EXECUTIVE SUMMARY

A. Introduction

Philippine Postal Corporation (PPC)

1. PPC was created by virtue of Republic Act No. 7354 otherwise known as the "Postal Services Act of 1992". It transformed the then Postal Service Office (PSO) from a Bureau into a Government-Owned and Controlled Corporation. Its mandate is to plan, develop, promote and operate a nationwide and universal postal system with network that extends throughout the entire Philippine archipelago. By being a member of the Universal Postal Union (UPU), a 192 member-country organization of the United Nations, the PPC has worldwide mail linkages that enable it to send mail to any part of the world.

2. PPC is a stock corporation composed of P10 billion authorized capital stocks divided into 45 million Class A and 55 million Class B shares, both voting and with par value of one hundred pesos. Class A shares shall be subscribed only by the Government while Class B maybe owned by private entities upon authorization by the PPC Board of Directors. On record, only Class A shares are subscribed.

3. The PPC powers shall be vested in and exercised by a Board of Directors of seven members including the Postmaster General. The President of the Philippines shall appoint all the seven members. The Board shall elect a Chairman from among its Members.

   The members of the Board so appointed by the President shall hold office for a term of five years each, except of those first appointed, two members shall have a term of five years, two with one year. Thereafter, the appointment is in accordance with the Corporation Law.

4. In CY 2012, PPC integrated the 17 regions of the Philippines into nine postal areas excluding the Central Office, through the issuance of the PPC Office Order No. 12-01 dated January 2, 2012. Currently, PPC provides mail services to these nine postal areas, through its 1,309 post offices nationwide and to the 192 member-country organization of the UN.

5. As of December 31, 2017, PPC had a total manpower complement of 7,947 personnel which consists of 5,043 personnel under plantilla positions, 2,875 Contract of Service (COS), 21 Contractual employees, two Consultants, one Corporate Secretary and five Board of Directors.

Scope and Objectives of Audit

6. The audit was conducted to determine the (a) level of assurance that may be placed on the Management's assertions on the Financial Statements; (b) the propriety of transactions and the Corporation's compliance with existing laws, rules and regulations including Management's policies; and (c) the extent of implementation of prior year's audit recommendations.

7. The audit covered the examination of accounts, transactions and operations of PPC for the period January 1 to December 31, 2017 in accordance with International Standards of Supreme Audit Institutions and examination of the cash and accountabilities of selected Accountable Officers. The audit involved cash examinations, data gathering through interview, ocular inspections and other relevant procedures essential to obtain sufficient evidential data to ascertain the propriety of the financial transactions and compliance with applicable laws, rules and regulations.

B. Financial Highlights

1. The PPC's financial position and financial performance for CY 2017, are shown below:

Financial Position (in Philippine Peso)			
	2017	2016	Increase/ (Decrease)
Assets	10,895,070,032	11,636,638,723	(741,568,691)
Liabilities	5,588,513,287	6,367,249,404	(778,736,117)
Equity	5,306,556,745	5,269,389,319	37,167,426

Results of Operation (in Philippine Peso)			
	2017	2016	Increase/ (Decrease)
Revenue	4,073,251,025	3,825,198,614	248,052,411
Operating Expenses	3,498,432,626	3,531,601,303	33,168,677
Income from Operations	574,818,399	293,597,311	281,221,088
Other Income/(Expenses)	(523,356)	21,326,729	(21,850,085)
Net Income	574,295,043	314,924,040	259,371,003

C. Operational Highlights for CY 2017

1. For CY 2017, PPC reported the following major accomplishments:

   a. The Domestic Parcel Post delivery performance in 2017 was 98 percent delivery within 7 days upon posting, which exceeds the delivery standard of 85 percent delivery. Moreover, delivery performance of Inbound International Ordinary Mail in 2017 was 98 percent delivery within 7 days after Customs Examination, which was beyond the standard delivery of 85 percent delivery.

   b. The total volume of items handled for Mail Services in 2017 was 75.145 million. Postal items posted totaled 66.653 million or 89 percent of the volume while 8.492 million or 11 percent are inbound international items delivered.

c. Express Post items handled in 2017 was 1.207 million. Of the volume, Inbound International Express delivered was 492,274 or 41 percent, Domestic Express items posted was 364,375 or 30 percent and International Express posted was 350,717 or 29 percent.

D. Auditor's Opinion

The Auditor rendered an adverse opinion on the fairness of presentation of the consolidated financial statements of the PPC for the year ended December 31, 2017 and 2016 for reasons stated below. Details are discussed in Part II of the Report.

1. The year-end balance of the Property, Plant and Equipment (PPE) accounts amounting to P5.363 billion was unreliable due to: (a) inclusion of unsubstantiated or "for reconciliation" accounts in *PPC Central Office* totaling P788.276 million which represents 19 percent of the accounts and a significant reduction of P171.696 million without proper documentation, contrary to Paragraph 27 of Philippine Public Sector Standards on Auditing (PPSAS) 1; (b) incomplete PPE Ledger Card (PPELC) maintained by *PPC Central Office* and Postal Area 1 Accounting Department for PPE account in the aggregate amount of P3.148 billion; (c) discrepancy of P16.442 million between the Report on Physical Count of PPE (RPCPPE) amounting to P149.386 million and balance per books of *Postal Areas 1, 6 and 8* amounting to P132.944 million, contrary to Paragraph 27 PPSAS 1 and COA Circular 80- 124; (d) variance of P16.582 million between the General Ledger and Lapsing Schedule in Postal Area 3; (e) inclusion of unidentified items of P21.695 million; and semi-expendable items below the capitalization threshold of P15,000 of P2.136 million in *Postal Area 3*, hence correct valuation could not be ascertained contrary to Paragraph 27 of PPSAS 1 and Paragraph 5.4.1 of COA Circular 2016-006; (f) failure to complete the physical inventory count of PPE in *Postal Area 3* and 6 and non-submission of Physical Inventory Report of Other Heritage Assets in *PPC Central Office* contrary to Section 38, Chapter 10 of GAM Volume I and Section 44 of PD 1445; (g) non-recognition and recording in the books of the 36 parcels of acquired lots thru donation in *Postal Area 9* contrary to Section 63 of PD 1445 and Section 3, Chapter 10 of the GAM; and (h) non-disposal of unserviceable properties in *Postal Areas 3 and 5* amounting to P22.789 million contrary to Section 79 of PD 1445 and Paragraph 67 of the Philippine Accounting Standards (PAS) 16.

2. The two reciprocal accounts *Due from Area Offices* in the Central Office books and *Due to Central Office* in all nine (9) PPC Area Offices books registered a cumulative variance of P647.362 million due to failure of Management to reconcile and properly eliminate these two accounts in the Consolidated Financial Statements and effect the necessary adjusting entries thus affecting the reliability of the agency's financial statements as at year-end, contrary to PAS 27.

3. The existence, accuracy and validity of the year-end consolidated balance of Cash in Bank – Corporate reported at P901.326 million could not be ascertained contrary to PPSAS 1 due to the following: (a) a consolidated total variance amounting to P107.867 million existed between balance per books in PPC Central Office, Postal Area 3 and 7 against confirmed bank balances; (b) existence of Unsubstantiated/Undocumented/Unidentified Cash in Bank balances totaling P413.878 million for PPC Central Office, Postal Area 1 and 2 while identified

reconciling items for PPC Central Office and Postal Area 5 totaling P64.461 million remained unadjusted; (c) in Postal Area 8, Cash in Bank in the amount of P83.4 million was recorded under Other Assets account; and (d) delayed and/or non-submission of monthly Bank Reconciliation Statements (BRS) in Postal Areas 3, 4 and 6.

4. The existence and accuracy of reported balance of the Inventory accounts as of December 31, 2017 in the aggregate cost of P181.108 million was unreliable affecting the fair presentation of the Financial Statements due to: a. unsubstantiated or “for reconciliation” accounts; b. Non-maintenance of Supplies Ledger Card (SLC) and updated stock cards; c. Incomplete submission of Report on Physical Count of Inventories; d. Erroneous recording of the receipt and issuance of supplies and materials inventory; e. Material variance of P10.318 million between the *PPC Central Office* year-end Report on Accountability for Fuel, Oil and Lubricants; and Spare Parts of Motor Vehicles; and f. Non-submission of Driver’s Trip Tickets, etc. contrary to PPSAS 1.

5. Deficiencies observed in the Accounts Receivable/Accounts Payable Mail Remuneration as follows :

   a. The year-end balances of PPC Central Office Accounts Receivable (AR) - Mail Remunerations and the corresponding credit to Other Deferred Credit account were overstated in the amount of P221.085 million due to erroneous recording of the collections from various Designated Postal Officers (DPO), which is not in conformity with Paragraph 7 of PPSAS 1.

   b. In *PPC Central Office*, discrepancy arising from erroneous application of Bangko Sentral ng Pilipinas (BSP) exchange rates in the aggregate amounts of P110.704 million and P59.457 million for AR - Mail Remunerations and AP - Mail Remunerations, respectively, resulting in overstatement of both affected accounts.

   c. Inability to come up with correct ending balances of the Standard Drawing Rights (SDRs) renders failure of reporting at the closing rate as of the Balance Sheet Date. This casts doubt as to the valuation, validity and accuracy of the ending balance of PPC Central Office AR and AP-Mail Remunerations amounting to P966.941 million and P722.858 million, respectively; and

   d. Accounting policies on the calculation of gains/losses on foreign exchange on both AR & AP Mail Remunerations accounts were not properly disclosed and itemized in the Notes to Financial Statements contrary to Paragraph 135 of PPSAS 30.

6. In *PPC Central Office*, the amount of P198.168 million or 88.9 percent of the total P222.850 million year-end balance of the *Due from Subsidiaries* account remained dormant for more than 10 years, hence their collectability is nil, contrary to COA Circular No. 2016-005.

E. Significant Audit Observations and Recommendations

In addition to the audit observations which were considered in rendering an adverse opinion, we are stating below the other significant audit observations together with the audit recommendations, the details of which are discussed in Part II of this Report.

1. The reliability of Receivables from JV and secondary accounts is doubtful in view of the variance totaling P139.909 million between book balance as against confirmed balance and against Aging Schedule by P12.781 million, contrary to Paragraph 27 of PPSAS 1.

   Recommendations:

   a. *Instruct the Officer-in-Charge to reconcile/coordinate with SSS and Filmetrics to identify causes of differences between respective books of accounts; and*

   b. *Reconcile the balances between Receivable from Joint Venture (SSS) and Aging Schedule of Receivables to determine causes of abnormal balances in the books and include prior years' transaction in the books of accounts.*

2. In the books of PPC Central Office, the *Cash-Trust Account* balance in the aggregate amount of P337.989 million as of December 31, 2017 was not in agreement with *Trust Liabilities Account* balance of P367.334 million rendering a discrepancy amounting to P29.345 million.

   In Postal Area 3, a discrepancy amounting to P26.190 million existed between the *Cash - Collecting Officer Trust Funds Account for Bayad Center and Consignment* as compared to the total *Trust Liability Account* with balance amounting to P45.321 million and P19.131 million, respectively, as of December 31, 2017.

   Recommendations:

   a. *Develop a process flow and accounting method to be adopted with timeliness of receipt, deposits and remittance for all types, including accounts affected and journal entries which will be included in PPC's accounting manual;*

   b. *Comply with the provisions of Sections 3 and 4 of PD 1445 on the proper handling of trust funds and with PPSAS 1 for fair presentation of accounts in the Financial Statements;*

   c. *Create a team each for Central Office and Postal Area 3:*

      i. *Analyze, reconcile, verify and monitor the Trust Accounts transactions;*

      ii. *Determine the cause/s of abnormal balances;*

      iii. *Review the entries to check any errors or possible misposting and effect necessary adjustment/s in the books;*

    iv. *Evaluate and determine if some of the trust funds needs to be closed or no longer necessary as the purpose for which it was created was already accomplished to have a fair presentation of the accounts in the Financial Statements; and*

  d. *Effect the necessary adjustments in the books.*

3. The AR-Trade balance amounting to P218.313 million as of December 31, 2017 do not reconcile with Aging Schedule balance of P348.322 million resulting in a variance of P130.009 million. Moreover, the AR-Trade balance includes non-trade receivables amounting to P140.370 million.

   Recommendations:

   a. *Require the Accountant to reconcile the General Ledger balance with the Aging Schedule of Accounts Receivable and come up with the correct AR-Trade balance;*

   b. *Reclassify the non-trade receivables erroneously classified as AR-Trade to their proper General Ledger accounts; and*

   c. *Strictly comply with COA Circular No. 2015-010 on the use of appropriate accounts per Revised Chart of Accounts for GOCCs.*

4. The balance of *Due to Officers and Employees* in the *PPC Central Office* books amounting to P307.919 million cannot be ascertained due to the following deficiencies equivalent to 47 percent of the total amount: (a) variance of P42.307 million exists between the balance reported in the books of P307.919 million as of December 31, 2017 and the submitted Schedule of Due to Officers and Employees of P350.225 million; (b) expenses incurred in 2014 in the aggregate amount of P11.974 million remained outstanding in the books as of December 31, 2017; (c) outstanding obligations of PPC to other government agencies and private corporations in the amount of P5.245 million erroneously credited to Due to Officers and Employees; (d) erroneous recording of P77.353 million in the books resulted in the negative balance of Due to Officers and Employees; and (e) the recurring existence in the books of accounts "for verification" with abnormal debit balance of P6.957 million.

   Recommendations:

   a. *Reconcile the book balance with the schedules submitted as of December 31, 2017;*

   b. *Evaluate and validate all documents pertaining to 2014 transactions and revert back to General Fund;*

   c. *Reclassify the amount of P5,244,702 to appropriate payable account;*

   d. *Analyze the erroneous entry made and prepare the necessary adjusting entries; and*

e. *Verify and substantiate the accounts with abnormal debit balance of P6,956,927.*

5. PPC generated zero revenue in 2017 from the operation of its hybrid mail sorting machine procured in 2015 costing P19.89 million plus additional printing machine worth P0.837 million and storage space worth P0.800 million, thus, PPC lost the opportunity to generate potential income to the disadvantage of the government.

   Recommendation:

   Undertake feasibility study on how to best use and market the hybrid mail service to generate the needed revenue.

F. Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2017, the total audit suspensions, disallowances and charges totaled P147.143 million, P41.320 million and P22,850, respectively. The details are presented in Part II of the Report.

G. Status of the Implementation of Prior Year's Recommendations

Of the 111 audit recommendations for CY 2016, 47 were implemented, 48 were partially implemented and 16 were not implemented. Twelve (12) audit recommendations that were not implemented are reiterated in the current year's report. Details are presented in Part III.