

## EXECUTIVE SUMMARY

### A. Introduction

The Professional Regulation Commission (PRC) was created under Presidential Decree (PD) No. 223 but was repealed on December 5, 2000 upon signing into law of Republic Act (RA) No. 8981 known as the PRC Modernization Act of 2000 that created a three-man Commission. In 2006, Executive Order (EO) No. 565, as amended by EO No. 565-A attached the PRC to and placed under the administrative supervision and control of the Department of Labor and Employment (DOLE).

In fulfillment of its legal mandate, the PRC performs two important functions, which are: 1) to conduct and administer licensure examinations to aspiring professionals, and 2) to regulate and supervise the practice of the professions exercised in partnership with the 44 Professional Regulatory Boards (PRBs) in the fields of health, business, education, social sciences, engineering and technology. The PRBs govern their respective professions' practice and ethical standards and accredit the professional organization representing the professionals.

The Commission is headed by Chairperson Teofilo S. Pilando, Jr. and Commissioners Angeline T. Chua-Chiaco and Yolanda D. Reyes. The Commission Proper is assisted by Assistant Commissioner Aristogerson T. Gesmundo. The members of the PRB are all presidential appointees who are tasked to supervise the 44 accredited professional organizations.

It has three major operating offices: Licensure Office, Regulation Office, and the Office of Financial and Administrative Services. As of December 31, 2016, it had a total personnel complement of 844 with 359 regular employees, one casual, and 484 Service Contractors (SC)/Job Order (JO) personnel distributed as follows:

Office	No. of Employees		SC/JO	Total
	Permanent	Casuals		
Commission Proper	46	-	50	96
Regulation Office	56	-	84	140
Licensure Office	43	-	41	84
Field Offices	129	-	243	372
Office of Financial and Admin Office	85	1	66	152
<b>Total</b>	<b>359</b>	<b>1</b>	<b>484</b>	<b>844</b>

The PRC has 10 field offices located in Lucena, Baguio, Tuguegarao, Legazpi, Iloilo, Tacloban, Cebu, Davao, Cagayan de Oro and Zamboanga, each headed by a Director. Three satellite offices were also established in Butuan, Zamboanga and San Fernando, La Union.

**B. Operational Highlights**

The Agency reported its consolidated major accomplishments vis-a-vis their targets for CY 2016, as follows:

<b>Programs/Activities</b>	<b>Target</b>	<b>Accomplish-ments</b>	<b>Percentage of Accomplish-ments</b>
<b>Major Final Output 1. Regulatory Services to ensure highly ethical and globally competitive Filipino Professionals</b>			
<b>1.1 Examination of Professionals (Licensure and Examination Services):</b>			
a. Number of applications for licensure examinations	450,144	508,087	113
b. Number of licensure examinations conducted	390	393	99
c. Number of qualified examinees tested	433,212	496,808	115
d. Number of examination results computed, tabulated and released	469,276	519,232	111
<b>1.2 Regulation of Professionals</b>			
a. Number of Initial Registrations	188,823	202,328	107
b. Renewal of Professional IDs	510,737	693,571	136
c. Investigation of complaints (hearings conducted)	1,720	1,799	105
d. Institutions, firms, and establishments inspected	755	1,074	142
e. Accreditation of CPD Providers	140	218	156
f. Accreditation of CPD Programs	2,200	3,739	170
g. Certification	485,851	567,562	117
h. Authentication	608,602	695,855	114

Pursuant to the directive of President Rodrigo R. Duterte to establish One Stop Shop Centers for Overseas Filipino Workers (OSSCO), PRC established one-stop shop centers in Clark, Calamba, Iloilo, Koronadal, Tacloban, Zamboanga, Cebu and Cagayan de Oro with the following services: processing of application for examination, renewal of Professional ID, initial registration, duplicate of Professional ID and filing of certification. As of December 31, 2016, a total of 5,790 clients availed of the PRC services in said centers.

The PRC was awarded the ISO 9001: 2008 Certification for compliance to Quality Management System (QMS) for the Licensing of Professionals and Regulating the Professions on August 22, 2016 by the Certification International Philippines. The ISO Certificate is valid until September 14, 2018.

**C. Financial Highlights**

For Calendar Year (CY) 2016 appropriations of the PRC amounted to ₱677,523,000.00 for its programs/projects under RA No. 10717, the General Appropriations Act (GAA) for Fiscal Year (FY) 2016. Total allotments received amounted to ₱782,656,953.67 which include allotments for automatic appropriation on Retirement and Life Insurance Premium (RLIP) of ₱11,030,913.00, Special Purpose Fund for Pension Benefits, etc. of ₱37,175,261.00 and allotment for Continuing Appropriation of ₱72,102,075.67. The details are shown below:

<b>Appropriations</b>	<b>Allotments</b>	<b>Obligations Incurred</b>	<b>Unobligated Balance</b>
<b>A. Regular Appropriations</b>			
Personnel Services (PS)	259,897,204.00	259,129,107.19	768,096.81
Maintenance and Other Operating Expenses (MOOE)	372,092,500.00	315,922,853.18	56,169,646.82
Capital Outlay (CO)	30,359,000.00	7,308,805.15	23,050,194.85
<i>Sub-Total</i>	<i>662,348,704.00</i>	<i>582,360,765.52</i>	<i>79,987,938.48</i>
<b>B. Automatic Appropriations</b>			
PS (RLIP)	11,030,913.00	11,030,908.20	4.80
<b>C. Special Purpose Fund</b>			
Miscellaneous Personnel Benefits (1 <sup>st</sup> Trance Salary Differential, Honoraria, Mid-Year Bonus, Performance Based Bonus) Fund, and Pension and Gratuity Fund	37,175,261.00	36,951,175.42	224,085.58
<b>Total Current Year's Allotments</b>	<b>710,554,878.00</b>	<b>630,342,849.14</b>	<b>80,212,028.86</b>
<b>D. Continuing Appropriations</b>			
MOOE	72,090,880.67	63,143,326.88	8,947,553.79
Capital Outlay	11,195.00		11,195.00
<b>Total Continuing Appropriations</b>	<b>72,102,075.67</b>	<b>63,143,326.88</b>	<b>8,958,748.79</b>
<b>Grand Totals</b>	<b>782,656,953.67</b>	<b>693,486,176.02</b>	<b>89,170,777.65</b>

For its services, the PRC is authorized to collect fees for examination, registration, certification and other miscellaneous fees as approved by law which shall be deposited with the National Treasury. The total income generated for CY 2016 amounted to ₱1,249,226,689.56.

The Agency's financial position and financial performance for CY 2016 with comparative figures for CY 2015, are as follows:

<b>Particulars</b>	<b>2016</b>	<b>2015</b>
<b>Financial Position</b>		
Assets	1,299,305,722.97	1,283,582,396.82
Liabilities	114,203,179.53	58,552,823.00
Government Equity	1,185,102,543.44	1,225,029,573.82
<b>Financial Performance</b>		
Revenue	1,249,226,689.56	1,040,758,089.73
Less: Current Operating Expenses		
PS	307,209,290.20	256,533,402.14
MOOE	326,087,840.51	290,065,921.62
Financial Expenses	400.00	900.00
Non-Cash Expenses	1,813,549.06	1,107,054.09
<i>Surplus (Deficit) from Current Appropriations</i>	<i>614,115,609.79</i>	<i>493,050,811.88</i>
Financial Assistance/Subsidy from National Government	662,260,368.19	1,000,978,139.47
Net Financial Assistance/Subsidy	1,276,375,977.98	1,493,845,230.70
Gains/(Losses)		(183,420.65)
<b>Surplus for the Period</b>	<b>1,276,375,977.98</b>	<b>1,493,845,230.70</b>

#### **D. Scope of Audit**

The audit covered the review of the accounts and operations of the PRC for the year ended December 31, 2016. The audit was conducted to: (a) verify the level of assurance that maybe placed on management assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations (c) recommend agency's improvement opportunities; and (d) determine the extent of implementations of prior year's audit recommendations.

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

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of PRC for the year ended December 31, 2016 due to exceptions stated in the Independent Auditor's Report and as discussed in detail in Part II of this report.

## **F. Significant Audit Observations and Recommendations**

Hereunder are among the significant observations and the corresponding recommendations:

1. Lack of proper planning in the procurement of equipment and intangible software for the improvement of the computerization of PRC processes resulted in unutilized allotment of ₱23,050,194.85 or 76 percent of the total allotment of ₱30,359,000.00 for Capital Outlay (CO) for CY 2016, thus, slowed down the PRC's program towards an enhanced and efficient computerized system for its clientele. (Observation No. 1)

**We recommended and Management agreed to require the Bids and Awards Committee (BAC) and concerned personnel to immediately plan and expedite the procurement of the Information Technology (IT) and other equipment to avoid the reversion of the CO allotment.**

2. Funds transferred to the Department of Public Works and Highways (DPWH) amounting to ₱24,000,000.00 and ₱484,300,000.00 for the bidding of the Architectural and Engineering Design and construction of new PRC Building, respectively, remained idle for more than three years due to the significant delays of PRC on the revision of the Memorandum of Agreement and Terms of Reference with the DPWH. (Observation No. 2).

**We recommended that the Management: a) revisit its operating and monitoring strategies on project implementation to ensure achievement of the objectives that it envisioned to realize based on its set goals and commitments; b) strictly follow timelines in the implementation of projects to avoid wastage of funds; and c) follow up with the DPWH the immediate return of the unutilized fund transfers of ₱508,300,000.00.**

3. The accuracy of recorded collections from business and service income derived thru e-payment system provided by Dragonpay Corporation could not be ascertained due to material variances noted between the collection reports posted in the on-line system and the Dragonpay's Fund Transfer Instructions to PRC. Settlement by the Service Provider of its unremitted collections was not immediately enforced despite the necessary actions to be done by PRC as stipulated in the agreement. Further, after the expiration of the agreement on November 16, 2016, Dragonpay continued to collect fees as a payment facility for the Development Bank of the Philippines Data Center Inc. (DBP DCI), the new service provider effective December 1, 2016. In addition, collections of ₱15,718,111.00 for the month of March, 2017 were not recognized in the books of accounts. (Observation No. 3).

**We recommended that Management: a) review the existing reporting and monitoring controls within the electronic payment collection system to address the recurring deficiencies noted; b) enforce the collections of the unremitted fees derived thru e-payment system by Dragonpay Corporation, SMI and DBP DCI using the agreed guaranty facility; and c) strictly monitor compliance of the service providers on the terms and provisions of the contract agreement and enforce appropriate sanctions for breach thereof.**

4. The reliability of the accounts Cash in Bank-Local Currency, Current Account and Cash in Bank-Local Currency, Savings Account totaling ₱1,268,167.01 as of December 31, 2016 cannot be ascertained due to delayed/non-preparation of Bank Reconciliation Statements (BRS) contrary to Section 3, Volume I of the Government Accounting Manual (GAM) for National Government Agencies (NGAs) and Section 74 of Presidential Decree No. 1445. (Observation No. 4).

**We recommended and Management agreed to direct the Accounting Division to: a) prepare monthly BRS of all bank accounts maintained by the agency in compliance with Section 3, Chapter 21, Volume I of GAM for NGAs and Section 74 of PD No. 1445 to ensure correctness of the reported cash in bank balances and to detect possible fraud or errors committed; b) ensure the timely submission of BRS for immediate review and possible adjustment/correction of reconciling items in the books of accounts; and c) look into the status of non-moving Cash-Treasury Agency/Deposit, Trust account and transfer the balance of Cash to the General Fund, where appropriate.**

5. Excess balances of the proceeds from the sale of bid documents after the authorized payment of honoraria to BAC members at the end of the year were not deposited to the National Treasury in violation of Budget Circular (BC) No. 2004-5A and Republic Act (RA) No. 9184. Moreover, disbursements totaling ₱1,498,087.82 were charged to this fund for expenses which by their nature were not related to the purpose. (Observation No. 5)

**We recommended that the Management: a) remit to the National Treasury the excess of the proceeds deposited over the actual payments for honoraria and overtime of BAC and other personnel involved in the procurement at the end of the year; and b) use the BAC Fund solely for the honoraria and overtime as authorized under RA No. 9184 and explain/justify the incurrence of other expenses totalling ₱1,498,087.82.**

6. The Cash – Collecting Officer account balance of ₱5,231,264.07 as of December 31, 2016 was doubtful due to negative balances totaling ₱1,594,505.78 in the Subsidiary Ledger (SL) of some Collecting Officers (COs) indicative of questionable accountabilities. Moreover, undeposited collections at year-end aggregating ₱17,931.88 remained on hand with the COs. (Observation No. 6)

**We recommended that the Management require: a) the Accounting Division, to analyze and determine the causes of the negative balances in the accounts of the Collecting Officers and make the necessary adjustments in the books; and b) Collecting Officers, to cause the immediate deposit of the outstanding unremitted collections.**

7. The laws, rules and regulations in the granting, utilization and liquidation of cash advances were not strictly observed resulting in unliquidated cash advances totaling ₱10,793,499.88 of officers and employees as of December 31, 2016 in violation of PD No. 1445 and COA Circular No. 97-002. Further, unutilized/unused amount of cash advances were not immediately refunded but kept by some Accountable Officers for future purposes. (Observation No. 7)

**We recommended that the Management require all concerned officers and employees to: a) liquidate/settle immediately their outstanding cash advances and/or refund all unexpended balances, otherwise impose appropriate actions against erring accountable officers; and b) strictly comply with Section 89 of PD No. 1445 and COA Circular Nos. 97-002 and 2012-004 on the granting, utilization and liquidation of cash advances.**

8. The validity, accuracy, and existence of the Inventory accounts are doubtful due to unreconciled discrepancies of ₱44,006,400.88 as of December 31, 2016 between accounting and property records and inventory reports which showed variances between the actual physical count, non-inclusion of board certificates totalling 3,075 certificates in the Report of Physical Count of Inventories (RPCI), and non-submission of the monthly Report of Accountability for Accountable Forms (RAAF). Moreover, the RPCI submitted is not in accordance with the format prescribed in the GAM. (Observation No. 8).

**We recommended that the Management require the Supplies and Property Division to: a) update the Property Cards and regularly reconcile with the Accounting Division's Supplies Subsidiary Ledger balances and make the necessary adjustments on the discrepancies noted; b) observe stricter implementation of effective internal controls on the issuance of supplies and accountable forms such as prompt recording of inventory issuances to ensure accurate inventory balances and safeguard the accountable forms from any unauthorized use; c) create a method on proper segregation of inventories available for issuance and issue immediately the inventories to end-user upon approval of the RIS; d) submit the Report of Accountability for Accountable Forms monthly in compliance with the provision of Section 7(k) of Volume I of GAM; e) explain the incurrence of double serial numbers for the pharmacists and real estate brokers board certificates; and f) use the prescribed format for RPCI as required in Appendix 66, Volume II of the GAM.**

9. The existence and accuracy of the reported Property, Plant and Equipment (PPE) totaling ₱521,953,406.58 as at December 31, 2016 cannot be relied upon due to: a) the reporting difference amounting to ₱445,559,939.58 on the cost of PPE between the balances per accounting books as against the Report on the Physical Count of Property, Plant and Equipment (RPCPPE); b) misclassification of some PPE accounts; c) completed projects still recorded under account Construction in Progress; d) inclusion of unreconciled/dormant accounts totaling ₱14,864,649.49; e) existence of PPE with negative balances of ₱6,312,515.83; and f) non-provision of depreciation contrary to the pertinent provisions of PD No. 1445 and the GAM for NGAs. (Observation No. 9).

**We recommended that the Management direct: a) the Accountant and the Property Officer, to regularly monitor and reconcile their records and make the necessary adjustments on the discrepancies to reflect the correct balances of the PPE accounts in the financial statements; b) the Accountant, to make detailed analysis and categorize each PPE accounts on their proper account classification in accordance with the GAM and effect the necessary adjustments to correct the reported balances of the affected PPE accounts in the financial statements; c) the Accountant, to exert all efforts to analyze, verify, reconcile and identify the unreconciled and negative accounts by referring to the earliest available records and make necessary adjustments in the books of accounts; d) the Accountant, to provide the accumulated depreciation based on the formula or the guidelines provided by the GAM on the computation of depreciation; and e) the SPD and the Inventory Team to reconcile the RPCPPE items, quantity and balances with those recorded in the PPE SL.**

The foregoing deficiencies observed in the course of our audit were communicated and discussed in the exit conference conducted on March 29, 2017 with the PRC Commission Proper and the concerned officials and employees. Their comments were incorporated in this report, where appropriate. We are pleased to note their positive responses to the observations and their commitments to immediately implement the audit recommendations.

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

As of December 31, 2016, the total amount of suspensions and disallowances are ₱13,245,066.39 and ₱45,933,770.04, respectively. Details are discussed in Part II of the Report.



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

Out of the 35 audit recommendations embodied in the prior years' Annual Audit Report, four were fully implemented, seven partially implemented, and 24 were not implemented as shown below. The details of prior years' recommendations are discussed in Part III of the Report.

<b>Status of Implementation</b>	<b>Number</b>	<b>Percentage</b>
Fully Implemented	4	11
Partially Implemented	7	20
Not Implemented	24	69
<b>Total</b>	<b>35</b>	<b>100</b>