

EXECUTIVE SUMMARY

BACKGROUND

1. The National Government (NG) in its continuous effort to accomplish priority development projects as planned and at the least cost opted to avail of Official Development Assistance (ODA) loans which are lower in interest rates and with longer repayment period. ODA loans financed projects which will directly contribute to the 10-point development agenda and the Medium-Term Philippine Development Plan (MTPDP) 2004-2010.
2. As of December 31, 2006, loan commitments for 301 ODA loans totaled US\$17.625 billion or ₱864.424 billion with cancellations of US\$2.187 billion or ₱107.255 billion, leaving total net commitments of US\$15.438 billion or ₱757.169 billion to finance 237 projects. Of the total projects, 125 or 52.74 per cent had been completed, 111 or 46.84 per cent are ongoing and 1 or .42 per cent was cancelled. Of these projects, 185 were financed by individual creditors as follows: JBIC, 71; ADB, 27; IBRD, 26 and other creditors, 61 while the remaining 52 are jointly-financed by various development partners (DPs).
3. Cumulative availments totaled US\$11.461 billion (₱562.094 billion), inclusive of CY 2006 availments of US\$1.128 billion or ₱55.333 billion. Outstanding payables to DPs stood at US\$10.167 billion or ₱498.654 billion with 56.85 per cent (US\$5.780 billion or ₱283.493 billion) owed to bilateral creditors 36.53 per cent (US\$3.714 billion or ₱182.157 billion) are owed to multilateral creditors and only 6.62 per cent (US\$0.673 billion or ₱33.004 billion) to commercial creditors.
4. Project implementation are subjected to regular monitoring and reviews by DPs and the Government of the Philippines, through the National Economic and Development Authority (NEDA). Regular meetings are held among the project implementing agencies (IAs), Department of Finance (DOF), Department of Budget and Management (DBM) and NEDA to address bottlenecks and issues on project implementation.

LEGAL BASIS OF AUDIT, SCOPE AND METHODOLOGY

5. In compliance with Section 8(b) of the R.A. No. 8182, which mandated the audit of projects funded by ODA, the Commission on

Audit conducted the audit and evaluation/validation of the transactions and performance of ongoing projects and sustainability of completed projects financed by ODA loans for CY 2006.

6. The report covered 47 audited projects (38 of which have significant observations) implemented by various national government agencies (NGAs) and government financial institutions/government-owned and or controlled corporations (GFIs/GOCCs). Having considered the projects' regular monitoring and reviews by the development partners and GOP, the respective auditors of the projects' IAs undertook the audit of the projects, the results of which were consolidated by the Office of the Auditor, Bureau of the Treasury.

SIGNIFICANT OBSERVATIONS

7. The Matrix of Observations on 38 projects is presented in the report, the more significant of which are as follows:

Procurement of Consulting Services, Civil Works and Goods

Four (4) infrastructure projects totaling ₱101.019 million were suspended/not completed due to non-compliance with Republic Act No. 9184 and the Implementing Rules and Regulations of Executive Order No. 54 (Observation No. 1).

Land acquisitions totaling ₱36.089 million were unnecessary and overpriced (Observation No. 2).

Financial Performance

Double recording of/ unrecorded/erroneous transactions and understatement/overstatement of various accounts resulted in the net overstatement of ₱2.609 billion (Observation No 7).

There were unliquidated cash advances/fund transfers of ₱1.563 billion (Observation No. 8)

Misclassification of various accounts totaled ₱1.061 billion (Observation No. 9).

Irregular, unnecessary, and uneconomical use of funds aggregated ₱474.974 million (Observation No. 10).

Absence of inventory-taking, non-maintenance of PPE ledger cards, unrecorded issuances of PPE, and non-reconciliation of/unaccounted balances of Property, Plant and Equipment and their respective physical inventory reports resulted in total unreconciled balance of ₱314.455 million (Observation No. 11).

Deficiencies such as double/excess payments of various transactions totaled ₱273.462 million (Observation No. 12).

Physical Performance

Non-operational/ unutilized equipment, textbooks, software guidelines and manuals amounted to ₱1.596 billion (Observation No. 24).

Delayed completion of project/low rate of accomplishment due to, among others, delay in the clearing of right-of-way (ROW) and failure of agency to implement the project within the period stipulated contributed to the incurrence of commitment fees of ₱159.901 million (Observation No. 25).

Maintenance of the temporary and permanent field office of the Engineer, laboratory, living quarters and all utilities therein increased project cost by ₱30.730 million (Observation No. 26).

Project Sustainability

There was absence/lack of specific programs and financial and manpower resources to sustain completed projects (Observation No. 31).

GENERAL RECOMMENDATIONS

8. Relative to the abovesited audit observations and the need for appropriate actions by the IAs and intervention by the Congress and oversight agencies, we, therefore, recommend the following courses of actions, some of which are reiterations of previous years:

For the Implementing Agencies (IAs)

- Ensure that the feasibility study particularly the project design had been studied/reviewed thoroughly and the amount of required financing estimated/determined reasonably. Take extra care in the

determination of the loan amount for financing as front-end and commitment fees may unnecessarily be incurred for excess project costs. For relending/demand-driven projects, there should already be qualified borrowers/beneficiaries to preclude cancellation of loan due to absence of interested borrowers.

- Prioritize and settle immediately right-of-way acquisition and resettlement issues to hasten project implementation.
- Evaluate/determine the presence of obstacles that may delay project start-up activities and implementation and immediately address them to minimize commitment fees. Determine the amount the project can draw from the loan at its initial stage and thereafter.
- Develop strategies, undertake pre-implementation activities prior to loan effectiveness, if possible, and exert best efforts to comply with loan conditions within the prescribed period/target date to facilitate project start-up activities.
- Prioritize the accomplishment of activities which are conditions for the release of program loans.
- Establish and implement a sound accounting and internal control system to ensure proper recording and reporting of project accounts.
- Evaluate thoroughly the need to procure goods and services and to maintain facilities to ensure that these could be utilized for the project. Conduct continuous review of the necessity of goods, services and facilities for project implementation to preclude procurement/maintenance of unnecessary/inappropriate goods, services and facilities.
- Conduct thorough review of contracts and close monitoring of their implementation to ensure that the interest of the agencies and the government in general are safeguarded, expected deliverables are submitted timely and payments are made only after satisfactory acceptance of deliverables and compliance with payment conditions.
- Evaluate/Inspect deliveries of goods and services to detect defects and non-compliance with contracts. Require immediate replacement/correction of defective goods/outputs.
- Ensure that goods procured are distributed immediately and received by the intended beneficiaries.
- Institute effective evaluation and validation processes for the review of textbooks and teachers' manual that could detect factual/conceptual

errors and ensure that results of content evaluation are accordingly validated.

- Review and analyze financial recording and reporting of project transactions and make necessary reconciliations/adjustments for errors of omission and commission.
- Review the existing system in the grant, utilization and liquidation of cash advances to identify flaws in the system and adopt remedial actions.
- Validate genuineness/authenticity of land titles conveyed by land owners.
- Request immediate cancellation of loan amounts or components determined to be no longer necessary or feasible to implement to minimize incurrence of commitment fees.
- Observe strict compliance with accounting and auditing rules and regulations, contracts or agreements, laws, rules, regulations, guidelines and issuances applicable to project operation particularly on procurement. Ensure that project funds are utilized only for the purposes for which the same were released.
- Ensure that ownership to land, goods and other property have been transferred to their rightful owners and are properly documented.
- Require refund for overpayments, overpriced or excessive goods and services procured. Observe economy and efficiency in procurement and project implementation.
- Enforce collection of receivables from LGUs for loans granted to them.
- Ensure that government properties are properly safeguarded and adequately insured.
- Inform the BTr of the completion of the project especially for projects with special accounts and remit thereto unused balances, if any.
- Resolve immediately problems/issues hampering the utilization of project outputs.
- Develop criteria and performance indicators against which project outputs can be measured. Institute a benefit and monitoring evaluation system to ensure that implementation issues/problems are reported

and addressed immediately. Conduct continuous monitoring and evaluation of project outputs to assess effectiveness/benefits.

- Draw up a project sustainability plan for each project, if possible, include in the feasibility study. Evaluate attainment of project objectives of completed projects, undertake benefit and impact assessment and communicate results to the oversight agencies, determine funding requirements and ensure that required manpower and financing for their sustainability are incorporated in the agency budget.
- Document lessons learned and best practices in project implementation as reference/guide in project feasibility preparation and project implementation for future projects.

For the National Economic and Development Authority (NEDA)

- Continue to strengthen monitoring of ongoing ODA-funded projects, giving top priority to those with implementation issues and facilitate coordination with other concerned agencies for immediate resolution thereof. For completed projects, require IAs to evaluate if project objectives have been attained and undertake benefit and impact assessment, and to report the results to oversight agencies. NEDA however, may make its own evaluation.
- Update information on ODA projects in the NEDA website to facilitate validation and comparison with that of IAs, BTr and DOF.

For the Department of Finance (DOF)

- Ensure that loans are contracted in the amounts necessary and can be absorbed by the IAs. After thorough review, recommend to IAs the cancellation of amounts that will no longer be utilized. Facilitate the immediate request for loan cancellation with the DPs to minimize commitment fees.
- Refrain from contracting loans for financing of feasibility studies especially if loans are charged front-end and commitment fees. Consider working for grants for feasibility studies.
- Establish effective networking among IAs, local government units (LGUs), DBM and other concerned agencies. Facilitate compliance with loan conditions for loan effectiveness and completion of the project as scheduled.

- Institute a system where IAs are informed of commitment fees paid by the NG for their projects and are required to explain delay in project implementation resulting to the incurrence of additional fees.
- Facilitate the review/evaluation of ODA data among the oversight bodies to ensure consistency of data reported in their respective websites and agency reports.

For the Department of Budget and Management (DBM)

- Ensure adequate and timely release of project funds, both loan proceeds and GOP counterpart funds.
- Ensure the early release of the non-cash availment authority (NCAA) to facilitate recording of goods delivered and services rendered.

For the Congress

- Facilitate approval of bills which are conditions for loan effectiveness/ release of additional loan tranches.
- Consider the funding requirements for FAPs in the approval of the IAs' budgets to ensure continuous project implementation and minimize incurrence of commitment fees.
- Ensure that the General Appropriations Act for any given year is passed to preclude the lack of funds for project implementation/operationalization and incurrence of additional commitment fees due to delays thereon.
- Consider the approval of funds needed to sustain/maintain completed projects.