of ₱11.890 million by 10,497.28 per cent as discussed in the Independent Auditor's Report and 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. The Bureau did not remit to the National Treasury the trust receipts/collections and other idle/unauthorized cash balances amounting to ₱1.651 billion and ₱179.469 million, respectively, as of December 31, 2019, thus depriving the National Government (NG) of much needed funds to finance government programs and projects.

**We reiterated our prior year's recommendation with modification for Management to strictly adhere to the remittance of all trust receipts and other idle/excess cash balances to the National Treasury and closure of the account/s, pursuant to existing laws and regulations on maintenance of special and trust fund accounts.**

2. Unpaid duties and taxes amounting to ₱599.888 million arising from Post Modification of SAD (PMS), with legal interest and surcharges, remained uncollected as of December 31, 2019, depriving the government the much needed funds to finance its programs and projects.

**We reiterated our prior years' audit recommendations for Management to require the following:**

- a) **District Collectors to ensure that a dedicated personnel at the Port monitors all unpaid assessment/re-assessments accounts to ensure that all unpaid accounts are collected;**

- b) **Liquidation and Billing Division** to designate a personnel to issue demand letters for all entries with PMS for the collection of unpaid duties and taxes plus applicable interests and surcharges to the concerned importers; and
  - c) **Management Information System and Technology Group (MISTG)** to enhance the system to include a facility that would monitor the Import Entry Declaration status to ensure that all unpaid taxes and duties are captured by the Collection Districts.
3. Projects under various agency outsourcing requests and covered by fund transfers amounting to ₱2.857 billion to the Philippine International Trading Corporation (PITC) remained unimplemented for over 10 to 31 months, due to absence of Terms of Reference (TOR), thus timely delivery of programmed projects/activities and the purpose for engaging PITC services were not achieved.

**We recommended and Management agreed to:**

- a) **Coordinate with the PITC and submit necessary documents, as required in the TOR, to facilitate the immediate delivery and completion of the outsourced projects;**
  - b) **Direct the PITC to return the total amount of ₱1.521 million, representing unexpended balance, to the BOC in compliance with the MOA and, thereafter, deposit the same to the Bureau of the Treasury (BTr); and**
  - c) **Henceforth, refrain from engaging the services of the PITC and direct the BOC-Bids and Awards Committee to handle the bidding for projects it is capable of carrying out to avoid incurrence of unnecessary service fees.**
4. Advances to Procurement Service – Department of Budget and Management (PS – DBM) amounting to ₱2.314 billion for the procurement of common used supplies, materials, and equipment, remained undelivered, ranging from one to seven years, thus delaying implementation of programs activities of the BOC to the disadvantage of users and stakeholders.

**We reiterated our prior years’ audit recommendations with modifications and Management agreed to direct the:**

- a) **General Services Division and MISTG to work closely with the PS-DBM for the immediate delivery of already paid and needed supplies, materials, and equipment and other services; and**

- b) Accountant to stop transferring funds to the PS-DBM, instead offset the balance against current and future requisitions, if the requested items are not available and/or no longer necessary, or require the PS-DBM to return the amount equivalent to undelivered items to the BTr for the account of the BOC.**
- 5. Liquidated damages totaling ₱30.721 million arising from delayed deliveries of x-ray machines were neither imposed nor collected by the BOC as required in the contract for the supply, delivery, installation, and commissioning of various x-ray machines.

**We recommended that Management:**

- a) Impose liquidated damages totaling ₱30.721 million as a result of the delays incurred as of April 17, 2020; and**
  - b) Submit documents to explain and/or justify why: (i) there were machines not yet installed and operational from the date these were delivered; and, (ii) supposed deliveries to Mactan, Ninoy Aquino International Airport, and Laoag airports were either not found or items misdelivered and institute appropriate action, if warranted.**
- 6. Outstanding due and demandable bonds has accumulated to ₱6.688 billion as of December 31, 2019 due to failure of importers to liquidate or cancel the bonds and the BOC Ports to take necessary actions on these accounts, thus, depriving the government of additional revenue to finance government operations and projects.

**We recommended and Management agreed to:**

- a) Facilitate the forfeiture of the bonds of the surety companies concerned and take necessary actions to collect the amounts corresponding to the duties and taxes guaranteed by the securities;**
  - b) Update and reconcile the records between the BOC and Customs Bonded Warehouse to ensure that the amounts recorded are correct;**
  - c) Follow strictly the procedures in the forfeiture of bonds as provided in Customs Memorandum Order (CMO) No. 8-2007 dated April 10, 2007;**
  - d) Revoke the accreditation of the two surety companies (Traveler's Insurance & Stronghold Insurance) and process renewal only when they have complied with the 30 per cent threshold of unpaid accounts, in compliance with the paragraph 3.2.4 of CMO 22-2003 dated October 10, 2003; and**

- e) **Issue Demand Letters to concerned surety companies for payment of penalty/ surcharges pursuant to Section 2, Paragraph 3 of Custom Administrative Order (CAO) No. 5-91 dated June 27, 1991 and impose strictly the computation/collection of penalty and surcharges over and above the due and demandable bonds, on subsequent settlement of bonds.**
7. A total of 20,079 overstaying containers carrying various articles remained undisposed in various BOC Ports for a period ranging from 30 days to more than 25 years as of December 31, 2019 in violation of the Customs Modernization and Tariff Act.

**We reiterated our prior year’s audit recommendations with modification that Management require the concerned Ports to:**

- a) **Conduct regular review of disposal proceedings and ensure that these are strictly followed and monitored to be able to meet defined timelines;**
- b) **Conduct immediate inspection of all overstating containers to determine the existence, condition, and status of the goods inside these containers;**
- c) **Prioritize disposal of perishable goods to maximize revenue collection; and**
- d) **Coordinate with the Philippine Ports Authority and Asian Terminal Inc., for the waiver of charges and arrastre.**

These observations and recommendations were also discussed with the concerned Management officials in an exit conference conducted on June 30, 2020. Management views and comments were incorporated in the report, where appropriate.

## **G. Status of Suspensions, Disallowances and Charges**

The balances of Notice of Suspensions (NSs), Disallowances (NDs) and Charges (NCs) as of year-end are summarized as follows:

Particulars	Status of NS, ND, and NC			Ending Balance December 31, 2019
	Beginning Balance January 1, 2019	CY 2019		
		Issued	Settlement	
Notice of Suspension		(in Million)		
OCOM	₱ 53,357.906	₱110.385	₱ 130.583	₱53,337.708
POM	134,012.561	0.000	134,009.503	3.058
MICP	192,252.634	0.000	192,174.293	78.341
NAIA	20.837	0.000	20.837	0.000
Port of Batangas	0.000	0.245	0.200	0.046
Port of ZIA	0.021	0.022	0.020	0.022
Port of CDO	0.000	0.016	0.000	0.016

Particulars	Beginning Balance	CY 2019		Ending Balance
	January 1, 2019	Issued	Settlement	December 31, 2019
<b>Sub-Total</b>	<b>379,643.959</b>	<b>110.668</b>	<b>326,335.436</b>	<b>53,419.191</b>
<b>Notice of Disallowance</b>				
OCOM	₱ 420.894	₱ 0.011	₱ 0.027	₱ 420.878
POM	2.630	0.000	0.000	2.630
MICP	0.723	0.000	0.000	0.723
NAIA	3.490	0.000	0.000	3.490
Port of Batangas	0.504	0.012	0.000	0.516
Port of ZIA	0.00	0.000	0.000	0.000
Port of CDO	1.911	0.000	0.000	1.910
<b>Sub-Total</b>	<b>430.152</b>	<b>0.023</b>	<b>0.027</b>	<b>430.148</b>
<b>Notice of Charge</b>				
OCOM	12,674.789	0.000	0.000	12,674.789
POM	15.466	7.749	0.426	22.789
MICP	5.178	0.000	0.000	5.178
NAIA	3.776	0.000	2.392	1.384
Port of Batangas	0.000	0.000	0.000	0.000
Port of ZIA	0.000	0.000	0.000	0.000
Port of CDO	0.000	0.000	0.000	0.000
<b>Sub-Total</b>	<b>12,699.209</b>	<b>7.749</b>	<b>2.818</b>	<b>12,704.140</b>
<b>Total</b>	<b>₱392,773.320</b>	<b>₱118.440</b>	<b>₱326,338.281</b>	<b>₱66,553.479</b>

We recommended and Management agreed to require the officials concerned to comply with laws, rules, and regulations to avoid audit suspensions, disallowances, and charges, and to settle the same within the prescribed period to prevent their accumulation to significant amounts.

#### H. Status of Implementation of Prior Years' Audit Recommendation

Of the 81 prior years' audit recommendations, 22 were fully implemented and 59 were not implemented, the details of which are presented 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.