

## EXECUTIVE SUMMARY

### A. Introduction

By virtue of Republic Act No. 9996 known as the “Mindanao Development Authority Act of 2010” dated February 17, 2010, Mindanao Development Authority (MINDA) was created. The former Mindanao Economic Development Council (MEDCO) created under Executive Order No. 512 (s. 1992) and as amended by the issuance of Executive Order No. 244 (s. 2000), Executive Order No. 354 (s. 2004), Executive Order No. 357 (s. 2004) and Executive Order No. 757 (s. 2008) was abolished.

Its mandate is to promote, coordinate and facilitate the active and extensive participation of all sectors to effect the socioeconomic development of Mindanao through a holistic and integrated approach and to promote and strengthen interregional linkages to ensure the increased viability of Mindanao-wide and/or Mindanao- specific programs and projects.

Thus, Executive Order No. 50 dated July 28, 2011 was signed by the President abolishing the Presidential Task Force in Mindanao River Basin Rehabilitation and transferring its functions to regular agencies. The following tasks and functions transferred and absorbed by MinDA are as follows:

- a. Coordinate the formulation, implementation, and finalization of the Mindanao River Basin (MRB) relief, rehabilitation and long term development plan, also known as the Mindanao River Basin Management and Development Master Plan;
- b. Negotiate apply for, receive and accept grants and donation of funds needed for the relief, rehabilitation and development of the areas affected by the disaster;
- c. Decide on important interventions that need to be immediately implemented and acted upon;
- d. Spearhead and coordinate all actions to rehabilitate and develop the MRB affected areas; and
- e. Conduct resource mobilization activities.

Likewise, Executive Order No. 81 dated July 30, 2012 was signed by the President creating the Mindanao Power Monitoring Committee (MPMC) to be headed by the Mindanao Development Authority (MinDA) which shall serve as the Secretariat of the MPMC and shall provide the necessary administrative support. It shall also serve as the repository of all documents and records of the MPMC.

## B. Audit Methodology

The Commission has been implementing the risk-based audit in the conduct of its audit services. However, to meet the evolving development in public governance and fund management, the results-based approach in audit was incorporated. The integration of these two approaches, called the Integrated Results and Risk-Based Audit (IRRBA) Methodology was applied in the audit of the accounts and operations of the Agency.

## C. Scope of Audit

The audit covered the review of accounts and operations of MinDA, Davao City for CY2017. The audit consisted of review of operating procedures, evaluation of the Agency's programs and projects, interview of concerned government officials and employees, verification, reconciliation, analysis of accounts and such other procedures considered necessary.

## D. Financial Highlights

A comparative financial condition and results of operations of the Agency as at December 31, 2017 with comparative figures of 2016 are summarized as follows:

	2017	2016	Increase (Decrease)	Percentage
<b>Financial Condition</b>				
Total Assets	17,004,724.92	22,675,181.92	(5,670,457.00)	-25%
Total Liabilities	38,955,617.97	22,190,555.03	16,765,062.94	76%
Total Equity	(21,950,893.05)	484,626.89	(22,435,519.94)	-4629%
<b>Results of Operation</b>				
Revenue	153,040,698.97	102,195,556.79	50,845,142.18	50%
Expenses	166,831,425.40	120,201,827.12	46,629,598.28	39%
Net Surplus (Deficit)	<u>(13,790,726.43)</u>	<u>(18,006,270.33)</u>	<u>4,215,543.90</u>	<u>-23%</u>

Total assets decreased by Php5,670,457.00 or 25% due to the following reasons:

1. Submission of liquidation reports and other pertinent documents of Due from Non-Government Organizations/People's Organizations amounting to Php2,841,965.00.

2. Disposal of motor vehicles with a carrying amount of PhP511,810.26 was conducted during the year.

There is however an increase on Receivables-Disallowances/Charges in the amount of PhP673,690.91 or 3655% as a result of a COA Decision No. 2016-488 dated December 27, 2016 affirming the disallowances regarding the Staple Food Assistance and Amelioration Allowance given to MEDCo officials and employees totaling PhP996,000. Monthly payments were made regularly during the year as permitted by COA.

Total liabilities increased by P16,765,062.94 or 76% due to obligations incurred in the implementation of the Metro Davao Urban Master Plan and other incurred liabilities such as inter-agency payables normally paid the next accounting period. Consequently, equity decreased by P22,435,519.94 or -4629%.

Revenue increased by P50,845,1452.18 or 50% due to the increase in the agency budget for Fiscal Year (FY) 2017.

Expenses also increased by P46,629,598.28 or 39% from prior year due to the following reasons:

1. Honoraria increased by P25,000.00 or 167% due to the increase in the number of Board Members who attended the MinDA Board of Directors' Meeting in CY 2017.
2. Traveling Expenses- Foreign also increased by P5,120,588.92 or 237% due to the frequency of the authorized foreign trips of the Secretary and other MinDA officials in CY 2017 compared to prior year which was the transition period due to elections and change of administration.
3. Consultancy Services increased by P21,589,225.87 or 7078% due to the implementation of a locally funded project which enabled the agency to contract consultancy services of Palafox Associates with a contract price of P21,888,888.00.
4. Repairs and Maintenance – Furniture and Fixtures also increased by P62,874.53 or 340% due to the repairs of wooden shelves, repainting and relocation of furniture related to the office transfer of MinDA from 4<sup>th</sup> floor SSS Building, J.P. Laurel Avenue, Davao City to Old Airport Terminal Building, Old Airport Road, Km. 9, Sasa, Davao City.
5. Advertising Expenses also increased due to contract entered into by the agency with MindFuel Inc. thru Director Epy Quizon to produce a short film as part of the agency's program to promote peace initiative in Mindanao.

## **E. Independent Auditor's Report**

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Agency as at December 31, 2017 due to non-conduct of the annual physical count of the agency's PPE and the non-submission of the corresponding Report on the Physical Count of PPE (RPCPPE) as at December 31, 2017 which casted doubt on the accuracy and reliability of the reported year-end balances of the PPE accounts in the amount of PhP9,112,771.39, more so that the "Other Supplies and Materials Expenses" account totaling PhP419,291.50 included procured semi-expendable properties, thus affecting the fair presentation of the financial statements. In addition, the non-submission of the financial reports and disbursement documents including the Bank Reconciliation Statements within the prescribed period also affected the timely evaluation and determination of the validity and accuracy of the agency accounts presented in the financial statements.

## **F. Summary of Significant Observations and Recommendations**

The following are the audit observations and recommendations, which were discussed with management officials concerned during an exit conference on February 26, 2018, details of which were discussed in the report. Management's views and comments were incorporated in the report where appropriate.

- 1. Management failed to observe the proper procedures on the disposal of unserviceable motor vehicles and waste materials with a total appraised value of PhP677,142.87 and selling price of PhP15,740.00, respectively, due to deficient agency policies, lack of awareness of rules and regulations and inadequate internal control measures, thus resulted to confusion, poor coordination and missed opportunity to attract more bidders during the public auction, contrary to certain provisions of Presidential Decree No. 1445, National Budget Circular No. 425, COA Circular No. 89-296 dated January 27, 1989, FY 2017 General Appropriations Act (GAA) and MinDA Office Order No. AD-2017-06-081 dated June 13, 2017.**

We recommended that management:

- a. Direct the Disposal Committee to formulate specific agency policies and procedures by referring to the guidelines set forth under Section 79 of P.D. 1445, NBC No. 425 and COA Circular No. 89-296 in the disposal of government properties;
- b. Require the Disposal Committee to support the agency's disposal of property thru public auction with a resolution that contains their evaluation of the bids and recommendation to the Head of Office on the award of the unserviceable government property, subject to the approval of the latter;

- c. Comply with the requirement on the 3 day-publication of the invitation to bid in the newspaper of general circulation to avoid any misconceptions and to ascertain adequate publicity so as to attract the greatest number of interested parties;
  - d. Implement the “One Bid – One Unit” policy in order to fairly collect the fees for bid documents and to require the prospective buyers to indicate on the sealed bid envelopes the specific item they are bidding on so as to ensure compliance with the provisions on opening of bids;
  - e. Ascertain that inclusion of the bid bond requirement in the future TORs will be patterned after the provision set under NBC No. 425 in order to avoid circumstances of disqualifying bidders who based their 10% on the minimum bid price set by the government and not on the bid proposal;
  - f. Instruct the Disposal Committee Secretariat to revise the letter of authorization form that will require the prospective buyer to indicate details such as description of the item that he would like to bid on and the scheduled date of the disposal activity (e.g. opening of bids/submission of financial bid) that his authorized representative will be attending;
  - g. Direct the cashier to comply with the GAA provision to deposit future proceeds on the sale of unserviceable equipment to the National Treasury – General Fund and to communicate with the BTr in writing explaining that no adjustment is necessary in the books of the Agency since the transactions were actually recorded by the Accountant under Fund 101;
  - h. Require the property officer and accountant to retain a copy of each of the WMRs attached to the disbursement vouchers to be used as supporting documents in determining the correct quantity of accumulated waste materials that should be in the storage area and to submit to the Office of the Auditor another copy of the WMR. Furthermore, the WMRs must be assigned with serial numbers to facilitate audit on the completeness of the reported waste materials for disposal;
  - i. Ascertain implementation of internal control measures that include segregation of duties in order to prevent risks such as error or fraud; and
  - j. Direct all personnel concerned to properly coordinate with each other to ascertain efficiency and to protect the reputation of the agency particularly in its dealing with the public. We suggest that the cashier and the alternate cashier do not leave the office at the same time so that there will be one who would be available to perform cashiering functions in the Office.
- 2. Cash advances granted to officers and employees of the Mindanao Development Authority (MinDA) totaling PhP921,492.21 remained unliquidated as at December 31, 2017, contrary to Section 5.8 of COA Circular No. 97-002.**

Thus, we recommended that management:

- a. Direct the Accountant to immediately cause the withholding of the salaries of the agency officials and employees concerned whose cash advances are not yet fully liquidated; and
  - b. Ensure proper monitoring of unliquidated cash advances and to strictly comply with the rules and regulations on cash advances.
- 3. Management failed to conduct the annual physical count of the agency's property, plant and equipment (PPE) and submit the corresponding Report on the Physical Count of Property, Plant and Equipment (RPCPPE) as at December 31, 2017, thus accuracy, existence, completeness and ownership of the PPE could not be ascertained, contrary to pertinent provisions in the Government Accounting Manual (GAM).**

We therefore recommended that management:

- a. Direct all officials concerned to perform their functions of supervising and monitoring compliance on rules and regulations and the timely submission of required reports;
- b. Direct the former Property Custodian to immediately act on the turnover of accountability to the newly designated Property Custodian. We suggest that it be done on a per PPE/SEP account basis to enable the gradual turnover until all accountabilities have been properly transferred to the new custodian;
- c. Instruct the Accountant to identify all transactions pertaining to procurement of SEP that were accounted as "Other Supplies Expense" and coordinate with the Property Custodian to ascertain that all procured SEP are supported with inventory custodian slips;
- d. Direct the Accountant to maintain her own subsidiary ledgers and records and refrain from relying on the records of the Property Unit to ascertain completeness and accuracy of the data reported;
- e. Ascertain that all officials and employees concerned work together to enable the immediate conduct of the physical count of all agency property and the proper classification of the items, whether PPE or SEP, in accordance with the provisions of GAM;
- f. Submit the corresponding Report on the Physical Count of Property, Plant and Equipment (RPCPPE) as well as another report for SEP, duly supported with the

required Property Acknowledgement Receipts and Inventory Custodian Slips, respectively;

- g. Strictly observe the time frame in which the annual physical count of PPE is conducted at the end of every year and the corresponding RPCPPE is submitted to the Auditor not later than January 31 of the following year;
- h. Ascertain that accounts used in recording financial transactions are in conformity with generally accepted accounting principles, and to stop using accounts that provide misleading information, otherwise the following provision under P.D. 1445 shall be imposed:

*“Section 127. Administrative disciplinary action. Subject to rules and regulations as may be approved by the President (Prime Minister), any unjustified failure by the public officer concerned to comply with any requirement imposed in this Code shall constitute neglect of duty and shall be a ground for administrative disciplinary action against the said public officer who, upon being found guilty thereof after hearing, shall be meted out such penalty as is commensurate with the degree of his guilt in accordance with the Civil Service Law. Repeated unjustified failure to comply with the requirements imposed in this Code shall be conclusive proof that the public officer concerned is notoriously undesirable.”*

- i. Conduct a re-evaluation of the distribution of personnel (including Job Orders) to ascertain that priorities of the Agency are given attention thru proper allocation of personnel [*a reiteration of our recommendation under AOM No. 2018-003-101-17*]. Moreover, reconsider the health condition of the newly designated property custodian particularly on her physical fitness to handle the demands of her present assignment.
- 4. The Revised Organizational Structure of the Mindanao Development Authority (MinDA) lacked the approval of the proper authorities, contrary to Section 82 of the General Provisions of the General Appropriations Act (GAA) for FY 2017 and pertinent provisions of Republic Act No. 9996, thus creating doubt on the legality and propriety of the existing organizational structure and its operating procedures.**

We therefore recommended that management:

- a. Secure immediately the approval of the revised organizational structure by the proper authorities to comply with the pertinent provision of the GAA and RA 9996 and to establish the legality and propriety of the present organizational structure and to amend the revised Organizational Chart to include the Board of Directors;

- b. Re-evaluate the delegated authority given to the agency officials to ascertain the following:
  - (1) implementation of strong internal control system; and
  - (2) clear-cut delineation of duties and responsibilities among the officials so that in case of any lapses or shortcomings in the attainment of agency goals or adherence to government rules and regulations, there shall be ease in determining the officials who would be held responsible or accountable; and
- c. Direct all officials concerned to ensure that the Office of the Auditor is furnished a copy of each of the issued operational guidelines or policies for us to have a better understanding of the agency operations and to keep us updated, thus facilitate the audit of the agency transactions.

**5. Management failed to submit to the Office of the Auditor the CY 2017 financial reports and disbursement documents within the prescribed period, contrary to the Government Accounting Manual and COA Circular 95-006, thus hindering the Auditor from verifying the validity, accuracy and completeness of the accounts balances in the financial statements and other financial reports, as well as the legality and propriety of the recorded transactions.**

We therefore recommended that Management:

- a. Direct the officers concerned to immediately submit the lacking financial reports and disbursement vouchers together with all the supporting documents;
- b. Direct the officials concerned to enroll at the LBP weAccess internet banking facility to avail on real time basis the account statement and other related financial records and information necessary in the preparation of the BRS;
- c. Submit written justification on the non-submission of the required financial reports and disbursement documents and why Section 7.01 of COA Circular No. 95-006 regarding suspension of salaries of the officials concerned should not be imposed;
- d. Direct the Head of Finance Division and her supervisors to perform their functions of monitoring and supervising;
- e. Require the Cashier and Accountant to strictly observe the timely submission of paid vouchers and all financial reports;
- f. Require all divisions of the Agency to provide the Accounting Unit three (3) sets of the disbursement documents (1 set original and 2 sets photocopied), properly segregated, to unload the Finance Division personnel of performing reproduction and segregation of copies;

- g. Instruct the Cashier to file immediately all the disbursement documents processed for the day to ascertain that by the beginning of the succeeding month, all disbursement documents are ready to be submitted to the Office of the Auditor;
  - h. Direct the human resource personnel concerned to perform the function of computing the payrolls of the Office; and
  - i. Conduct a re-evaluation of the distribution of personnel (including Job Orders) to ascertain that priorities of the Agency are given attention thru proper allocation of personnel.
- 6. The non-observance on the use of the prescribed form for transactions involving the Petty Cash Fund (PCF) and the non-keeping of the Cash Receipt Record (CRR) for collections received contravene Sections 37 and 40 of the Government Accounting Manual (GAM), thereby defeating the purpose of uniformity and proper recording and reporting of government financial transactions.**

We recommended that management:

- a. Direct the SCDO to use the prescribed forms and records and strictly observe the proper procedures as shown in the annexes of this AOM, to wit:

<i>Form / Record</i>	<i>Appendix No. (GAM Vol. II)</i>	<i>Presented in AOM 2017-006-101 as Annex No.</i>	<i>Procedures to be followed</i>
<i>Petty Cash Fund Record (PCFR)</i>	<i>Appendix 50</i>	<i>Annex A-1</i>	<i>B to C</i>
<i>Report of Paid Petty Cash Vouchers (RPPCV)</i>	<i>Appendix 49</i>	<i>Annex B-1</i>	<i>B to D</i>
<i>Cash Receipts Record (CRR)</i>	<i>Appendix 29</i>	<i>Annex C-1</i>	<i>B to C</i>

- b. Direct all personnel who are assigned in the recording and reporting of agency financial transactions to familiarize themselves with GAM Volumes I to III and to observe the proper use of the prescribed books, registries, records, forms and reports which are applicable to the agency;
  - c. Make representation with the COA Regional Office No. XI Training Unit on the possibility of MinDA officials and staff concerned to attend a GAM Training Seminar.
- 7. Management failed to submit the copy of contracts or purchase orders (POs) together with the corresponding supporting documents to the Office of the Auditor within five (5) working days from date of execution/issuance, contrary to the provisions of COA Circular 2009-001, thereby hindering the Auditor from**

**performing inspections, review and recommending corrective measures if there were defects and/or deficiencies found in audit.**

We therefore recommended that management:

- a. Direct all personnel concerned to cause the immediate submission of all contracts and purchase orders including the required supporting documents to the Auditor for review in accordance with the guidelines set forth under COA Circular 2009-001 dated February 12, 2009;
- b. Ascertain that each purchase order is duly acknowledged by the supplier with the latter indicating on the PO the date of receipt; and
- c. Ensure that data on the reports submitted to the Office of the Auditor are accurate.

**8. Management failed to notify and provide the Office of the Auditor the prescribed reports on all completed/on-going government Projects/Programs/Activities (“PPA”) and those that are to be implemented for CY 2017 contrary to the 1987 Philippine Constitution, Republic Act No. 6713 and COA Circular No. 2013-004, thus defeating the purpose of transparency and full public disclosure on matters of public concern.**

We recommended that henceforth, management ascertain compliance with the provisions of COA Circular No. 2013-004 and duly perform the following:

- a. Submit the complete list of completed, on-going government projects/programs/activities (“PPA”) and those that are to be implemented during the year, which shall be done at the beginning of every calendar year;
- b. Notify in writing the Office of the Auditor within ten (10) days before the start of the program/activity that the appropriate project signboards and/or public notices are already posted; and
- c. Use the prescribed forms presented as “Annex A” of the Circular and prepare a monthly monitoring report for audit reference.

**9. Management failed to submit a copy of the PCW-endorsed Gender and Development (GAD) Plan and Budget for CY 2017 due to non-observance of the prescribed timeline for GAD Planning and Budgeting, contrary to Section 7 of PCW-NEDA-DBM Joint Circular No. 2012-01, Section V of COA Circular No. 2014-001, Section 30 of the General Provisions of the General Appropriations Act (GAA) for FY 2017, thus activities and programs conducted by the agency couldnot be ascertained if gender issues were addressed and within their mandate.**

We recommended that management:

- a. Direct the GAD Focal Point System (GFPS) Committee to comply with Section 7 of the PCW-NEDA-DBM Joint Circular No. 2012-01 and to ascertain that by January of 2018, MinDA would be able to submit the CY 2019 GAD Plan and Budget to the Philippine Commission on Women and to regularly communicate with the said Office for the release of the PCW-endorsed GPB; and
- b. Ensure compliance with Section V of COA Circular No. 2014-001 on the submission of the PCW-endorsed GAD Plan and Budget and the corresponding GAD Accomplishment Report to the Office of the Auditor on or before the prescribed deadlines using the prescribed templates per PCW-NEDA-DBM Joint Circular No. 2012-01.

#### **G. Summary of Audit Suspensions, Disallowances and Charges as at Year-end**

As at December 31, 2017, the Statement of Suspensions, Disallowances and Charges (SASDC) reflected the following balances:

	1/1/2017 Balance	This Period		12/31/2017 Balance
		NS/ND/NC	NSSDC	
Suspensions	285,677.76	9,588,100.85	9,828,778.61	<b>45,000.00</b>
Disallowances	2,637,274.67	180,966.92	57,287.31	<b>2,760,954.28</b>
Charges	0	2,284,850.61	0	<b>2,284,850.61</b>
<b>Total</b>	<b>2,922,952.43</b>	<b>12,053,918.38</b>	<b>9,886,065.92</b>	<b>5,090,804.89</b>

ND/NC/NS issued prior to the effectivity of the RRSA are not included in the above-reflected balances but are deemed disallowances/charges which shall continue to be enforced in accordance with the Rules as provided under Section 28 of COA Circular 2009-006 dated September 15, 2009 prescribing the rules and regulations on the settlement of accounts.

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

Out of the twenty-eight (28) audit recommendations, thirteen (13) were fully implemented, eleven (11) were partially implemented and four (4) were not implemented. The results of the validation of the implementation of the prior years' audit recommendations are presented in Part III of this Report.