



Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

June 29, 2016

HON. KIM S. JACINTO-HENARES

Commissioner

Bureau of Internal Revenue
Agham Road, Quezon City

Dear Commissioner Henares:

**Consolidated Management Letter on the Audit of the
Bureau of Internal Revenue
For the Period January 1 to December 31, 2015**

1. Pursuant to Section 2, Article IX-D of the Constitution of the Philippines and Section 43 of the Government Auditing Code of the Philippines (PD 1445), we have audited the accounts and operations of the Bureau of Internal Revenue (BIR) for the calendar year ended December 31, 2015. The audit was conducted in accordance with applicable legal and regulatory requirements, and the Philippine Public Sector Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.
2. The audit was conducted to (a) determine compliance with existing laws, rules and regulations; (b) recommend measures to improve the efficiency and effectiveness of the agency's operations; and (c) determine the extent of implementation of prior years' audit recommendations.
3. Deficiencies observed in the course of the audit were earlier communicated through Audit Observation Memoranda (AOM) and discussed during the exit conference conducted on May 17, 2016. Management's comments were incorporated in the Management Letters issued by the Audit Teams in the National Office (NO) and in the different Revenue Regional Offices (RROs), where appropriate. The significant audit observations and recommendations are included in this Consolidated Management Letter of BIR for CY 2015.
4. As of May 10, 2016, Management has not yet submitted to the Audit Team the Consolidated Financial Statements, hence, we are issuing this Consolidated Management Letter in lieu of the Consolidated Annual Audit Report. The balances of the accounts which were the subject of the observations were based on Pre-Closing Trial Balance as of December 31, 2015.

A. INTRODUCTION

Background

5. The BIR was established under Reorganization Act No. 1189 on July 2, 1904 and became fully operational on August 1, 1904. The Bureau is mandated by law to assess and collect all national internal revenue taxes, fees and charges, and to enforce all forfeitures, penalties and fines connected therewith, including the execution of judgments in all cases decided in its favor by a court of justice.

Personnel Complement

6. The BIR is headed by a Commissioner and assisted by four Deputy Commissioners and 10 Assistant Commissioners. For CY 2015, the personnel complement totaled 9,549 in the NO and RROs distributed in nine operating groups, as follows:

Operating Group	Total	National Office	Regional Offices
Management	431	142	289
Assessment	2,611	343	2,268
Collection	2,160	176	1,984
Document Processing	764	110	654
Excise	200	200	0
Taxpayer Assistance	212	59	153
Information Technology	180	153	27
Legal and Inspection	232	90	142
Administrative	2,759	895	1,864
Total	9,549	2,168	7,381

Operational Highlights

7. The mandate of the Bureau is to collect revenues to finance the various programs of the government. As reported by the agency, for the period January to December 2015, total collections amounting to ₱1.442 trillion surpassed the previous year's collection by eight percent or by ₱0.108 trillion, but was below the collection target of ₱1.721 trillion.

8. The collection performance, presented in the next table in comparative figures with that of CY 2014, was the result of the implementation of the various programs/projects initiated by different functional groups in the BIR, the details of which are shown in *Annex A*.

Figures (In Trillion Pesos)

2015		2014	Collection Compared to Goal		Collection Compared to Previous Year	
Collection	Goal	Collection	Excess/(Deficiency) Amount	%	Increase/(Decrease) Amount	%
1.442	1.721	₱1.334	(0.279)	(16%)	0.108	8%

Source: Revenue Accounting Division as of May 13, 2016

Financial Profile

9. The sources and utilization of funds for CY 2015 are as follows:

Particulars	Amount
Current Year Appropriations	₱8,074,326,022.00
Continuing Appropriations	1,344,779,163.77
Allotments Received	9,368,353,783.77
Obligations Incurred	6,917,398,931.92
Unobligated Allotments	2,450,954,851.85

10. The Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (SAAODB) as of December 31, 2015 is shown as *Annex B*.

Scope of Audit

11. The audit covered, on a sampling basis, the accounts and operations for CY 2015 of the BIR-NO and 19 RROs for CY 2015. It was aimed to ascertain the propriety of the financial transactions, fairness of the presentation of the financial statements and ascertain compliance with existing laws, rules and regulations.

12. The absence of approved guidelines in the audit of tax assessment required under Executive Order No. 38 s. 1998 did not permit the verification of the correctness of the amount of revenue/taxes collected during the year.

B. DETAILED OBSERVATIONS AND RECOMMENDATIONS

Significant Observations

13. The audit disclosed a number of deficiencies, the more significant of which are the following:

DISBURSEMENT BOOKS

Unreliable balance of Cash in Bank accounts

The balances of *Cash in Bank – Local Currency, Current Account* and *Cash in Bank – Foreign Currency, Savings Account* totaling **₱76,452,919.80** and **₱46,311.05**, respectively, are unreliable due to (a) net discrepancy of **₱1,204,989,077.54** between the book and bank balances of the NO and RRO 7; and (b) failure of NO, RROs 7, and 9 to regularly prepare bank reconciliation statements.

Discrepancies between the books and bank balances totaling ₱1,204,989,077.54

14. Section 74 of PD 1445 requires, “*at the close of each month, depositories shall report to the Agency Head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.*”

15. Comparison of the book balances of some NO and RRO 7 cash in bank accounts as of December 31, 2015 and the balance as confirmed by the Land Bank of the Philippines (LBP) – East Avenue Branch disclosed a net discrepancy of **₱1,204,989,077.54**, as shown below:

Bank Acct No.	Nature	Balance per Book	Balance per Bank	Discrepancy
2057-xxxx-81 (MDS)	Payment of RG/TL Benefits	₱ -	₱ 23,918,270.27	₱ (23,918,270.27)
2057-xxxx-50 (MDS)	Trust	-	943,538,388.65	(943,538,388.65)
2057-xxxx-80 (MDS)	Regular	-	42,236,406.14	(42,236,406.14)
2057-xxxx-28 (MDS)	Trust	-	183,420,940.00	(183,420,940.00)
0572-xxxx-00 (Peso Current Account)	Procurement Activities / Fees	954,421.99	145,608.43	808,813.56
0572-xxxx-30 (Peso Current Account)	NPSTAR	121,886.31	131,336.40	(9,450.09)

Bank Acct No.	Nature	Balance per Book	Balance per Bank	Discrepancy
0572-xxxx-19 (Peso Current Account)	Tax Refund	₱21,068,595.59	₱39,116,768.47	₱(18,048,172.88)
0572-xxxx-77 (Peso Current Account)	PSF	343,000.00	792,000.00	(449,000.00)
0571-xxxx-91 (Peso Savings Account)	Payroll	421,249.73	643,715.59	(222,465.86)
0574-xxxx-29 (Dollar Savings Account)	NPSTAR	3,002.93	Closed	3,002.93
0574-xx25-83 (Dollar Savings Account)	Int'l Dev't Fund (IDF) Grant	43,308.12	Closed	43,308.12
0574-xxxx-70 (Dollar Savings Account)	Int'l Dev't Fund Grant	-	83,773.86	(83,773.86)
xxxx-1022-89 (Local Currency, Current Account)	Tax Refund	6,065,282.60	No record found	6,065,282.60
xxxx-1048-26 (Local Currency, Current Account)	Procurement Activities	173,647.82	156,264.82	17,383.00
Total		₱29,194,395.09	₱1,234,183,472.63	₱(1,204,989,077.54)

Note: a) The 0574-xxxx-70 is in US dollar amounting to \$1,780.15

b) Bank conversion rate used is 1USD = ₱47.060

c) The 0572-xx45-83 (IDF Grant) with book balance of ₱3,803.03 and the 0572-xxxx-56 (PSF) with book balance of negative ₱1,710,000.00 were not included in our LBP bank confirmation

16. Further analysis of the account *Cash in Bank - Foreign Currency, Savings Account* disclosed that the year-end balance of ₱46,311.05 pertains to LBP account No. 0574-00XX-29 National Program Support for Tax Administration Reform (NPSTAR) and LBP account No. 0574-00XX-83 (Fund 171 IDF Grant), which are already closed per our bank confirmation. Conversely, the bank account number which has a bank balance of \$1,780.15 or ₱83,773.86 remained unrecorded in the books despite our recommendation in previous years to record it.

Failure of NO, RROs 7 and 9 to regularly prepare Bank Reconciliation Statement (BRS)

17. Section 4 of COA Circular 92-125A dated March 4, 1992 requires the preparation of BRS within 15 days after receipt of the Bank Statement (BS) and the submission of a copy to the Office of the Auditor.

18. Also, Joint Circular No. 1-90 of COA, Department of Budget and Management (DBM) and Department of Finance (DOF) dated February 27, 1990 requires the preparation of periodic BRS to be submitted to the Office of the Auditor on or before the 15th day of the following month.

19. The Accounting Divisions of NO, RROs 7 and 9 failed to prepare monthly BRS for CY 2015.
20. The absence of BRS precluded the Audit Team from promptly verifying the existence and accuracy of the cash in bank balances and recommending appropriate measures to address any deficiency.
21. The Disbursement Accounting Division (DAD) of NO was not able to submit BRS from July to December 2015 for its 10 Modified Disbursement System (MDS) bank accounts, June to December 2015 for its four Current Accounts and April to December 2015 for its ATM Payroll account. Whereas, the Finance Division (FD) of RRO 7 failed to submit and prepare BRS for two bank accounts of the agency, while the FD of RRO 9 has prepared and submitted only January to October 2015 BRS for all its bank accounts.
22. The non-preparation of BRS of the DAD/FD for its cash in bank balances prevented them to effect corrections and adjustments for errors/omissions that could have been identified through the BRS. As a result, the unreconciled cash in bank balances have rendered the year-end balances unreliable.
23. **We reiterated our previous year's recommendation that Management require DAD/FD of NO, RROs 7 and 9 to regularly prepare and promptly submit bank reconciliation statements to account for the discrepancies noted and prepare necessary adjusting entries.**
24. Management of NO explained that the failure of DAD personnel to prepare the BRSs for CY 2015 was due to the issues/problems encountered in the implementation of the Enhanced eNGAS and adoption of PPSAS which they had to address. The BRSs for December 2015 were, however, submitted on May 19, 2016.
25. The Chief Accountant of RRO 7 assured the Audit Team that she will comply with the recommendation to regularly prepare BRS.

Trust Fund

Management failed to remit to the National Treasury the amount of ₱103,647.82 representing collection of bid fees and sale of bid maintained under *Cash in Bank, Local Currency, Current Account (Trust Fund)*, contrary to DBM Budget Circular (BC) No. 2004-5 as amended by BC 2004-5A and DOF-DBM-COA Permanent Committee Resolution No. 2005-2.

26. DBM Budget Circular 2004-5 as amended by BC 2004-5A, provides the guidelines in the grant of honoraria to government personnel involved in government procurement. Further, DOF-DBM-COA Permanent Committee Resolution No. 2005-2 dated June 2005 authorized to treat the collections from procurement activities such proceeds from sale of bid documents, protest fees, fees from contractor/supplier registry, and the likes as trust receipts to be used exclusively for the payment of honoraria and

overtime pay of concerned government personnel. Agencies are authorized to utilize up to 100 percent of said collections for the payment thereof subject to the guidelines. Under Paragraph 6.2 of the BC 2004-5A, any excess in the amount collected shall be remitted by the National Government Agencies (NGAs) to the National Treasury.

27. BIR RRO 7 maintains a trust fund with the LBP - East Avenue Branch. We noted that at year end, after the payment of honoraria to Bids and Awards Committee (BAC) and Technical Working Group (TWG) personnel, the excess was retained with the bank and not deposited/remitted to the National Treasury in accordance with pertinent provisions cited above.

28. As a result, the unremitted amount maintained with the bank was exposed to possible use for purposes other than what it was intended for.

29. **We recommended and Management agreed to remit/deposit without delay to the National Treasury the excess or remaining balance of the subject trust fund account.**

30. Management commented that the RRO 7 Accountant will reiterate its previous request to LBP - East Avenue Branch for the remittance of the region's year-end bank account balance to the National Treasury.

Unreliable balance of Due from Officers and Employees

The balance of the *Due from Officers and Employees* account of NO amounting to ₱1,309,914.76 is unreliable because it included (a) 133 accounts or 34 percent of the Subsidiary Ledger (SL) accounts with negative/abnormal balances totaling ₱1,041,230.66; and (b) accounts which have been dormant for more than five years totaling ₱1,709,491.77.

SL accounts with abnormal or negative balances totaling ₱1,041,230.66

31. Generally Accepted Accounting Principles (GAAP) provides, "*Normally, asset accounts should have debit balances and liabilities and capital accounts should have credit balances.*"

32. COA Resolution No. 80-122 provides the authority to write-off from the books of accounts cash advances of government employees that remain unliquidated for more than ten years subject to certain conditions, such as:

- a. Death of the respondent employee; or
- b. Unknown whereabouts of the respondent employee, and that he could not be located despite extra-diligent efforts to find him; or
- c. Incapacity to pay or insolvency of the respondent employee; and

- d. The account has remained unpaid and outstanding for more than 10 years despite diligent efforts to collect exerted by the accountable officer; and
- e. The account unpaid and outstanding does not exceed ₱10,000.

33. The *Due from Officers and Employees* account of NO is composed of 394 SL accounts with a total balance of ₱1,309,914.76 as of December 31, 2015. Review and analysis revealed that 133 or 34 percent of these accounts have negative/abnormal/credit balances totaling ₱1,041,230.66.

34. Verification of the status of employment of the employees with negative SL balances disclosed that out of this amount, ₱589,224.10 or 58 percent belonged to active employees while ₱443,258.84 or 38 percent belonged to those who were no longer connected with the Bureau. The status of employment of the remaining balance of ₱8,747.72 or 4 percent is still for verification.

35. Further analysis of the account revealed that the negative/abnormal credit balances were due to erroneous entries wherein collections/liquidations from employees were recorded with no corresponding set-up of receivable.

SL accounts totaling ₱1,709,491.77 have been dormant for more than five years

36. COA Circular No. 97-001 dated February 5, 1997 prescribes the guidelines and procedures on the proper disposition of dormant funds and/or accounts and describes dormant accounts as individual or group of accounts which balances remained non-moving for more than five years.

37. Review of the SLs of the *Due from Officers and Employees* account revealed that 227 accounts with balances totaling ₱1,709,491.77 have not shown any movement from six to ten years, casting doubt on its collectability.

38. Verification of the status of the 227 employees with dormant SL balances showed that 94 are still in active service, 28 were dropped from the rolls, 86 were already retired/resigned, two were dismissed, 10 are deceased, one was transferred to another agency and six are still for verification by the Personnel Division.

39. The existence of SL accounts with negative/abnormal balances and dormant accounts render the balance of the *Due from Officers and Employees* account unreliable.

40. **We recommended that Management require the:**

Chief, DAD to -

a. Ensure the prompt setting up of receivables from the concerned employees to avoid a situation where settlement is recorded prior to recognition of the same in the books;

- b. Exert best effort in reviewing and analyzing the SL accounts with abnormal/credit balances to determine other possible causes of the negative balances so that appropriate adjustments could be made;**
- c. Consider reclassifying these amounts to an appropriate liability account after thorough analysis of the accounts, if it is established that the Bureau is indeed liable to its employee;**
- d. Issue demand letters to employees who are still connected with BIR and/or cause the settlement of their obligations through salary deduction;**
- e. Analyze the remaining unliquidated cash advances and determine if the conditions set forth under COA Resolution No. 80-122 are met and make the necessary actions to facilitate the clearing of the agency books of dormant accounts; and**

Chief, Personnel Division to -

- f. Strictly implement its policy on the issuance of clearance from money accountabilities and ensure that cash accountabilities and other outstanding obligations of officers and employees are settled first before their transfer, separation or retirement from service.**

41. The DAD of NO informed the Audit Team that of the 394 SLs with abnormal balances, 65 were resolved and adjusted under JEV No. 2016-01-000484 dated January 25, 2016. Also, the recording of the amount of ₱80,986.55 in overpayments which pertain to seven SLs will be effected in CY 2016 financial reports. According to the Chief of DAD, continuous analysis of the abnormal balances are being made to ensure the reconciliation between the payroll record and SL balances.

42. The Personnel Division of NO commented that it has initiated measures to ensure that officials and employees who are transferred or otherwise separated from the service are first cleared from all their obligations with the government.

Unreliable balance of *Due from NGAs*

The accuracy of the ₱648,916,812.13 year-end balance of the account *Due from NGAs* is doubtful due to (a) net discrepancy of ₱103,869,784.95 between the records of the PS and the NO, RROs 5, 7, 8 and 12; and (b) existence of SL accounts in NO totaling ₱66,132,890.77 which have been dormant from 10 to over 30 years.

43. The 2014 Revised Chart of Accounts (RCA) for National Government prescribes that the account *Due from National Government Agencies* is used to record advances for purchase of goods/services as authorized by law, fund transfers to NGAs for implementation of projects and other receivables from NGAs. The account is credited upon receipt of goods/services, and liquidation of fund transfers/receivables.

44. The BIR procures its common-use supplies, material and equipment from the Procurement Service (PS) in line with the national policy that procurement of government supplies, materials and equipment shall be done in the most economical and efficient manner. The corresponding funds needed to procure are remitted in advance to PS and are recorded in the agency's books of accounts as *Due from NGAs*. Thus, the account *Due from NGAs* is debited for amounts advanced for the account of PS and credited for deliveries of office supplies from the same office.

45. Examination and analysis of the account disclosed the following deficiencies that adversely affected the reliability of the year-end balance of the amount of ₱648,916,812.13:

Discrepancy between the records of the NO, RROs 5, 7, 8 and 12 and the PS

46. Comparison of the records of the NO and four RROs with the PS totaling ₱584,334,135.63 and the confirmed balance from PS amounting to ₱480,464,350.68 disclosed a net discrepancy of ₱103,869,784.95, as shown below:

Office	Per Books	Per PS Records	Discrepancy
NO	₱581,187,822.79	₱476,086,383.47	₱105,101,439.32
RRO 5	289,978.04	909,304.71	(619,326.67)
RRO 7	(1,489,534.59)	24.12	(1,489,558.71)
RRO 8	3,819,475.64	3,200,188.09	619,287.55
RRO 12	526,393.75	268,450.29	257,943.46
Total	₱584,334,135.63	₱480,464,350.68	₱103,869,784.95

47. Verification of NO's records revealed that the said discrepancy can be attributed partly to unrecorded deliveries of at least ₱11,073,172.17 from 1999 up to December 31, 2004.

48. In RRO 5, the discrepancy in previous year's audit for this account was only ₱441,334.49. Instead of reducing the amount of discrepancy, it increased to ₱619,326.67 or 40 percent.

49. In RRO 7, the account has a negative balance of ₱1,489,534.59, which is due to double take-up of PS deliveries. Per confirmation with PS, however, the balance was only ₱24.12 or a discrepancy of (₱1,489,558.71). Also, there were unrecorded deliveries from PS amounting to ₱480,111.30.

50. In RRO 8, the difference of ₱619,287.55 was due to the unrecorded delivery of Sales Invoice (SI)/Delivery Receipt (DR) No. CSE 15-000009932 dated 7/23/2015 of ₱613,882.88; and the difference of ₱5,404.67 between the beginning balances per the region's GL records of ₱797,116.92 and PS records of ₱791,712.25.

51. In RRO 12, the region's records as of CY 2015 showed total undelivered supplies from PS of ₱526,393.75 while confirmation with the PS showed a balance of ₱268,450.29 as of December 31, 2015, thus, a discrepancy of ₱257,943.46.

Existence of SL accounts in the NO totaling ₱66,132,890.77 which have been dormant from 11 to over 51 years

52. COA Circular No. 97-001 dated February 5, 1997 prescribes the guidelines and procedures on the proper disposition of dormant accounts as individual or group of accounts which balances remained non-moving for more than five years.

53. Review of SLs for the account *Due from NGAs* in the books of the NO revealed that of the ₱643,204,538.30 balance, ₱66,132,890.77 or 10.28 percent pertains to balances that have been dormant since 1964, as shown below:

Year Dormant	No. of years	Amount
1988	27	₱ 9,792,809.47
1964 - 1991	11 to 51 years	45,266,909.13
2004 & prior years	11 years and above	11,073,172.17
Total		₱66,132,890.77

54. Out of the total dormant accounts, only the due from PS of ₱11,073,172.17 is of known details. The rest of the accounts cannot be verified, thus, collectability could not be determined.

55. The DAD personnel in-charge of the account explained that they cannot make any adjustment on the dormant accounts/balances due to lack of pertinent documents that would facilitate analysis and reconciliation of the same.

56. Despite the length of time that these accounts have been non-moving, Management had no action to properly eliminate these dormant accounts, pursuant to COA Circular No. 97-001 dated February 5, 1997.

57. As a result of the foregoing observations, the accuracy of the ₱648,916,812.13 year-end balance of the account *Due from NGAs* is doubtful.

58. **We reiterated our previous year's recommendation that Management require:**

- a. **The Chief, DAD to (i) coordinate with the Procurement Section of the Bureau to determine the deliveries that are yet to be recorded in the accounting books to reflect the correct balance of the account; and (ii) make a strong representation with the COA Commission Proper to facilitate the writing-off of the dormant accounts with no records and documents, in compliance with the guidelines and procedures on the proper disposition of dormant accounts prescribed under COA Circular No. 97-001;**

b. The FD of RRO 5 to (i) reconcile its records with the PS to determine the needed adjustments to be made in order to come up with a more accurate balance of the account; and (ii) coordinate closely with the Administrative Division to ensure that all transactions involving the account are properly recorded;

c. The Accountant of RRO 7 (i) to recognize the unrecorded deliveries worth ₱480,111.30; (ii) to review/analyze the account for possible erroneous classification of advance payments made to PS or non-recognition of the Due from NGAs; and (iii) to reconcile their records with the PS to determine the correct balance of the account;

d. In RRO 8, (i) the Property Unit to determine/look into its records if there was actual receipt of delivered items from PS amounting to ₱613,882.88 under DR No. CSE 15-000009932 dated July 23, 2015 and to coordinate with Accounting Unit of Finance Division, if found to have actual delivery, for recording in the books; (ii) the Accountant to prepare an entry to record the amount of ₱613,882.88 for the actual receipt of delivered items under DR No. CSE 15-000009932 dated July 23, 2015; and (iii) the Accounting and the Property Units to coordinate with PS, if it is found to have no actual delivery received from PS in order to reconcile the amount of ₱613,882.88 and to reconcile the difference of ₱5,404.67 in the beginning balance between the two books, to determine if it pertains to undelivered items by PS or due to Management's omission in the recording of items received from PS; and

e. The Accountant of RRO 12 to (i) make the necessary adjustments in the erroneous recording of all payments made to the PS for the procurement of supplies; (ii) coordinate with the Property Officer to establish the delivered supplies procured from the PS to support the adjusting entries to be taken up in the books; and (iii) reconcile the established amount with the record of the PS and make necessary adjustments, if warranted.

59. To address the above-mentioned findings, Management of NO informed that, of the ₱61,553,765.61 worth of deliveries made by PS, ₱51,329,221.44 was already recorded in CY 2016. The remaining ₱10,224,544.17 will be recorded in the second quarter of 2016. Moreover, the liquidation report for CY 2015 PS deliveries worth ₱66,304,388.08, received by DAD on May 2, 2016 from the Procurement Division, will be recorded in the second quarter of 2016.

60. Management of RRO 5 replied that the bulk of unreconciled balance was from prior years' purchases which the Supply Officer (SO) has no available data since the retired SO in-charge, did not turn-over any document to the present SO. It added, however, that based on the Administrative Officer's records, the remaining balance is only ₱279,715.20 while the FD balance is ₱289,978.04. The Accounting Division (AD) stated that before they reconcile with the PS records, they have to gather and analyze the

data first and then reconcile the discrepancy with the FD. Afterwards, make an analysis on the remaining balance.

61. Management of RRO 7 commented that the double recording of issuances which resulted in a negative balance in *Due from NGAs* account was already adjusted in January 2016 per JEV No. 2016-01-000126.

62. The Assistant Regional Director of RRO 8 commented, through her letter-reply dated March 10, 2016, that:

a. The Administrative and Human Resources Management Division (AHRMD) records showed that PS made an actual delivery of supplies amounting to ₱613,882.88 last July 23, 2015 as evidenced by DR No. CSE 15-000009932. However, the said DR was only forwarded to the FD on March 8, 2016, which in turn recorded the delivery thru JEV No. 2016-03-000292 dated March 10, 2016; and

b. Close scrutiny of the prices of supplies listed in the catalogues of PS-DBM as against actual deliveries revealed some differences. The AHRMD's records years ago showed that prices of some items delivered by PS were lower than what were listed in its price list. Although, it has yet to completely go over all the transactions/deliveries made by PS, initial results of its review would tend to show that the difference of ₱5,404.67 in the beginning balance between the two books was the accumulated result of the said price difference.

63. In RRO 12, during the exit conference, the Chief, FD committed to reconcile the discrepancy with the records of the PS.

Doubtful accuracy and existence of Inventory accounts (*Office Supplies Inventory, Accountable Forms Inventory, and Other Supplies Inventory*)

The accuracy and existence of the *Office Supplies Inventory, Accountable Forms Inventory* and *Other Supplies Inventory* accounts with an aggregate balance of ₱246,249,392.20 are doubtful due to (a) failure to conduct physical count of inventory and submit the Report on Physical Count of Inventory (RPCI) in RROs 3, 4, and 7; (b) discrepancies between the Accounting Record and RPCI/Stock Cards (SC) in RROs 5, 7, 9, and 15 totaling ₱7,697,316.11; (c) unrecorded issuances of at least ₱6,888,838.82 in NO, RROs 3, 5 and 15; (d) unrecorded receipts of at least ₱3,646,543.55 in RROs 3 and 5; (e) erroneous entry which overstated the inventory balance by ₱157,680.00 in NO; and (f) recognition of purchased postage stamps and office supplies totaling ₱790,087.40 as outright expense in RROs 5 and 7.

64. Section 112 of PD 1445 states, "*Each government agency shall record its financial transactions and operations in conformity with generally accepted accounting principles.*"

65. Section 122 of PD 1445 provides “*Whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit trial balances, physical inventory reports, current plantilla of personnel, and such other reports as may be necessary for the exercise of its functions.*”

66. In all cases, the physical inventory taking should be regarded with importance. Inventory of goods and/or supplies and materials shall be taken at least every six months as of June 30 and December 31 of each year, to be reported on appropriate forms.

67. The Supply Unit is responsible for the safekeeping of all inventory items utilized by the different Revenue District Offices (RDOs) under its respective RROs. The inventory items received from the BIR NO are released to the RDOs thru their Administrative Officers using the Requisition and Issue Slip (RIS). The RISs are then summarized in the RSMI which the Accounting Unit uses as basis in recording the issuances of supplies and materials.

68. Verification and analysis of the accounts showed the following deficiencies:

Office	Deficiencies	Management Comments						
a) No physical count conducted								
RROs 3, 4, 7	No physical count conducted	Management of RRO 7 commented that the reconciliation of inventory records which is targeted to be completed on or before August 31, 2016 is on-going. This is to ensure that AHRMD together with the Inventory Committee will be able to conduct the physical inventory for 2016 without delay and be able to submit the RPCI on or before the deadline.						
b) Difference between accounting records and the RPCI								
RRO 5	Difference of ₱7,192,598.82 between accounting records and the RPCI, accounted for as follows:	Management of RRO 5 remarked that the RSMI for February 2015 was already submitted to FD while the RSMIs for March to June 2015 are ready for submission. The remaining RSMIs for July to December 2015 were already for printing.						
<table><tr><td>Per Accounting</td><td>₱8,983,261.31</td></tr><tr><td>Per RPCI</td><td>1,790,662.49</td></tr><tr><td>Difference</td><td>₱7,192,598.82</td></tr></table>		Per Accounting	₱8,983,261.31	Per RPCI	1,790,662.49	Difference	₱7,192,598.82	
Per Accounting	₱8,983,261.31							
Per RPCI	1,790,662.49							
Difference	₱7,192,598.82							

Office	Deficiencies	Management Comments						
	The difference could be attributed to unrecorded deliveries and issuances. Verification of the accounting records revealed that issuances from February 1 to December 31, 2015 were not recorded while March to December 2014 issuances were taken up only in CY 2015, due to the failure/late submission of the SO to the Accounting Unit of the RSMI within the prescribed period, despite of the instruction of the Administrative Officer to the SO to fast track the preparation of RSMI.							
RRO 15	Discrepancy of ₱504,717.29 between accounting records and RPCI pertaining to <i>Accountable Forms Inventory</i>, accounted for as follows: <table><tr><td>Per Accounting</td><td>₱775,284.29</td></tr><tr><td>Per RPCI</td><td>270,567.00</td></tr><tr><td>Difference</td><td>₱504,717.29</td></tr></table> The difference could be attributed to the unrecorded issuances of accountable forms amounting to ₱456,693.55 and understatement in the recording of CY 2014 issuance amounting to ₱10,093.98. Interview revealed that the Accounting Unit records the receipt of inventories only upon receipt of the JEV from the NO with the List of Inventory Items-Issuance, RSMI and RIS as attachments. It was disclosed that the JEV from the NO usually arrives late, thus, causing delay in the recording of the accountable forms received.	Per Accounting	₱775,284.29	Per RPCI	270,567.00	Difference	₱504,717.29	Management commented that reconciliation of the records of the Supply and Accounting Sections is being undertaken but may take time due to lack of personnel. And that the issuances pertaining to CY 2015 were not recorded because the Accounting Section was not furnished copies of the RSMI. With the said reports already available, recording of the issuances made in CY 2015 can now be effected.
Per Accounting	₱775,284.29							
Per RPCI	270,567.00							
Difference	₱504,717.29							
c) Unrecorded issuances								
NO	Unrecorded issuances of supplies amounting to ₱5,951,337.89 pertaining to 352 RIS. Inquiry with DAD personnel disclosed that the non-recording of all RIS for CY 2015 was due to the roll out and training held for the enhanced Electronic New Government Accounting System (eNGAS) to RROs which took much of their time.	DAD of NO informed the team that of the 352 unrecognized RIS, 143 with corresponding amount of ₱1,591,706.78 were already recorded in CY 2016, while the remaining 209 RIS were all accounted for and will be recorded in the second quarter of CY 2016.						

Office	Deficiencies	Management Comments
RRO 3	Unrecorded issuances of supplies amounting to ₱470,713.40.	
RRO 6	Unrecorded issuances of accountable forms for CY 2015. Review of the <i>Accountable Forms Inventory</i> account disclosed that the latest recorded issuances pertain to February to September 2014 only, and issuances made from October 2014 to December 2015 were not recorded.	Management of RRO 6 commented that it has already approved various JEVs to take up the issuances from October 2014 to December 2015.

d) Unrecorded receipt of accountable forms

RRO 3	Unrecorded receipt of accountable forms from NO of undetermined amount.	
RRO 5	Unrecorded receipt of accountable forms from NO from May 13 to October 13, 2015 amounting to ₱3,646,543.55. Inquiry with the FD revealed that the receipts were not recognized because the JEV, pertaining to the accountable forms issued, as basis of the FD for recording in the books were not yet forwarded by the NO.	Management agreed to adhere to COA's recommendations beginning CY 2016.

e) Overstatement of Inventory Accounts

NO	Overstatement of ₱157,680.00 in the <i>Office Supplies Inventory</i> and <i>Accounts Payable</i> accounts due to erroneous entries for the payment of office supplies purchases made under JEV-2015-09-002918 for SI No. 1690 and JEV-2015-04-004151 for SI No. 389691 amounting to ₱25,080.00 and ₱132,600.00, respectively.	Management of NO commented that the erroneous entries made were already corrected on January 5, 2016 under JEV No. 2016-01-000744.
----	---	--

f) Recognition of purchased postage stamps and office supplies

RRO 5	Purchases of postage stamps amounting to ₱382,000.00 were recorded as outright expense under the <i>Postage and Deliveries Expense</i> account, instead of <i>Accountable Forms, Plates and Stickers Inventory</i> account, thus, understating the <i>Accountable Forms, Plates and Stickers Inventory</i> and overstating the <i>Accumulated Surplus</i> accounts by ₱166,500.00, for the unissued postage stamps.	Management of RRO 5 informed that it is taking into consideration the cost of the postage metering machine, and the canvass for the price of the postage metering machine is now being done. In addition, the Administrative Division is in the process of preparing the stock card of postage stamps, and likewise,
-------	---	--

Office	Deficiencies	Management Comments
	It was noted that the reason of this practice of recording as outright expense was due to the difficulty of the Administrative Division in monitoring these postage stamps. To solve this difficulty, the team considered and see it proper to use a postage metering machine instead of purchasing postage stamps.	updating the issuances of the said item and that the personnel in-charge has started the preparation of MRAAF for the postage stamps.
RRO 7	Office supplies totaling ₱623,587.40 were recognized as outright expense upon receipt of deliveries, thus, understating the inventory accounts.	Management agreed to adhere to COA's recommendations beginning CY 2016.
g) Other Deficiencies		
RRO 7	a. Some supplies shown in the IS have no corresponding SCs; b. Supplies with balances per SCs were not included in the IS, while some items have no cost; and c. Supplies recorded in the IS and SCs differed in quantity and unit cost as at year-end	Management commented that during the verification process conducted by AHRMD it was found out that stocks already issued to some offices but were returned back to the Property Unit for re-issuance were not recorded by the Property Custodian, resulting to negative effect in the inventory schedule. AHRMD will record the returned items as part of the inventory and request FD to deduct its issuance through submission of RIS and RSMI and zero out the inventory since they were already issued to various offices.
RRO 8	a. Copies of RIS attached in the JEVs were not original, not numbered and have no dates; and b. Some RIS were used by the Property Unit several times in taking up issuances of office supplies. Sound internal control practice dictates that the recording of the issuance of office supplies should be properly documented by the RSMI and the RIS to ensure that all issuances of office supplies are properly monitored and recorded as to type of items and quantities.	Management agreed with our recommendations and the ARD, in her letter dated March 10, 2016 replied that it issued a memorandum to the Chiefs of AHRMD and FD to comply with the recommendations in order to have a systematic procedure in documenting and recording the accurate quantities of office supplies being issued.

69. The recognition of purchased postage stamps, and office supplies in RROs 5 and 7, respectively, as expenditures overstated the expenses accounts and understated the Inventory accounts.

70. As a result of the above deficiencies, the carrying amount of the Inventory accounts cannot be relied upon.

71. **We recommended and Management agreed to require:**

- a. **The concerned Property/Supply Units to conduct physical count of inventories and prepare/submit the corresponding RPCI;**
- b. **The Property/Supply Units and Accounting Units of RROs 5, 7, and 15 to conduct periodic reconciliation to resolve the discrepancies between their records;**
- c. **The DAD of NO and FD of RROs 3, 5, 6 and 15 to book up the unrecorded issuances of inventories, and the Supply Officer of RRO 5 to prepare and submit regularly the RSMI as basis for the FD to credit the inventory account;**
- d. **The FD of RROs 3 and 5 to book up the cost of accountable forms received and regularly coordinate with the DAD of NO for the timely submission of documents necessary in recording receipt of accountable forms;**
- e. **The DAD to correct the erroneous entry made on the payment of office supplies purchased;**
- f. **The FD of RROs 5 and 7 to record receipt of inventories under its proper inventory accounts instead of outright expense;**
- g. **The Administrative Division of RRO 5 to consider the use of the postal metering machine in sending the letters and correspondences of the agency;**
- h. **The Accounting Unit of RRO 8 to attach original copies of RIS to JEVs taking up issuances of office supplies; and**
- i. **The Property Unit of RRO 8 to prepare the RIS in 3 copies, with control number and date in order to avoid its double use for easy reference as to type of items and quantities issued, for timely recording and to ensure that all items issued are properly accounted and recorded.**

Unreliable balance of PPE accounts

The aggregate balances of the *Property, Plant and Equipment* (PPE) accounts of ₱4,794,968,463.93 is unreliable due to (a) net discrepancy of ₱192,380,585.68 between the balance per books and Report on the Physical Count of Property, Plant and Equipment (RPCPPE); (b) non-recognition of various properties acquired through donation; (c) failure to derecognize demolished and disposed properties worth ₱16,434,473.42; (d) non-reclassification of the completed building from *Construction in Progress-Buildings and Other Structures* account costing ₱64,811,468.96 to the appropriate *Buildings* account; (e) failure to conduct complete physical inventory at least once a year and to submit complete RPCPPE; and (f) non-compliance with pertinent rules and regulations on PPE.

72. The PPE accounts of BIR have the following balances as of December 31, 2015:

NO/ RRO	Amount	Office	Amount
NO	₱2,261,360,131.70	10	109,855,142.09
1	251,264,089.63	11	63,979,261.71
2	136,173,817.03	12	22,785,667.46
3	82,252,889.94	13	89,620,921.15
4	120,003,758.05	14	80,702,820.38
5	59,203,012.54	15	87,385,888.47
6	75,452,868.32	16	61,517,040.28
7	133,423,351.31	17	69,552,660.19
8	731,363,276.00	18	105,089,700.84
9	224,154,281.91	19	29,827,884.93
Total			₱4,794,968,463.93

Note: The amount is exclusive of Construction in Progress - Buildings and Other Structures

73. Examination of the PPE accounts disclosed deficiencies that affected the reliability and accuracy of the year-end balances:

Net discrepancy of ₱192,380,585.68 between the balance per books and the RPCPPE

74. Paragraph 29 (b) of PPSAS 1 provides that fair presentation requires an entity “to present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information.” Appendix A of the same PPSAS states that “Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent. The information in financial statements should be complete within the bounds of materiality and cost.”

75. Comparison of the PPE account balances per books against the RPCPPE as of December 31, 2015 disclosed a discrepancy of ₱192,380,585.68, details of which are shown below:

NO/RRO	Per Books*	Per RPCPPE	Discrepancy
NO	₱2,261,360,131.70	₱2,090,456,174.61	₱170,903,957.09
1	251,780,958.40	248,168,052.88	3,612,905.52
3	82,252,889.94	90,276,897.84	(8,024,007.90)
4	120,003,758.05	87,206,046.57	32,797,711.48
5	59,203,012.54	53,100,568.80	6,102,443.74
8	731,363,276.00	741,570,041.27	(10,206,765.27)
9	224,154,281.91	226,959,940.89	(2,805,658.98)
Total	₱3,730,118,308.54	₱3,537,737,722.86	₱192,380,585.68

*Excludes Construction in Progress – Buildings and Other Structures

76. During the reconciliation process, only RRO 8 was able to fully account the discrepancy between the accounting records and RPCPPE. The rest of the offices were only able to identify some of the reasons for the difference, details of which are presented below:

NO/ RRO	Discrepancy
NO	a. The building located in Valenzuela was correctly recorded by DAD at its fair value of ₱46,204,429.79 but was recorded by PD at ₱153,839,000.19; b. Fire Alarm System worth ₱1,767,999.52 was not recorded by PD; c. Isuzu Sportivo costing ₱1,355,000.00 which was issued to RDC Mindanao was not recorded by PD; d. DAD's record still include three disposed vehicles with total cost of ₱1,188,000.00. These are no longer included in the RPCPPE; e. Difference of ₱122,936.93 noted in the recording of cost, as discussed in paragraph 77; and f. The ₱988,816.80 difference in the recognition of Hybrid PBX Enterprise Communication System, as discussed in paragraph 104.
1	There were adjustments made on previous year's abnormal balances of the accounts made the by Accounting Section, as follows: <i>Office Equipment</i> for ₱905,110.97, <i>Furniture and Fixtures</i> for ₱831,258.41 and <i>Information and Communication Technology Equipment</i> account for ₱6,557,626.68 or for a total of ₱8,293,996.06. These were not reflected in Property Section's records.
3	ICT equipment valued at ₱6,338,617.46 and the motor vehicle received from NO worth ₱963,000.00 are unrecorded by the Accounting Section.

NO/ RRO	Discrepancy								
4	a. Disposed property thru public auction and transferred without cost to other government agencies were still recorded in the books of accounts; b. RPCPPE of other RDOs and RROs as well as RPCPPE for office equipment and medical equipment were not submitted; c. Several PPE reported in the RPCPPE were not valued; d. Thirty-three units Blackberry smartphones received from NO in CY 2004 costing ₱30,250.00 each for a total amount of ₱998,250.00 were not reported in the RPCPPE. According to the Property Officer, the said items were returned to NO years ago due to their unserviceability, however, upon verification, no document evidencing the return of the said items to the NO was presented. In addition, the Accounting Unit was not informed of the said transaction, thus, the smartphones with a carrying amount of ₱743,696.25 were still carried in the books as at year-end. e. Several PPE reported in the RPCPPE did not have property number. Lack of coordination was noted between the Property Unit and the Accounting Unit in assigning property numbers on the PPE. Interviews disclosed that the Accounting Unit assigns the property number in recording PPE in the books of accounts without informing the Property Unit.								
5	a. The balance per books includes SL of <i>Reconciling Items</i> totaling ₱4,602,019.50. The SL for <i>Reconciling Items</i> is a temporary SL account created in 2004 to facilitate the conversion of the Bureau's account to e-NGAS with the understanding that these items would later be documented and reconciled with their respective GL accounts. It represents the discrepancy between each GL account and its subsidiary records; b. The <i>Information and Communication Technology Equipment</i> account included computer software received from the NO worth ₱423,056.88 which should be reclassified to <i>Computer Software</i> account under Intangibles in compliance with PPSAS 31. These software were not included in the RPCPPE; and c. Various IT Equipment received from the NO worth ₱1,269,000.00 remains unrecognized as at year-end due to the failure of the NO to forward the JEVs and the supporting documents to the regional FD as bases in recognizing the receipt thereof. These equipments were included in the RPCPPE.								
8	a. The difference of ₱10,206,765.27 is accounted for as follows: <table data-bbox="526 1703 1414 1883"> <tr> <td>Unbooked properties under NPSTAR project received from NO</td><td>₱11,160,008.65</td></tr> <tr> <td>Collecting Officer Receipting Device (CORDs) which were already returned to NO but still recognized in the books</td><td>(1,453,690.00)</td></tr> <tr> <td>Items still recorded in the books but were already disposed and/or already scheduled for disposal</td><td>(669,958.50)</td></tr> <tr> <td>Two typewriters being used by RDO 51 and recorded in the</td><td>(51,000.00)</td></tr> </table>	Unbooked properties under NPSTAR project received from NO	₱11,160,008.65	Collecting Officer Receipting Device (CORDs) which were already returned to NO but still recognized in the books	(1,453,690.00)	Items still recorded in the books but were already disposed and/or already scheduled for disposal	(669,958.50)	Two typewriters being used by RDO 51 and recorded in the	(51,000.00)
Unbooked properties under NPSTAR project received from NO	₱11,160,008.65								
Collecting Officer Receipting Device (CORDs) which were already returned to NO but still recognized in the books	(1,453,690.00)								
Items still recorded in the books but were already disposed and/or already scheduled for disposal	(669,958.50)								
Two typewriters being used by RDO 51 and recorded in the	(51,000.00)								

NO/ RRO	Discrepancy
	books but not included in the RPCPPE
	Computer Software which were included in the RPCPPE but recorded in the books as Intangible Assets 1,221,405.12
	Total ₱10,206,765.27
9	a. Under the <i>Disaster Response and Rescue Equipment</i> account, the RPCPPE excludes various equipment costing ₱200,600.00 while accounting records exclude ₱20,400.00 worth of equipment; b. Motor Vehicles costing ₱712,000.00 were not included in the RPCPPE; c. Motor Vehicles costing ₱4,598,500.00 which were included in the RCPPE were not recorded in the books; and d. Other discrepancies due to erroneous classification of PPE.

77. Likewise, in NO, there were noted differences in the description and cost of PPE between the DAD and Property Records, as shown below:

Property No.	DAD Records		Property Records	
	Description	Cost	Description	Cost
16405-1	Alenaire 5.0 TR	₱99,750.00	Ceiling Mounted- Package Type 3TR	₱ 77,000.00
16405-2	Alenaire 5.0 TR	99,750.00	Ceiling Mounted- Package Type 3TR	77,000.00
21735-2	Wall Mounted, 1.5TR	99,968.47	Wall Mounted 1.5 HP	43,000.00
21734-16	Ceiling Mounted 3.0TR	99,968.46	5.0 TR Ceiling Mounted	85,000.00
20010-70	Lexmark E460DN	25,000.00	Lexmark E460DN	19,500.00
Total		₱424,436.93		₱301,500.00
Difference				₱122,936.93

78. Similar to previous years' findings, there was no reconciliation done between the records of the Property Division/Unit and the DAD/Accounting Unit; hence, the Bureau failed to fully account for the difference. The discrepancy between these two sets of records where physical count is considerably less than the booked up items manifests lost and/or unaccounted items. Unless a complete inventory taking and reconciliation between Property and Accounting are given utmost importance by Management, the deficiency will continue to occur to the extent that loss of property could not be prevented and determined, and accountability therefore could not be enforced.

79. **We recommended that Management require the:**

- a. **DAD/Accounting Units and the PD/Property Units of NO and the concerned RROs to exert more effort in resolving the ₱192,380,585.68 net**

discrepancy between their records by conducting a regular reconciliation to address the noted variances/discrepancy; and

b. DAD/Accounting Units and the PD/Property Units to effect adjustments on the noted deficiencies.

80. Management of RRO 1 acknowledged the observations and recommendations of the team. They replied that the FD and AD are trying their best in reconciling the balances of the PPE accounts with the RPCPPE. The Chiefs of the two Divisions, together with the Acting Property Custodian, were already instructed to determine the nature and causes of the differences/discrepancies.

81. Management of RRO 5 replied that the AD is still in the process of reconciling the RPCPPE against the records of the FD and it is updating the Property Cards thru the help of an outsourced personnel.

Non-recognition of various properties acquired through donation

82. Paragraph 11 of PPSAS 9 defines non-exchange transactions when an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

83. Paragraph 42 of PPSAS 23 states that asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

84. Paragraph 98 of PPSAS 17 states, “*where assets acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset’s fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.*”

85. In NO, review of the RPCPPE disclosed the following donated PPEs without value, which are also not recognized in the books of accounts:

Item No.	Description	Date of Donation/ Exchange	Qty/ sqm
1	Land located at RDO 6 - Dilan-Paurido, Urdaneta City, Pangasinan	2/10/2014	1,200 sqm
2	Land located at RDO 59 - Brgy. Inosluban, Lipa City	5/23/2012	1,000 sqm
3	Land located at RDO 63 - Brgy. Tawiran, Calapan City, Oriental Mindoro	1/10/2014	1,000 sqm
4	Land located at RDO 68 - Sorsogon City	3/8/2011	1,571 sqm
5	Land located at RDO 69 - San Isidro, Virac , Catanduanes	8/26/2011	1,000 sqm
6	Land located at RDO 80 - Looc, Mandaue City	2/23/1994	1,000 sqm
7	Land located at RDO 85 - Catarman, Samar	9/10/2015	1,500 sqm
8	Land located at RDO 86 - Brgy. Alang-alang, Borongan City, Samar	5/21/2014	1,000 sqm
9	Land located at RDO 87 - Calbayog City	1/21/2013	1,000 sqm
10	Land located at RDO 89 - Ormoc City	4/12/2013	1,000 sqm

Item No.	Description	Date of Donation/ Exchange	Qty/ sqm
11	Land located at RDO 90 - Maasin City, Southern Leyte	4/11/2013	1,476.77 sqm
12	Land located at RDO 106 - Tandag City, Surigao del Sur	6/10/2010	628 sqm
13	Land located at RDO 115 - Digos City, Davao del Sur	6/23/2011	1,200 sqm
14	HP Laptop with Mouse		31
15	HP DX 2710 MT Intel Core 2 Duo		26
16	HP Laser Jet P1505n		6
17	Mobile Drawer		9
18	Clerical Table (white)		31
19	Computer Chair with arm (blue)		35
20	Executive Chair		15
21	Swivel Chair/ Clerical Chair		48
22	Acer Projector P1166		3
23	Infocus Projector		3
24	Opaque Projector Model DP- 30		1
25	Carrier Aircon 2 TR Ceiling Mounted		1
<i>Note: All these properties were acquired through donation except the land located at Sorsogon City (Item no. 4) which was acquired through exchange.</i>			

86. Review of the Deed of Donation of Item Nos. 1 to 13 disclosed that it contained a condition that the BIR, as donee, shall construct a building in the lot within a certain period of time to be used exclusively by the Bureau as its RDO. If this condition is not met the donation will be considered as revoked and that the donated properties will be reverted to the donor. However, according to the PD officer, this condition was already complied with, and the titles of the parcels of land were already transferred to the Bureau. Based on the foregoing, the Audit Team deemed it proper that these lots be recognized in the agency books.

87. On the other hand, PPE under item Nos. 14 to 25 were already a subject of CY 2014 audit findings. However, to date, the Audit Team has not yet been furnished copies of the deed of donation for verification.

88. Similarly, in RRO 5, computer sets, printers, and air conditioners received as donation or acquired at no cost were not recognized in the books of the revenue region.

89. The non-inclusion of the above properties in the record of the DAD of NO and the FD of RRO 5 understated the year-end balance of PPE accounts.

90. **We recommended that Management require:**

- a. **PD of NO to furnish the DAD the necessary deed of donation and other supporting documents to ascertain ownership of donated properties; and**
- b. **DAD/FD and PD to record the donated properties that are determined to be rightfully owned by the Bureau at its fair value as at the date of acquisition.**

91. According to the Chief of DAD of NO, the 13 donated lands were already recorded in April 2016.

92. Management of RRO 5 informed that the AD will furnish the FD with a copy of Deed of Donation as basis for the recognition of donated property in the books of the agency.

Failure to derecognize demolished and disposed properties worth ₱16,434,473.42

93. Section 82 of PPSAS 17 provides that the carrying amount of an item of PPE shall be derecognized upon disposal; or when no future economic benefits or service potential is expected from its use or disposal.

94. Review of accounting and property records of RRO 7 and RRO 11 revealed the following unrecognized disposition of PPE totaling ₱16,434,473.42:

RRO	Description of the PPE Disposed	Remarks
7	One-story Revenue Data Center (RDC) building with acquisition cost of ₱6,280,833.92, Property Number 211-001-0001-0001-TCT242599 and with a total floor area of 600 square meters demolished in CY 2012 under Permit Number DP120300080 issued by the Department of the Building Official on March 29, 2012, to give way to the construction of the Document Processing Division (DPD) building in 2013.	Inquiry with the Accountant revealed that the derecognition of the value of the building from the accounting books cannot be done due to failure of the AHRMD to submit the documents supporting the demolition of the building.
11	567 IT Equipment and 147 other equipment were sold during the year through public auction at ₱10,110,669.50 and ₱42,970.00, respectively.	The total costs of these equipment could not be determined because of the 567 IT Equipment, only 257 have assigned acquisition costs. Whereas, of the 147 unserviceable equipment, only six have assigned acquisition costs.

95. Failure to record in the books the disposal of these properties resulted in the overstatement of PPE accounts.

96. We recommended and Management agreed to require the Accountant of RROs 7 and 11 to record the disposal or to derecognize the value of the disposed properties from their respective books.

97. The FD of RRO 7 commented that it has already derecognized the demolished RDC building from its books on January 11, 2016 per JEV No. 2016-01-000122.

98. Management of RRO 11 commented that 90 percent of the disposed IT and office equipment included in the Administrative Division's list were never booked up by FD since its acquisition, hence, its disposal cannot be booked up also. On the other hand, the disposal of the remaining 10 percent which were recognized in the books of accounts cannot be booked up yet because the proceeds from sale of the disposed items in the amount of ₱53,100.00 has no breakdown as to PPE. The gain or loss on sale of the PPE cannot be determined in the absence of such breakdown, hence, the delay in recording JEVs to take up and correct the agency book will be effected in April 2016 financial reports.

Non-reclassification of the accumulated cost of the completed construction of building

99. COA Circular No. 2014-003 dated April 15, 2014 provides the guidelines in the conversion from the Philippine Government Chart of Accounts to the Revised Chart of Accounts for National Government Agencies, the account *Construction in Progress – Buildings and Other Structures* is used to record the accumulated cost or other appropriate value of buildings and other structures *which are still in the process of construction or development*. This account is credited for reclassification to the appropriate *Buildings and Other Structures* account upon completion of the building.

100. Review of the account *Construction in Progress – Buildings and Other Structures* disclosed that this pertains to the ₱64,811,468.96 accumulated construction cost of the DPD Building of RRO 7. The said building was already completed as manifested in the Certificate of Completion and Acceptance dated May 15, 2013 issued by Management. Said Certificate stated that the Work Accomplishment of Newco Builders and Development Corporation (NEWCO) was found to be satisfactorily done in accordance with the Contract of Services dated December 29, 2011 and that the project is 100 percent accepted as of January 28, 2013.

101. The failure of the Accountant to reclassify the *Construction in Progress – Buildings and Other Structures* account to the appropriate *Buildings* account, despite completion of the DPD building in January 2013 affected the reliability of said PPE accounts.

102. **We recommended that Management require the Accountant to reclassify the completed building from *Construction in Progress – Buildings and Other Structures* account to *Buildings* account; and to recognize the corresponding depreciation for the period February 2013 to December 2015, which amounted to ₱3,402,602.12 as shown on the next page.**

Period	Amount
February 2013 to December 2013	₱1,069,389.24
January 2014 to December 2014	1,166,606.44
January 2015 to December 2015	1,166,606.44
Total	₱3,402,602.12

103. Management of RRO 7 commented that it has already reclassified the completed DPD Building from *Construction in Progress – Buildings and Other Structures* account to *Buildings* account; and recorded the corresponding depreciation on January 11, 2016 per JEV No. 2016-01-000124.

Misclassification of PPE items

104. Further verification of NO records disclosed erroneous classification of PPE such as:

Particulars	Classification	Correct Classification
Leased assets costing ₱1,022,380,899.75	By DAD and PD – <i>Land and Buildings</i>	either <i>Leased Assets – Land</i> , or <i>Leased Assets – Buildings and Other Structures</i>
Leased land and building costing ₱153,839,000.19 located in Valenzuela, RRO 5. This is included in the leased assets costing ₱1,022,380,899.75	By DAD and PD – <i>Land and Buildings</i>	<i>Leased Assets – Land</i> (₱107,634,570.40); <i>Leased Assets – Buildings and Other Structures</i> (₱46,204,429.79)
Aircon units and electric fans	By DAD - <i>Other Machineries</i>	<i>Office Equipment</i>
Hybrid PBX Enterprise Communication System of ₱8,899,351.20	By DAD - <i>Communication Equipment</i> at ₱8,899,351.20 By PD - <i>Information and Communication Technology Equipment</i> at ₱9,888,168.00	<i>Information and Communication Technology Equipment</i>
Laboratory Density Meter costing ₱1,223,366.16	By DAD - <i>Medical Equipment</i> By PD - <i>Office Equipment</i>	<i>Technical and Scientific Equipment</i>

105. In response to the above observation, Management has commented that the leased land and building, air conditioning units and electric fans will be reclassified to its proper account classification in the first quarter of CY 2016 FS, while the Hybrid PBX

Enterprise Communication System and Laboratory Density Meter were already reclassified on January 25, 2016 per JEV No. 2016-01-000131.

Failure to conduct complete physical inventory count for at least once a year in RROs 7, 11, and 17

106. Physical stock-taking is an indispensable procedure for checking the integrity of property custodianship. The *chiefs of agencies are required to take physical inventory of all the equipment belonging to their respective offices at least once a year*. Such inventory shall be made as of December 31 on General Form 41 (A) (now called RPCPPE), and shall be submitted to the Auditor not later than January 31 of each year.

107. For CY 2015, RROs 7, 11 and 17 either failed to conduct physical inventory or submit the RPCPPE per RDO/Office, as discussed below:

RRO	Deficiency
7	a. The region submitted the RPCPPE per RDO/Office but failed to consolidate the same and disclose the total PPE value of the regional office. Inquiry with Chief, Administrative Division disclosed that the RPCPPE did not include PPE of RDO 43A – East Pasig and VAT Audit Team, which failed to conduct their own physical inventory and submit their report thereon. b. The items in the RPCPPE were not segregated by type or account name of PPE, such as <i>Office Equipment, Furniture and Fixtures, Communication Equipment, Motor Vehicle, Other PPE</i>; instead, the items were listed/reported according to the office or RDO where the items are located. c. Several items did not have corresponding value/cost, thus, these were not considered in the total value of PPE per report.
11	The physical inventory was not completed due to the following: a. During the conduct of physical inventory of properties of RDO 72 it was observed that several furniture and fixtures, IT equipment, office equipment and machineries with an aggregate cost of ₱442,282.31 were not presented and could not be found in station. The aforesaid properties were issued to different Accountable Officers (AOs) of the agency as evidenced by the Property Acknowledgment Receipt (PAR). However, the AOs failed to present to the Inventory Team the said properties, thus, its physical existence could not be proven; and b. Some office equipment were not provided with property tags, hence, proper identification and monitoring of assets could not be established.
17	No actual inventory-taking was conducted by the Inventory Committee for CYs 2014 and 2015.

108. Due to the inability of the Property Officer/Inventory Committee to conduct complete physical inventory and submit RPCPPE as of December 31, 2015, the correctness and the physical existence of the PPE cannot be ascertained.

109. **We recommended that Management require the:**

- a. Property Officer of RRO 7 to submit a consolidated RPCPPE by requiring all RDOs to conduct their own inventory and prepare the corresponding report and ensure that all necessary data are provided therein;**
- b. Concerned AOs of RRO 11, to present the abovementioned properties, otherwise they shall be liable for the PPE's money value in case of improper or unauthorized use or misapplication thereof;**
- c. Property Officer of RRO 11 to provide property tags on unnumbered properties; and**
- d. Property Units of RRO 17 to regularly conduct physical inventory taking and to submit complete RPCPPE on all its PPE items.**

110. Management of RRO 7 commented that reconciliation of records which is targeted to be completed on or before August 31, 2016 is on-going. This is to ensure that AHRMD together with the Inventory Committee will be able to conduct the Physical Inventory for 2016 without delay and be able to submit the RPCPPE on or before the deadline.

111. Management of RRO 11 explained that most of the mentioned properties that were not found in station are actually located at the back of the building and some in the stockroom for they are all unserviceable. A copy of the list of unserviceable equipment was given to the Audit Team for their reference and matching with the physical count.

112. RRO 11 Management further commented that due to passage of time, some property tags were already damaged or lost. In response to the suggestion of the Audit Team, the Administrative Officer of RDO 72 was directed to request property tags from the Regional Office. In the meantime, temporary tags were attached to the subject unserviceable equipment.

Auditor's Rejoinder:

113. The list was provided after the issuance of ML in CY 2016. Also, it was not duly signed, thus, unofficial.

Non-compliance with pertinent rules and regulations

114. The PAR shall be used to acknowledge the receipt of property and equipment from the Property Officer. It shall be renewed every three years or every time there is a change in accountability.

115. For check and balance, the Property and Supply Office/Unit shall maintain Property Cards (PC) for property, plant and equipment, and Stock Cards (SC) for inventories. The balance in quantity per PC and SC should always reconcile with the ledger cards of the Accounting Unit.

116. COA Circular No. 92-390 dated November 17, 1992 was issued to ensure, among others, that all insurable assets and properties of the Government are adequately covered/insured with the General Insurance Fund of the GSIS. It also prescribed that all heads of national agencies, local government units and government-owned and controlled corporations shall be responsible for the preparation and submission of the inventory of all insurable physical assets using the format prescribed by the GSIS. It also provided that an inventory thereof shall be undertaken every year and the corresponding report shall be submitted to the GSIS after verification as to correctness by the COA Auditor.

117. The following deficiencies showed non-compliance with pertinent rules and regulations:

Deficiencies noted on PAR	
RRO 1	a. 13 PPE items totaling ₱198,399.74 are still under the name of personnel who are no longer with the revenue region; hence, actual property accountability and existence of the PPE items could not be ascertained; and b. PAR issued were not submitted to the Regional Inventory Committee for consideration in the preparation of the RPCPPE.
RRO 18	a. Newly acquired properties issued to end users were not covered with the PAR; and b. PARs were not updated or renewed every three years or every time there is a change in accountability in all its district offices.
Deficiencies noted on Property Cards (PC)	
RRO 4	PCs maintained by the Property Unit were incomplete. According to the person responsible, most PPE acquired prior to her term did not have PC.
RRO 7	a. Data on Balance per Card and On Hand were not provided; b. Not all PPEs have the corresponding PCs; and c. Some PCs are not updated.
RRO 18	PCs maintained by the supply and property unit were not updated, thus, discrepancies, if any, could not be determined for necessary adjustments. Maintenance of this ledger is very essential as it records the detailed information of an asset.
Uninsured PPE	
RRO 1	Management failed to insure the insurable properties of the Revenue Region particularly the DPD and the properties of RDO 2 located in Bantay, Ilocos Sur.

118. The foregoing deficiencies and the non-insurance of the PPE are contrary to sound internal control and expose the government to unnecessary losses as the properties are not protected against contemplated peril.

119. We recommended and Management agreed to require the concerned offices and personnel to comply strictly with the all pertinent rules and regulations on PPE.

120. Management of RRO 18 informed that the PARs relative to the newly-acquired properties were issued and the property accountabilities of concerned employees were uploaded in the Property Accountability Modules of the Human Resources Information System of the BIR. The Property and Supply Officer has already issued the Updated Monitoring Report of every concerned employee instead of PAR. However, renewals of all PARs are still in process and will be distributed to the employees of the region when done.

121. Moreover, they committed to comply with the recommendation of the Audit Team to maintain and update the Property Cards and periodically reconcile the same with the schedule of PPE maintained by the Accountant. However, the Property and Supply Unit has only two personnel and they are doing their best to do the task at hand as fast and accurate as they can.

Unliquidated *Advances to Officers and Employees*

The balance of *Advances to Officers and Employees* at year-end amounting to ₱5,666,168.10 includes cash advances of ₱320,401.35 that remained outstanding beyond the prescribed period, contrary to COA Circular No. 97-002 dated February 10, 1997.

122. COA Circular No. 97-002 dated February 10, 1997 contains the following provisions concerning cash advances:

123. Section 5.1 *“The AO shall liquidate his cash advance as follows:*

xxx

5.1.3 Official Travel – within sixty (60) days after return to the Philippines in case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel as provided for in EO 248 and COA Circular No. 96-004.

Failure of the AO to liquidate his cash advance within the prescribed period shall constitute a valid cause for the withholding of his salary and the instruction of other sanctions as provided for under paragraphs 9.2 and 9.3 hereof.”

124. Section 5.8 *“All cash advances shall be fully liquidated at the end of each year. Except for petty cash fund, the AO shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary official receipt.”*

125. Review of the cash advances granted to officers and employees for local and foreign travels as at year end revealed a balance of ₱320,401.35 which remained unliquidated beyond the prescribed period provided under Section 5.1.3 of COA Circular No. 97-002 dated February 10, 1997, resulting in overstatement of the *Other Assets* account and understatement of Expense accounts. Details are shown below:

Unliquidated Cash Advances at Year End

NO/RRO	Date Granted	No. of days Delayed	Particular	Amount
NO	10/07/15	37	Travel to Legaspi City, Oct. 23, 2015	₱10,439.70
NO	10/13/15	30	Travel to Iloilo and Bacolod City, Oct. 28-30, 2015	13,148.00
NO	10/16/15	36	Travel to Cebu City and Dumaguete City, Oct. 20-24, 2015	8,562.32
NO	10/16/15	36	Travel to Cebu City and Dumaguete City, Oct. 20-24, 2015	5,111.64
NO	10/23/15	1	Travel to Paris, France, Oct. 28-30, 2015	139,359.98
NO	various	18 to 30	Unsettled accounts	18,493.71
18	Sept 11, Oct 26, Nov 19, 2015	22 to 72	Travel Allowance of 15 employees to Manila	125,286.00
Total				₱320,401.35

126. Additionally, the account included excess cash advances in the amount of ₱18,493.71 which remained unsettled at year-end which were not refunded after the Accountable Officers submitted their liquidation reports to the DAD. The settlements of their accountability cannot be fully settled due to the practice of Management of permitting/allowing partial liquidation of cash advances granted to officers and employees.

127. As a result of the foregoing, the funds in the hands of the Accountable Officers are exposed to possible misuse or loss.

128. We recommended that Management require the DAD/FD to ensure strict compliance of COA Circular No. 97-002 on the liquidation of cash advance within the prescribed period.

129. Management of NO commented that the unliquidated and partially liquidated advances of the 11 employees were already fully liquidated as of date.

130. While Management of RRO 18 informed the team that only liquidation reports as of August 2015 were already submitted.

Doubtful balance of *Accounts Payable*

The accuracy of the *Accounts Payable* account balance of RROs 3 and 5 totaling ₱14,920,414.59 is doubtful due to the (a) discrepancy between the SL balances and amounts confirmed amounting to ₱1,435,313.11 in RRO 5; and (b) inclusion of undocumented payables totaling ₱907,320.48 in RROs 3 and 5.

131. Section 4(5) of PD 1445, provides that claims against government funds shall be supported with complete documentation.

132. Book VI, Section 41 of EO No. 292 states that “*No obligation shall be certified to accounts payable unless the obligation is founded on a valid claim that is properly supported by sufficient evidence and unless there is proper authority for its incurrence. Any certification for a non-existent or fictitious obligation and/or creditor shall be considered void. The certifying official shall be dismissed from the service, without prejudice to criminal prosecution under the provisions of the Revised Penal Code. Any payment made under such certification shall be illegal and every official authorizing or making such payment, or taking part therein or receiving such payment, shall be jointly and severally liable to the government for the full amount so paid or received.*”

133. Paragraph 19a, Volume II, PPSAS 19 provides that “*Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist)*”

Discrepancy between the SL accounts and result of confirmation

134. In RRO 5, review of the Accounts Payable totaling ₱14,037,805.39 as of December 31, 2015 showed that, of the 30 creditors, 17 replied to the confirmation made by the team involving accounts totaling ₱11,849,692.31. Of the 17 replies, eight confirmed these balances totaling ₱4,526,064.52 while nine replies totaling ₱7,323,627.79, showed a discrepancy of ₱1,435,313.11 as compared to the SL balances.

Inclusion of ₱907,320.48 undocumented payables in RROs 3 and 5

135. In RRO 3, ₱451,417.98 of the ₱882,609.20 total accounts payable was not supported with disbursement vouchers and corresponding supporting documents. The Accountant informed that the disbursement vouchers were submitted even after the deadline set on January 15, 2016, but were returned to the concerned claimants due to incomplete supporting papers.

136. Interview with the accounting personnel revealed that the set-up of accounts payable was done based on the Schedule of Accounts Payable for MOOE and CO that is due and demandable as of December 31, 2015.

137. Review and analysis of the SL balances of the *Accounts Payable* account of RRO 5 revealed that various capital outlay in the amount of ₱455,902.50 were recorded as liability even without any documents that will evidence its delivery.

138. In view of the foregoing, the reliability and accuracy of the balances of the *Accounts Payable* account in RROs 3 and 5 totaling ₱14,920,414.59 cannot be ascertained.

139. **We recommended that Management of RROs 3 and 5:**

- a. **Ensure that only obligations founded on valid claims which are properly supported with sufficient evidence and with proper authority for their incurrence shall be certified to accounts payable; and**
- b. **Require that obligations shall be covered with duly approved disbursement vouchers supported with the required documents as basis for recording the Accounts Payable in the books.**

140. Management of RRO 5 assured the team that the *Accounts Payable* representing undelivered PPE in the amount of ₱455,902.50 was adjusted under JEV No. 2016-01-000049 dated January 1, 2016.

Unreliable balance of *Due to LGUs*

The accuracy of the *Due to LGUs* account balance of ₱276,999.33 is doubtful due to the (a) un-updated records of the DAD for the said account; and (b) discrepancy of ₱46,627.80 between the records of DAD and the Accountable Forms Division (AFD).

141. Analysis of the account *Due to LGUs* revealed that the said account pertained to the excess payments made by various cities and municipalities through the city and municipal treasurers for the procured accountable forms (community tax certificates) from the BIR which were recorded by DAD in their books of accounts.

142. Section 164 of the Republic Act 7160 provides that the BIR shall cause the printing of community tax certificates (CTC) and distribute the same to the cities and municipalities through the city and municipal treasurers in accordance with prescribed regulations.

143. The cities and municipalities or the LGUs, in turn, pay the Bureau for the cost of CTCs received. In their payment, which are usually thru checks, are sometimes excessive or more than the actual cost of the CTCs. These excess payments are then recorded by the DAD as Due to LGUs.

144. Verification showed that the said account has an aggregate balance of ₱276,999.33 as at year-end. The AFD report, however, showed a balance of only ₱230,371.53, thus, there is a discrepancy of ₱46,627.80 as shown below:

Name of Creditors	Per Accounting Record	Per Accountable Forms Division Record	Difference
Municipal Treasurers	₱227,795.85	₱195,441.25	₱32,354.60
Provincial Treasurers	49,203.48	34,930.28	14,273.20
Total	₱276,999.33	₱230,371.53	₱46,627.80

145. Interview conducted on the personnel in-charged revealed that the discrepancies were due to –

- a. DAD's failure to assign accounting personnel/staff to handle the account *Due to LGUs*, hence, the records are not updated; and
- b. No proper turn-over of assignment/duties from the previous personnel handling the *Due to LGUs* account to the supposed incoming personnel.

146. Further examination of the documents disclosed that the AFD prepared/sent letters to the LGUs, informing the latter the number of pads that were issued to them with the corresponding serial numbers, the total cost, the payments made and the offsetting of overpayments, if any. It was mentioned on the said letter that a photocopy of the Official Receipt covering the payment is being requested. Hence, it could be noted that the AFD is maintaining a record for the accountable forms issued to the LGUs including the latters' payments made to the Bureau.

147. Confirmation was also made by the Audit Team with various cities and municipalities Accountants using the balances in the Schedule of Due to LGUs as of December 29, 2015 prepared by DAD. Of the 34 letters served/sent, only nine Accountants or 26 percent replied wherein two confirmed correctness of the balance while seven informed that they have different balances, hence, the result of confirmation was not used for comparison with the records per books.

148. Based on the foregoing, the balance of account *Due to LGUs* as at year-end in the amount of ₱276,999.33 is of doubtful validity.

149. We recommended that Management require the DAD to update their records regularly by assigning personnel to handle the account; and reconcile the account balances with the AFD.

150. DAD of NO has already reconciled and recorded the 13 SLs totaling ₱17,137.80, hence, the above difference was reduced to ₱29,790.00.

Non-observance of Accrual Basis of Accounting

In NO, the year-end balance of the *Other Payables* account is understated by ₱6,305,308.43 due to non-accrual of the government shares on Retirement and Life Insurance Premiums (RLIP), Employees Compensation Insurance Premiums (ECIP), PhilHealth and Pag-IBIG contributions for the month of December 2015. Further, in RRO 8, various prepayments for taxes, duties and licenses, fidelity bond premium and insurance were directly recorded as expenses.

151. Paragraph 7 of PPSAS 1 states that “*Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the period to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.*”

152. Analysis of the *Other Payables* account of NO disclosed that the government shares on RLIP, ECIP, PhilHealth and Pag-IBIG contributions for the month of December 2015 were remitted in January 2016 but were not recognized or accrued in CY 2015, hence, understating the balance of the *Other Payables* account by an aggregate amount of ₱6,305,308.43, details of which are as follows:

Accounts	Gov't Share for December 2015	Date Remitted
Retirement and Life Insurance Premiums	₱5,420,697.63	08-Jan-2016
Employees Compensation Insurance Premiums	180,210.21	08-Jan-2016
Pag-IBIG Contributions	180,450.59	12-Jan-2016
PhilHealth Contributions	523,950.00	12-Jan-2016
Total	₱6,305,308.43	

153. The inability of the DAD to accrue the above premiums/contributions resulted in a collective understatement of ₱6,305,308.43 of its financial expenses and the corresponding payables as at year-end.

154. In RRO 8, various prepayments were directly recorded as expenses, instead of the appropriate asset account, which is not in accordance with Paragraph 7, PPSAS 1.

155. RRO 8 disclosed in its 2015 Notes to Financial Statements (FS)-Disbursement Books that the FS were prepared on an accrual basis in accordance with PPSAS. Our audit of the prepaid expenses for CY 2015, however, revealed that prepayments for taxes, duties and licenses, fidelity bond premium and insurance were charged directly to the specific expense account.

156. In effect, for the year 2015, the asset account was understated while the expense account was overstated by same amount of ₱848,525.72, as shown on next page.

Account	Per Book	Per Audit	
	Amount charged to Expense	Amount to be charged to Expense	Amount to be accounted as Asset
Taxes, Duties and Licenses	₱ 32,224.80	₱ 21,312.54	₱ 10,912.27
Fidelity Bond Premium	149,403.75	64,920.31	84,483.44
Insurance Expense	961,813.32	208,683.30	753,130.02
Total	₱1,143,441.87	₱294,916.15	₱848,525.72

157. As a result of the non-compliance with PPSAS 1, the *Other Payables*, prepayments accounts, and the corresponding expense accounts are unreliable.

158. **We recommended and Management agreed to:**

- a. **Require the DAD to fully comply with the provisions on accrual accounting in accordance with PPSAS 1; and**
- b. **Require the FD of RRO 8 to recognize in the appropriate account the unexpired portion of the prepayments made and restate the balance of the Accumulated Surplus account.**

Contracts Review - Compliance with RA 9184

Construction of DPD Building in RRO 13

Improper planning in the construction of the DPD Building of RRO 13 resulted in variation orders in the total amount of ₱1,824,028.29 and the delay of its completion. Moreover, the following deficiencies were noted: (a) soil testing was not done during the detailed engineering activities; (b) uninstalled items totaling ₱306,687.77 claimed by the contractor to be accomplished; (c) utilities were not considered in the contract cost; (d) Program of Works (PoW) were not itemized; and (e) extra works were not supported with contract, BAC Resolution and Certificate of Availability of Funds (CAF).

159. Revised Implementing Rules and Regulations of Republic Act No. 9184 provides the following:

160. *Section 17.6 Detailed Engineering for the Procurement of infrastructure Projects*

No bidding and award of contract, for infrastructure projects shall be made unless the detailed engineering investigations, surveys and designs including the acquisition of ROW, for the project have been sufficiently carried out xxx.

161. *Annex A 1 - 4 provides the following:*

- a. Detailed engineering shall proceed only on the basis of the feasibility or preliminary engineering study made which establishes the technical viability of the project and conformance to land use and zoning guidelines prescribed by existing laws.
- b. A schedule of detailed engineering activities shall include a) survey; b) site investigation; c) soils and foundation investigation among others;
- c. Work under detailed engineering shall include, but not necessarily be limited to, the following:
 - Design Standards - Design standards for structures shall take into account, among other things, the seismicity of the area to determine the optimum safety of structures and to minimize possible earthquake damage.
 - Field surveys and investigations - necessary field surveys and investigations which may include aerial, hydrographic, topographic, hydrologic, sub-surface, monumenting and other surveys shall be carried out in accordance with the design guidelines, criteria and standards adopted by the agency concerned.
 - Program of Work - shall include, among other things, estimates of the work, items, quantities and costs and a PERT/CPM network of the project activities.
- d. As a requirement for the procurement of infrastructure works, the concerned consultants/government officials who prepared and approved the detailed engineering shall issue a certification that the detailed engineering surveys and designs have been conducted according to the prescribed agency standards and specifications in conformance with the provisions of this Annex, and that the detailed engineering outputs are adequate for the procurement at hand.

162. Section 12 provides that the BAC shall have the following functions xxx (h) recommend award of contracts to the HOPE; (j) recommend to the HOPE the use of Alternative Methods of Procurement.

163. Section 37.1 provides that to facilitate the approval of the award, the BAC shall submit a BAC Resolution recommending award of the contract.

164. Section 53.4 states that for negotiated procurement where the subject contract is adjacent or contiguous to an on-going infrastructure provided that (a) the original contract is the result of a competitive bidding; (b) the subject contract to be negotiated has similar or related scopes of work; (c) it is within the contracting capacity of the contractor; (e) the amount involved does not exceed the amount of the ongoing project

and that the negotiations for the procurement are commenced before the expiry of the original contract.

165. Section 86 of PD 1445 states that except in the case of a contract for personal service, for supplies for current consumption or to be carried in stock not exceeding the estimated consumption for three months, or banking transactions of government-owned or controlled banks, no contract involving the expenditure of public funds by any government agency shall be entered into or authorized unless the proper accounting official of the agency concerned shall have certified to the officer entering into the obligation that funds have been duly appropriated for that the amount necessary to cover the proposed contract for the current fiscal year is available for expenditure on account thereof, subject to verification by the auditor concerned. The certificate, signed by the proper accounting official and the auditor who verified it, shall be attached to and become an integral part of the proposed contract, and the sum so certified shall not thereafter be available for expenditure for any other purpose until the obligation of the government agency concerned under the contract is fully extinguished.

166. On August 2, 2013, RRO 13 contracted PLD Construction for the construction of the ground floor with a foundation for a six-storey DPD Building with total contract cost of ₱20,937,701.78. The contract period for the original contract was for 120 days with targeted completion date on November 28, 2013. The contract included soil testing works in the amount of ₱335,523.20.

167. The contractor engaged the services of EB Testing Center for the soil testing. However, the result of the test was unfavorable for the project to commence work, thus, the suspension of the construction on September 2, 2013 which eventually resumed on December 13, 2013 or after 102 days.

168. On July 30, 2014 the construction was reported to have been completed after 330 days, thus, incurring 210 days or seven months of delay. Payment of the total contract cost of ₱20,937,701.78 was then made on October 2, 2014.

169. Due to the result of the soil testing, Variation Orders/Extra Works totaling ₱1,613,417.66 were required to enhance the structural integrity of the building, details of which are as follows:

Item No.	Description	Extra Work No. 1	Extra Work No. 2	Total
4	Concrete Works	₱ 416,607.96	₱ 20,770.75	₱ 437,378.71
5	Rebar Works	714,571.74	(186,015.14)	528,556.60
9	Formworks and scaffoldings	192,142.95		192,142.95
8	Masonry Works		455,339.40	455,339.40
Sub-total of Extra Works for Building Structural Integrity				₱1,613,417.66
11-31	Septic tank, CR cubicles and cabling		210,610.64	210,610.64
Total		₱1,323,322.65	₱500,705.65	₱1,824,028.30

Note: Included in the Extra Work No. 2 were the construction of septic tank, CR cubicles and cabling.

170. Thus, the auditorial review and the COA Technical Inspection Report disclosed the following:

a. The soil testing activity in the amount of ₱335,523.20 should have been done during the detailed engineering phase and should not be included in the ABC and Contract Cost. The COA Technical Inspection Report read as follows: *“With regards to soil testing works, this item should have been part of the Detailed Engineering activities of the project pursuant to Section 2c Annex A of the Revised IRR of RA 9184. The inclusion of which has caused delay and additional cost due to the redesigning of structural integrity.”*

b. The Terms of Reference did not indicate charges for the contractor's consumption for water and electricity used during the construction of the building which put RRO 13 at a disadvantage since the latter assumed the cost of these utilities.

c. The COA Technical Inspection Report further revealed a disallowance of ₱306,687.77 for uninstalled items for doors, aluminum framed glass, fire protection and some minor deficiencies that need refurbishment.

d. Improper planning in the preparation of the Program of Works (PoW) entailed variation orders which delayed the project for seven months. Some items in the program of works and contract were not itemized and were expressed in lots which precluded both the contractor and agency to agree on the details of the work items. Project inspectors also limited their inspection to specifications/exact quantities because of the absence of the detailed work estimates, materials and costs. These are as follows:

Item No.	Particulars	Lot	Amount
Item 13	Framed Glass & door	1 Lot	₱ 450,000.00
	Framed Fixed Glass & windows	1 Lot	900,000.00
Item 16	Electrical Works	1 Lot	1,300,000.00
Item 18	Sprinkler and Alarm System	1 Lot	1,250,000.00
	Fire Alarm System	1 Lot	150,000.00

171. Per contract review, the extra works project in the total amount of ₱1,824,028.29 was not supported with contract, BAC Resolution for the contract award/decision by the procuring entity to undertake the extra works and Certificate of Availability of Funds (CAF). This is not in conformity with Sections 12, and 37 of IRR of RA 9184 and Section 86 of PD 1445 as above cited. The contract executed and BAC Resolution prepared was only for the original contract of ₱20,937,701.78 but none for the extra works.

172. It is noteworthy to mention that after the acceptance of the project on July 30, 2014, the building is being used as storage for documents, instead of its intended purpose processing/scanning of original taxpayers' documents.

173. **We recommended that Management:**

- a. **Ensure that for future similar transactions/construction projects, all preparatory activities are undertaken prior to awarding of the contract pursuant to Section 17.6 of the IRR of RA 9184;**
- b. **Ensure that the preparation of PoW should be itemized to determine the exact quantities of materials, specifications and scope of the work items;**
- c. **Direct the contractor to install the lacking items for doors, aluminum framed glass, fire protection and rectify minor deficiencies that need refurbishment in consonance with Section 62 of the IRR of RA 9184 (Warranty);**
- d. **See to it that the cost of utilities consumed during the construction period is deducted from the contractor's claim;**
- e. **Require the consultant to issue a certification, duly approved by the agency head, that the detailed engineering surveys and designs have been conducted according to the prescribed agency standards and specifications; and**
- f. **Ensure that contracts, BAC Resolution for the extra works availing of the negotiated procurement for adjacent or contiguous project is in accordance with Section 53.4 of the IRR of RA 9184.**

174. To date, no payment was made by the agency for the supplemental work and obligated the amount of ₱1,287,429.55, which is still outstanding as of year-end. The lacking items per findings of the technical inspector were already installed but subject to re-inspection by COA Inspector. A request for inspection was already sent to COA Regional Office 7 dated April 18, 2016. Other lacking documentary requirements are due for submission to the office of the auditor.

175. **The following are the comments of Management:**

- a. The contractor requested that the computed utilities consumption during the DPD building construction be deducted from the payment of the cabling installation and electrical connection of the DPD building to the main building and main post.
- b. The contractor already explained, corrected the cracks of the building and requested for another inspection.
- c. Itemized/breakdown lists have already submitted to the resident COA Auditor's Office.

- d. As of date, air-conditioning units and other furnishings were already requested from the NO so that the building will be made conducive to working.
- e. Certification from the consultant that the detailed engineering surveys and designs have been conducted according to the prescribed agency standards and specifications has already been secured and furnished to the COA Auditor.

Construction of Office Building for RDO 89-Ormoc City in RRO 14

Deficiencies such as (a) non-conduct of pre-procurement conference, (b) late posting of performance bond, (c) non-preparation of abstract of bids, and (d) non-imposition of ₱910,667.06 liquidated damages against the contractor were noted in the construction of a three-storey office building with contract cost of ₱39,941,537.93 in RDO 89-Ormoc City, hence, casting doubt on the validity of the payment of the first billing in the amount of ₱11,232,558.80.

176. Item 6 of Section 4, PD 1445 states that, *“Claims against government funds shall be supported with the complete documentation.”*

177. The following sections of the IRR of RA 9184 were violated in the construction of the office building:

- a. Section 20 provides that the BAC is mandated to hold a pre-procurement conference on each and every procurement prior to the issuance of invitation to bid;
- b. Section 20.2 provides that the holding of a pre-procurement conference may not be required for small procurement, i.e., procurement of goods costing ₱2,000,000.00 and below, procurement of infrastructure projects costing ₱5,000,000.00 and below, and procurement of consulting services costing ₱1,000,000.00 and below;
- c. Section 32.3 states that after all bids have been received, opened, examined, and ranked, the BAC shall prepare the corresponding Abstract of Bids. All members of the BAC shall sign the Abstract of Bids and attach thereto all the bids with their corresponding bid securities and the minutes or proceedings of the bidding. The Abstract of Bids shall contain the following:
 - i) Name of the contract and its location, if applicable;
 - ii) Time, date and place of bid opening; and
 - iii) Names of bidders and their corresponding calculated bid prices arranged from lowest to highest, the amount of bid security and name of the issuing entity.

d. Section 39 provides that to guarantee the faithful performance by the winning bidder of its obligations under the contract in accordance with the Bidding Documents, it shall post a performance security prior to the signing of the contract.

e. Section 40.1 states that if the bidder with the Lowest Calculated and Responsive Bid/Highest Rated Responsive bid or the bidder with the Single Calculated/Rated Responsive Bid, fails, refuses or is unable to submit the documents required under section 37.1 of the IRR or to make good its bid by entering into a contract with the procuring entity or post the required Performance Security within the period stipulated in the IRR or in the Bidding Documents, the bid security shall be forfeited and the appropriate sanctions provided in the IRR and existing laws shall be imposed, except where such failure, refusal or inability is through no fault of the said bidder.

178. On December 20, 2013, a Design and Build contract amounting to ₱39,941,537.93 was undertaken by RRO 14 for the three-storey building of RDO 89-Ormoc City. Audit of the payment of the first billing amounting to ₱11,232,558.80 of the contractor revealed the following deficiencies:

a. Pre-procurement conference was not conducted in violation to Section 20 of RA 9184 which mandates the holding of a pre-procurement conference in this case;

b. The performance bond was posted only on February 17, 2014 when the contract has been approved on December 20, 2013, in violation of Sections 39 and 40.1 of the IRR and Section 32.1 of the Invitation to Bid (ITB);

c. The abstract of bids was not prepared;

d. No liquidated damages in the amount of ₱910,667.06 was imposed for the delayed completion of the construction, computed as follows:

Target calendar days (cd) to complete: (225 + 180)	405 cd
New target date of completion inclusive of the 180 cd	January 30, 2015
Date of payment to contractor	March 9, 2015
No. of days elapsed beyond January 30, 2015	38 days
Percent of Claim	40% accomplishment
Unfinished portion: 60% x ₱39,941,537.93	₱23,964,922.76
Liquidated damages: ₱23,964,922.76 x 1/10 x 38	<u>₱910,667.06</u>

179. The above deficiencies casted doubt on the validity of the payment made.

180. The Administrative Officer of RRO 14 admitted that there was a delay in the posting of the performance bond but stressed that the insurance coverage started from the date of the Notice of Award up to the final completion of the project. She informed that

this happened during the time of the former Administrative Officer and former Chief of Finance Section.

181. The Chief of Finance Section of RRO 14 has already imposed equivalent liquidated damages on the second billing made by the contractor and promised to impose additional liquidated damages if further unjustified delays will occur.

182. **We recommended that the agency impose liquidated damages of ₱910,667.06 and deduct the amount in the next billing notwithstanding any additional liquidated damages that may be imposed later as the contractor is already significantly delayed in its project implementation. Further, submit explanation why this contractor was not disqualified during the post qualification process when the law was clear that failure to post the performance bond on the required time is a ground for disqualification.**

Contract for the Lease of Office Space in RROs 5, 7, and 14

Management failed to comply with the requirements of RA 9184 in contracting the lease of office space for the various RDOs, hence, reasonableness of the contract price could not be evaluated.

183. Section 53.10 of the IRR of RA 9184 which includes lease of privately-owned real estate for official use as one of the instances when the procuring entity may enter into negotiated procurement, subject to the guidelines issued by the Government Procurement Policy Board (GPPB), read as follows:

184. “Section 53. **Negotiated Procurement**

Negotiated procurement is a method of procurement of goods, infrastructure projects and consulting services, whereby the procuring entity directly negotiates a contract with a technically, legally and financially capable supplier, contractor or consultant in any of the following cases:

X X X

Lease of Real Property. *Lease of privately-owned real property and venue for official use, subject to the guidelines to be issued by the GPPB.”*

185. GPPB Resolution No. 019-2007 dated June 29, 2007 approved and adopted the implementing guidelines for lease of privately-owned real estate and set forth the rules and procedure in entering into such contracts, including office spaces or units pursuant to Section 53.10 of the IRR of RA 9184.

186. Item 4 on the Guiding Principles emphasized the following matters, among others:

- a. *It is more preferred that government agencies lease public-owned real waste from other government agencies. However, if cost-benefit analysis indicates that lease of privately-owned real estate is more favorable to government, the agency shall have the option to enter into negotiated procurement;*
- b. *The location of the real estate to be leased should be meticulously determined by the procuring entity, taking into consideration economy, suitability of the area, accessibility to its clients;*
- c. *The Approved Budget for the Contract (ABC) of lease shall be determined from the results of the market analysis of the prevailing lease rates within the vicinity; and*
- d. *Rental rates are considered reasonable*

187. In particular, Item 5 on Procedures and Guidelines requires the following:

- a. *The end-user shall conduct a cost-benefit analysis to assess the feasibility of entering into a lease contract for a privately-owned real estate as against purchasing or leasing from a government-owned real estate.*
- b. *The recommendation of the end user unit to lease a privately-owned real estate shall be supported by analytical data showing the benefits thereof and indicate the result of market analysis of the prevailing rate of lease contracts within the vicinity.*
- c. *The BAC shall evaluate the recommendation and approve the same if it finds the same to be more advantageous to the government.*
- d. *Entering into a lease contract through Negotiated Procurement shall be included in the approved Annual Procurement Plan (APP) or in updated APP, to be approved by the Head of the Procuring Entity (HOPE).*
- e. *The Bids and Awards Committee (BAC) shall prepare and finalize the technical specifications of the lease taking into consideration the rating factors (location and site condition, neighborhood data, real estate and free services and facilities). It shall then post notice for the procurement for a period of seven days, after which the BAC shall invite at least three prospective lessors to submit sealed price quotations.*

188. The Audit Teams of RROs 5, 7 and 14 had performed similar procedures in evaluating their respective region's contract on the lease of office space. The teams noted that in contracting with the present and past lessors for the lease of office space for the

various RDOs, Management failed to consider the above-mentioned guidelines implementing RA 9184. Apparently, the procurement was negotiated with the lessors without giving weight to the rating factors nor the reasonableness of the rental rates quoted by prospective lessors considering that the lease contracts were automatically renewed annually. Per inquiries made, it was learned that the BAC has no participation in the selection process though the lease of office space of the RDOs is part of the APP of the agency.

189. Perusal of the lease agreements in RROs 5 and 7 disclosed that these were signed by the Regional Director, Chief of the Legal Division, Revenue District Officer concerned, and Officer-in-Charge of the Administrative Division and the representative/officer of the lessor company/corporation. The manner of selection of the lessor is not evident among the documents submitted to the auditing unit.

190. In RRO 14, aside from the above findings, there was no Cost Benefit Analysis attached to assess the feasibility of leasing a privately-owned real estate as against purchasing or leasing from a government-owned real estate. This analysis should include market analysis of the prevailing lease rates in the vicinity as compared to the criteria and specifications of the end user units.

191. As a result of Management failure to comply with above-cited provision of the Revised IRR of RA 9184, the reasonableness of the existing contract price on lease of various RDO offices could not be evaluated. Thus, the possibility exists that the rates obtained may not be advantageous to the government.

192. We recommended and Management agreed to submit the basis of consideration taken in contracting the lease of office spaces of the RDOs to facilitate evaluation of the reasonableness of the contracted price. In addition, we recommended and Management agreed to see to it that the guidelines on the lease of office space are fully implemented.

193. Management of RRO 5 commented that the lease of privately owned property was reasonable because: (a) No available government owned property in the area is suitable for the purpose; and (b) Rental rates after canvass of at least 3 prospective lessors was found reasonable and determined favorable to the government after fair evaluation on the basis of economy, suitability and accessibility of the area. Although the requirements under RA 9184 were not exactly complied with, though not deliberate, the very objective of fair and reasonable determination of rental rates most advantageous to the government was observed in RRO 5 and in consonance with the urgency and necessity in the operational activities of regional/district offices.

Auditor's Rejoinder:

194. Our observation still holds true due to the failure of RDO 24 and 26 to comply with the requirements of RA 9184 in contracting the lease of office space with various

lessors for the region's various district offices, thereby reasonableness of the contract price obtained could not be evaluated.

195. While, Management of RRO 7 has explained that it took into consideration criteria and technical specifications of the leased property provided by the RDOs. At least three quotations were obtained to determine the most advantageous contract cost, although such was done only once at the time of the transfer of the RDO.

196. Also, Management of RRO 14 commented that the initial lease contracts entered into by the revenue region with privately-owned real estate owners were made in compliance with Executive Order No. 301 or the "Decentralizing Actions on Government Negotiated Contracts, Lease Contracts and Records Disposal".

197. In response to the comment of RRO 14's Management, the auditor refuted that though the revenue region has complied with the law on the initial lease transactions, it however failed to do so in the annual rental rates increase. The auditor believe that there is a need to reconsider the reasonableness of the rental price and apply the related provisions of RA 9184, Appendix 7, Guidelines for Lease of Privately-owned real estate.

COLLECTION BOOKS

Dormant Due from Officers and Employees

The carrying amount of the *Due from Officers and Employees* account of ₱28,208,384.61, net of negative balance of ₱8,030,752.99 comprises of accountabilities of Revenue Collection Officers (RCOs) from CY 1961 to 1989.

198. Under the RCA, the account *Due from Officers and Employees* is used to record amount of claims from agency's officers and employees for overpayment that is not covered by Notice of Disallowance (ND), cash shortage, loss of assets and other bills issued by the agency.

199. Section III of COA Circular No. 97-001 dated February 05, 1997 on the Guidelines on the Proper Disposition/Closure of Dormant Accounts and/or Accounts of NGAs provides that when the accounts in the trial balance of a fund or funds are non-moving for five consecutive years, the Chief Accountant or other Officials concerned shall:

- a. Initiate/cause the verification of the nature of the purpose of the fund;
- b. If upon verification the purpose of the fund is found fully completed, discontinued and/or abandoned and no financial transactions are expected, conduct review, analysis, and reconciliation of the subject funds accounts, and determine their existence and validity;

c. Determine proper disposition of reconciled and validated accounts such as settlement of all liabilities and/or reversion/adjustment of the same to the CRO account; and

d. If the analysis/review of the accounts/funds is not possible due to absence of records and documents, the agency head concerned should request for write-off and/or adjustment of account balances from the COA supported by: a) List of available records and extent of validation made on the accounts; and b) Certification and reasons why the books of accounts/records, financial statements/schedules and supporting documents cannot be located.

200. Verification of the SLs of the account *Due from Officers and Employees* totaling ₱28,208,384.03 as of December 31, 2015 disclosed that it is composed of SLs 10305020-00-001 (Beginning Balance) and 10305020-00-002 (Revenue Regions – CA) amounting to ₱1,151,200.78 and ₱27,057,183.25, respectively, which have been dormant since CY 1961 to 1989. Further review revealed that there are negative balances under SL 10305020-00-002 totaling ₱8,030,752.99 which, according to the RAD, may pertain to over remittance or lapses in recording collections which were not adjusted pending receipt of reports from the concerned Revenue Regions.

201. RAD informed the Audit Team that the subject account may include balances of the RCOs who are already resigned/retired. It was also disclosed in the Notes to Financial Statements that the Bookkeeping Section of RAD has been coordinating continuously with the concerned regional FD regarding the SL balances of former RCOs who are still in active service and those already resigned/retired.

202. **We recommended that Management require the RAD to:**

a. **Determine the status of the RCOs concerned by coordinating with the Personnel Division in BIR-NO so that immediate settlement of the accounts of those still in the service with the Bureau could be enforced;**

b. **Reclassify to *Other Receivables* account those pertaining to resigned and retired employees and if warranted, request for write-off of the accounts which collectability is nil; and**

c. **Analyze further the negative accounts to ascertain the need for adjustments.**

203. The following are the actions taken and to be taken by Management based on the submitted Agency Action Plan and Status of the Implementation (AAPSI) on the Audit Observations and Recommendations:

204. Management informed that the Assistant Commissioner (ACIR) of the Collection Service sent a Memorandum dated January 21, 2016 to the ACIR, Human Resource Development Service requesting that the RAD be provided with the current employment

status of the subject RCOs to determine whether they are still in active service or already resigned, retired or separated from the service.

205. In reply the Chief, Personnel Division has furnished the RAD on February 12, 2016 with the validated current status of employment of the subject RCOs. RAD, as of this date, is in the process of sorting the current status of employment of the said RCOs.

206. Moreover, RAD said that even before the receipt of the requested list from the Personnel Division, it has already issued a memorandum dated January 19, 2016 addressed to all concerned RROs requesting information on the current status of the RCOs' employment, which, up to this date, has not yet been complied by the RROs.

207. Upon receipt of the information from the RFDs, RAD will reclassify to *Other Receivables* account those pertaining to resigned/dismissed/separated/retired RCOs. Likewise, the request for an authority to drop/write-off of the balances of resigned/dismissed/separated/deceased RCOs whose collectability proved very nil, will be made immediately once all the supporting documents have been completed as prescribed under COA Circular No. 97-001.

208. The analysis of the negative and positive SL balances of former RCOs totaling ₱8,030,752.99 and ₱28,208,384.61, respectively, was discontinued by the RAD since the pertinent documents such as the SLs, Reports of Collections and Deposits (BIR Form No. 12.31), Cash Receipts Records, etc. were already transferred to and turned over to the RFDs of the RROs pursuant to the implementation of the Decentralized System of Issuance of National Clearance to the retiring/resigning/transferring Accountable Officers as prescribed under Revenue Memorandum Order (RMO) No. 74-2010 dated July 29, 2010 and reiterated in RMO No. 11-2011.

209. In view of the aforementioned decentralization, the said analysis of the SL balances has already been transferred to the concerned RFDs. Likewise, the SLs of these accounts were already transmitted to the concerned RFDs and the RAD will prepare a JEV to transfer the outstanding SL balances of RCOs still recorded in the NO-Collection Books to the SL balances of the RCOs in the RO-Collection Books.

Doubtful validity of the balance of the account *Forfeited Property/Assets*

The balance of the account *Forfeited Property/Assets* is doubtful due to (a) inclusion of real properties with a total value of ₱72,181,030.66 which are not yet titled under the name of the Republic of the Philippines (ROP); (b) inclusion of real properties which can no longer be located due to flood and erosion, those mortgaged by the taxpayers, or have been ineligible for sale which are listed in the Consolidated Inventory of Seized and Forfeited Assets (CISFA); and (c) exclusion of forfeited properties in the CISFA.

Inclusion of real properties with a total zonal value of ₱72,181,030.66 which are not yet titled under the name of the ROP

210. PPSAS 1 – Presentation of Financial Statements defines assets as “*resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.*”

211. Likewise, under PPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers) Recognition of Assets, provides, “*an inflow of resources from non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:*

- a) It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and*
- b) The fair value of the asset can be measured reliably.”*

212. Section 29 of PPSAS 23 also states, “*An entity will recognize an asset arising from non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria.*”

213. Under the RCA the account, *Forfeited Property/Assets* is used to record the fair value of properties forfeited as payment for tax debts. The BIR uses this account to record forfeited real and personal properties in the Collection Books.

214. We verified the CISFA as of December 31, 2015 submitted by the Head, Forfeited Assets Management Team and discovered that in CY 1969 to 2011, there were 72 real properties with a total zonal value of ₱72,181,030.66 that were forfeited. To date, these properties were not yet titled under the name of the ROP. Also included in the said inventory are forfeited assets with no indicated date of forfeiture/seizure. We also learned that some of these were already recorded in the Collection Books of the Bureau which is premature since the ownership thereon was not yet transferred to the government. In addition, the BIR is not in actual possession/occupation of the forfeited real properties.

215. With the implementation of the PPSAS and taking into consideration the criteria for the recognition of an asset, the Audit Team is of the opinion that these forfeited properties should not be recorded in the Collection Books because these are not yet titled under the name of the ROP and the agency is not in actual possession and occupation of these properties. Likewise, Revenue Memorandum Order No. 83-2010 dated December 01, 2010 provides that forfeited assets shall be recorded in the Collection Books on the date these assets were consolidated and titled in the name of the ROP.

Inclusion of real properties which can no longer be located due to flood and erosion and have been mortgaged; or have been ineligible for sale as listed in the CISFA

216. Per remarks in the CISFA some of the forfeited assets of the Bureau are missing/cannot be located, already transferred to other entities, under the Comprehensive Agrarian Reform Program (CARP), and mortgaged or impaired to wit:

Particulars	RRO	Number of Properties	Classification	Forfeiture Date	Zonal Value
Cannot be located per certification of the Assessor	1	6	Residential Lot	2/08/71	329,530.00
Transferred to DAR	19	4	Agricultural	5/5/76	849,594.00
Under CARP	12	14	Agricultural	4/05/91	6,369,813.00
Mortgaged	5	127	Residential Lot	11/04/97, 5/07/91 and 2/17/1192	101,230,100.00
Eroded, flooded	3 , 4 and 10	6	Residential and Agricultural	10/03/69 4/20/81/ 7/01/85 1/20/2000	373,233.78

217. At the time of forfeiture, valued properties at ₱89,640,000.00 which are part of the ₱101,230,100.00 properties were already mortgaged by the taxpayer in favor of the bank for a loan amounting to ₱22 million.

Exclusion of forfeited properties in the CISFA

218. On the other hand, some forfeited personal properties recorded in the books are not in the CISFA as of December 31, 2015, while others, although still included in the CISFA are no longer usable.

219. Because of the present status/condition of these assets, the forfeited assets account balances in the Collection Books of both the NO and RROs are evidently no longer reflective of the true value of the assets. It is, likewise, more difficult and for some, entirely impossible, to sell impaired assets to other parties that may be interested.

220. Further, these Forfeited Property/Assets did not meet the recognition criteria of an asset under PPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers).

221. We recommended and Management agreed to effect the suggestions of the Government Accountancy Office (GAS), COA as follows:

- a. **Disclose in the Notes to Financial Statements the forfeited land which has no existing records from the Registry of Deeds/Assessor's Office of the**

municipality where the property is located, thus, transfer of ownership to the ROP may not be possible;

b. Recognize the forfeited parcels of land which are in the actual possession of the BIR, but disclose that transfer of title over the property cannot be effected yet due to the absence of supporting documents;

c. Seek legal advice from its Legal Department relative to the forfeited properties which were already mortgaged by the taxpayer in favor of a bank in exchange for a loan; and

d. Recognize impairment loss on forfeited real properties that were already impaired in accordance with Section 28, Chapter 10 of the Government Accounting Manual (GAM) for NGAs.

222. RAD had coordinated with GAS, COA, which the latter had provided replies.

Unreliable balance of *Other Receivables* account

The carrying amount of *Other Receivables* amounting to ₱14,492,468,672.74 as of December 31, 2015 is unreliable due to (a) non-recording of dishonored checks amounting to ₱27,055,104.21 which were already redeemed; (b) unrecorded adjustments in the Collection Books due to amendments made by the taxpayers on their filed returns; (c) late reporting of redemption of dishonored checks from 2002 to 2014; and (d) unconfirmed dishonored checks.

Non-recording of dishonored checks already redeemed totaling ₱27,055,104.21

223. BIR Form No. 12.58 (Report of Returned/Dishonored Checks) is prepared by the Accredited Agent Banks (AABs) in case there are personal checks that bounced due to closed and insufficient fund accounts. This is prepared in four copies for AAB Branch servicing large taxpayers and five copies for AAB Branch servicing regular taxpayers, and submitted to the RDO, Large Taxpayer Collection Enforcement Division (LTCED) or Large Taxpayer District Office (LTDO) together with the original checks. Based on this report, the RDO/LTCED/LTDO shall prepare and submit to RAD a Monthly List of Dishonored Checks Received within 15 days of the following month.

224. On the other hand, for redeemed dishonored checks, BIR Form 12.61 (Monthly List of Dishonored Checks Redeemed) shall be prepared and submitted to RAD within 15 days of the following month.

225. The RAD records dishonored checks in the Collection books as debit to *Other Receivables* account based on the BIR Form 12.58 (Report of Returned/Dishonored Checks) and Monthly List of Dishonored Checks Received from the RDOs and credits the same account when these are redeemed by the taxpayers based on the BIR Form

12.61 (Monthly List of Dishonored Checks Redeemed) submitted by the RDOs and if such redemptions are encoded in the Integrated Tax System – Collection and Bank Reconciliation System (ITS-CBRS).

226. To validate the amount of dishonored checks under account *Other Receivables*, confirmation letters were sent to 100 taxpayers with complete data having dishonored checks amounting to ₱500,000.00 and above totaling ₱138,089,271.05. The details are shown below:

No. of Taxpayers (TPs) with DC ₱500K and above	Total 168 TP	Without Details 60 TP	With Details 108 TP	Confirmed 100 TP
Amount of DC	₱235,080,426.01	₱77,948,467.02	₱157,131,958.99	₱138,089,271.05
Percentage of confirmed amount to total Dishonored Check (DC) w/ details				88%
Percentage of confirmed number of TPs to total TPs w/ details				93%

227. Analysis of *Other Receivables* account revealed that it includes dishonored checks of 168 taxpayers amounting to ₱500,000 and above totaling ₱235,080,426.01. Sixty of these dishonored checks have no details while 108 have known details.

228. As of March 9, 2016, the result of confirmation is shown below:

Particulars	Confirmed Checks		Recorded Redemption		Dishonored Checks as of Dec. 31, 2015	
	Amount	No.	Amount	No.	Amount	No.
Redeemed	30,855,056.86	30	5,463,145.39	3	25,391,911.47	27
RTS due to unknown address	34,152,482.43	28	2,557,513.24	1	31,594,969.19	27
No Balance (not Dishonored)	1,663,192.74	2			1,663,192.74	2
Unredeemed	3,743,856.08	1			3,743,856.08	1
No Reply	67,674,682.94	42	17,053,917.67	4	50,620,765.27	38
Total	138,089,271.05	103*	25,074,576.30	8	113,014,694.75	95

*pertains to number of checks issued by the 100 number of taxpayers with DC ₱500k and above

229. We validated the status of these confirmed dishonored checks with RAD and the results were as follows:

Result of validation with RAD	No. of DC
Not reported in BIR form 12.61 and not encoded in ITS-CBRS	35
Encoded in ITS-CBRS but not reported in BIR form 12.61	35
Reported in BIR form 12.61 but not encoded in ITS-CBRS	11
No report was submitted by the LTS	3
TIN does not exist	1
Reported in BIR form 12.61 but with report error	6
Reported in BIR form 12.61/payment made thru the RCO	1
Not reported in BIR form 12.61 and TIN does not exist	1
Not reported in BIR form 12.61 and TIN of taxpayer is restricted for RDO inquiry	1
Forwarded to RR6 Collection Division	1
Redemption submitted and recorded in the second semester of CY 2015	8
Total	103

230. As shown above, majority of the dishonored check redemptions were not taken up in the books because it is either (1) reported in the BIR form 12.61 but not encoded in the system or (2) encoded in the system but not reported in BIR form 12.61. The rest were due to erroneous reporting.

231. Based on the responses to the confirmation made, the *Other Receivables* account appeared to be overstated.

Unrecorded adjustments in the Collection Books due to amendments made by the taxpayers on their filed returns

232. Review of the submitted documents of the taxpayers showed that the amount of dishonored checks as confirmed by the taxpayers did not match the recorded amount per SL and the Monthly List of Dishonored Checks Received as shown below:

	Year Recorded	Per SL and BIR Form 12.58	Amount per Taxpayer	Difference
Taxpayer A	2011	₱ 930,403.22	₱ 926,620.41	₱ 3,782.81
Taxpayer B	2015	1,045,048.00	1,048,598.00	(3,550.00)
Taxpayer C	2013	686,250.00	366,183.07	320,066.93

233. Scrutiny of the submitted BIR Form 0605 (payment form) disclosed that the noted difference between the recorded and confirmed amount of redemption pertained to adjustments/amendments made by the taxpayer themselves in the amount of tax due on the returns filed.

234. We noticed that two taxpayers with confirmed redemption have paid amounts lesser than the original dishonored check, while one taxpayer has paid an amount greater by ₱3,550.00 than the original dishonored check.

235. In the case of Taxpayer C with dishonored check amounting to ₱686,250.00 for the payment of Value Added Tax (VAT), she confirmed its redemption by attaching copies of the amended BIR Form 2550M and bank validated deposit slip. From the original amount of ₱686,250.00, subject taxpayer paid only ₱366,183.07 for the output tax due by deducting the amount of ₱320,066.93 representing input vat deducted from the output tax payable

236. According to the Accounts Receivable Management Division (ARMD), an amended tax return does not denote redemption of the dishonored check. We also learned that the subject dishonored check was already included in the Accounts Receivable/Delinquent Accounts (AR/DA) which was disclosed in the Notes to Financial Statements but still recorded under account *Other Receivables*.

237. Since no report was submitted to RAD by the concerned RDOs to correct the said balances, adjustments were not taken up in the books that resulted in the overstatement of account *Other Receivables* by ₱686,017.

Late reporting of redemption of dishonored checks from 2002 to 2014

238. Review of the List of Dishonored Checks Redeemed prepared by RAD and verified against the Batch Control Sheet (BCS) and CBR from January to September 2015 disclosed that some of the checks redeemed totaling ₱38,545,138.17 from years 2002 to 2014 were only reported this year which is contrary to RMC 30-2014 which requires the RDO/LTCED/LTDO to submit to RAD a Monthly List of Dishonored Checks Redeemed within 15 days of the following month, together with the photocopies of dishonored checks. This late reporting and recording of redemption of dishonored checks caused the account to be overstated by ₱38,545,138.17 for more than ten years.

239. According to RAD, they have been coordinating with the RDOs and providing them the list of taxpayers with dishonored checks still outstanding in the books to facilitate clean-up and recording. Likewise, interview with the Head of the Arrears Management Team (AMT) revealed that they did not submit the Report of Dishonored Checks Redeemed to RAD because it is not required in any BIR issuance, thus, this could be one of the reasons why some dishonored checks which were already redeemed are still recorded in the books.

240. The incomplete and delayed reporting of the dishonored checks and its redemption had affected the accuracy and reliability of the *Other Receivables* account.

Unconfirmed Dishonored Checks

241. Further analysis showed that 60 of the 168 taxpayers with dishonored checks amounting ₱500,000 and above have no available data which prevented the Audit Team in confirming their outstanding balance in the books. Out of the 103 confirmation requests sent, 29 were returned due to unknown address and/or the taxpayer has already moved-out.

242. We tried to re-send some of the confirmation letters to the address of the taxpayers as indicated in the internet and verified the same through phone calls. Seven taxpayers have replied out of the 13 re-sent confirmation letters.

243. **We recommended that Management require the:**

a. **RDO/LTCED/LTDO to -**

- **Submit to RAD the status of dishonored checks as of December 31, 2015, especially those that were confirmed as redeemed and amended by the taxpayers;**

- **Encode correctly in the ITS the redeemed dishonored checks after due verification, particularly those that were confirmed by the taxpayers;**
 - **Require the CBR Error Handler in the RDO to verify and correct the errors noted by RAD, as well as the adjustments made by the taxpayers in their redemption, to facilitate adjustments in the Collection books; and**
 - **Attach to the report to RAD copies of the taxpayer ledger or encoded dishonored and redemption of checks in the ITS-CBRS;**
- b. Collection Service or any appropriate Office of the Bureau to -**
- **Prepare clear guidelines on the recognition/recording of redemption of dishonored checks thru the RDOs/RCOs;**
 - **Consider the issuance of policy requiring the attachment of taxpayer's ledger in the submission of Monthly List of Dishonored Checks Received and BIR Form 12.61 (Monthly List of Dishonored Checks Redeemed) to ensure prompt recording of the transaction in the books;**
 - **Review the existing policy regarding the uploading of dishonored check data by the RDC;**
 - **Require the AMT and LTS to submit an updated inventory and status of dishonored checks to RAD as of December 31, 2015, especially those that were confirmed as redeemed by the taxpayers; and**
 - **Consider the issuance of a policy requiring the AMT to submit to RAD a Monthly List of Dishonored Checks Redeemed (BIR Form 12.61).**
- c. RAD to -**
- **Provide the Accounts Receivable Monitoring Division (ARMD) with the list of Dishonored Checks to determine if these are already included in the AR/DA which are disclosed in the Notes to Financial Statements to facilitate adjustment in the Collection Books; and**
 - **Monitor closely the report submission of RDO/LTCED/LTDO and AMT in order to facilitate clean-up and adjustments of the Other Receivables account;**

d. **ARMD to verify if the recorded dishonored checks in the Collection Books are already included in the AR/DA based on the List of Dishonored Checks provided by RAD; and**

244. **We further recommended that Management have an updated database of taxpayers to facilitate monitoring of collection of dishonored checks, as well as delinquent accounts.**

245. Management has issued several memoranda to address/resolve the issues on the unrecorded redeemed dishonored checks.

246. Under the existing collection processes, more specifically with respect to the processing of tax collections in the ITS-CBRS, redemption of dishonored checks is no longer being encoded in the ITS-CBRS since the same are automatically uploaded in the said system once the flat files of collection data in the Batch Control Sheet are successfully transmitted by the AABs to the BIR. Manually encoded by the BIR in the said system are the details of dishonored checks previously recognized as tax collections. This is necessary to reverse/nullify the previously recorded tax collections.

247. Management committed to address the issues/problems encountered including the redemptions of the taxpayers thru amended returns. Further, as discussed, the BIR Collection Manual does not provide as to who will be responsible in the encoding of the data on the unrecorded redemptions of dishonored checks; but the Assistant Director of RRO 6 informed that it is in the level of the RDO and assured the Audit Team that she will look into the matter.

248. The RAD has already sent a memorandum dated April 01, 2016 to the Chief, ARMD together with the List of Outstanding DCs as of December 31, 2015, for verification whether or not these dishonored checks are included in the General Control Ledgers (GCLs) of Accounts Receivables/Delinquent Accounts (ARs/DAs) submitted by all concerned BIR Offices. Upon receipt of confirmation from ARMD on the existence of DCs in the GCLs, appropriate adjustments will be made by RAD in the Collection Books.

249. With the creation of the AMT, the Seizure Agents are already exerting efforts to locate the taxpayers with outstanding dishonored checks. Accordingly, a memorandum will be issued requiring all concerned personnel (e.g. examiners, seizure agents, taxpayer service) to update the registered address of the said taxpayers.

Failure to deposit collections intact and daily

The RCOs of nine RROs did not deposit their collections intact or within the prescribed period contrary to PD 1445 and other pertinent rules and regulations, which unnecessarily exposed these collections to the risk of loss and/or misuse.

250. Section 69 of PD 1445 states, “Public officers authorized to receive and collect moneys arising from taxes, revenues, or receipts of any kind shall remit or deposit intact the full amounts so received and collected by them to the treasury of the agency concerned and credited to the particular accounts to which the said moneys belong”.

251. Further, the Revised Cash Examination Manual (CEM) prescribed under COA Memorandum No. 2013-004 dated July 09, 2013 states:

“All COs shall deposit intact their collections, as well as collections turned over to them by sub-collectors/tellers, with Authorized Government Depository Banks (AGDBs) daily or not later than the next banking day. Where collections are minimal and daily deposit thereof becomes costly and impractical, the Collecting Officers shall deposit their collections at least once a week, or as soon as the collections reach ₱10,000.00”.

252. Likewise, Item III.1 of RMO No. 21-2014 dated June 2, 2014 prescribes the frequency of deposits to be made as follows:

Distance (Office/Work Station to AGDB)	Travel Time	Mean of Transportation	Amount of Collections	Frequency of Deposits
a. Office/Station is co-located with the AGDB	Not Applicable	Not Applicable	Total collections regardless of amount	daily of Not later than next banking day
b. Office/Station is located within 30-kilometer radius	Less than 1 hour (one way)	Ordinary transportation (e.g. Jeep, bus or tricycle)	Total collections regardless of amount	daily of Not later than next banking day
	More than 1 hour (one way)	Ordinary transportation	As soon as the cash collections reached ₱10,000.00	Not later than next banking day
			If the total amount of cash collections for the week is less than ₱10,000.00	Not later than Friday of each week
	More than 1 hour (one way)	Special transportation (e.g. hired tricycle, banca, etc.)	As soon as the daily cash collections reached ₱10,000.00	Not later than Friday of the week

Distance (Office/Work Station to AGDB)	Travel Time	Mean of Transportation	Amount of Collections	Frequency of Deposits
c. Office /Station is more than 30- kilometer radius	Less than 1 day (one way)	Ordinary transportation	Total collections regardless of amount	Not later than Friday of each week
	Less than 1 day (one way)	Special Transportation	As soon as the daily cash collections reached ₱10,000.00	Not later than Friday of each week
	1 day or more (one way)	Any transportation	As soon as the daily cash collections reached ₱10,000.00	Not later than Friday of the following week but not later than the end of the month of collection
d. Work station is located in the island and other far-flung municipalities	More than one day (one way)	Special transportation and transportation cost is expensive	Total collections regardless of amount	Once a month but not later than the end of the month of collection

253. However, the same issuance provides that the above-mentioned schedules should not prevent the RCOs and other COs from depositing earlier the tax/non-tax collections, if deemed necessary, in order to safeguard collections and protect the interest of the government.

254. Moreover, Item III.4 of the RMO provides the following:

“It shall be the responsibility of all Revenue District Officers/heads of Offices, finance and Collection Division chiefs and Collection Section Chiefs/Supervisors to strictly monitor the activities of all the RCOs/SCOs/Cos under their jurisdiction by conducting regular spot checks and/or audit, to ensure that all their activities are in accordance with existing rules and regulations, and that the tax collections received are fully reported, accounted for, and deposited intact and on time to the AGDB, pursuant to the applicable provisions of this Order.”

255. Review and audit of the collection of some RCOs disclosed that they did not deposit their collections intact to the AGDBs within the prescribed period contrary to the rules and regulations. Details are as follows:

RRO	No. of days delayed	Amount of Collections	Remarks/Other Deficiencies
1	1 to 12 days	₱21,524.79 to 13,383,392.94	- Some RCOs accumulated their collections for a number days to be deposited only on or before the end of the month. - Some RCOs have under/over remittance of their collections, though in minimal amounts.
2	1 to 330 days	₱1,080 to 1,071,215.26	- Although all collections are deposited at the end of the month, the deposited accumulated collections are over the ₱10,000.00 benchmark and even as high as more than ₱300,000.00, contrary to RMO No. 21-2014. - The longest holding period spanned 11 months for the accumulated collection of ₱45,673.53 from August 22, 2014 to June 16, 2015 by the RCO of Tabuk, which was deposited on June 16, 2015. - The timeline of once a week to deposit collections was not dutifully observed by most of the RCOs of Kalinga and Apayao who are allowed a maximum of four days to accumulate their collections because it took five to 23 working days before weekly collections were deposited;
6 (RDOs 35, 36 and 37)	Days delayed varies	₱14,088.37 to 1,825,550.17	- Some RCOs handled two, three or four municipalities, thus, increasing the total amount of collections in their hands and likewise, the risk of loss and misuse of government funds - The delay in depositing collections was due to the distance and location of the AGDBs and the travel time to be incurred wherein some RCOs have to spend overnight in the place where the AGDBs are located.
7 (3 RCOs) 11 (RCOs of Guimaras)	2 to 8 5 to 11 days	₱13,288.19 to 287,892.03 Not specified	There were instances that a substantial amount of collections remains unremitted for a number of days, even if the AGDB is around 30 kilometers away or a travel time of more than one hour by means of special transportation.
13 (RDO 80) Bantayan Island)	Not Specified	₱2.6M	Accumulated collections totaling ₱2.6 million was deposited to LBP in mainland Bogo City being the highest one time deposit during the year. Bringing and transporting these huge cash collections on their travelling bags from the island to the mainland is really risky considering that they are known in the area as BIR collectors.
15 RDO 94, Isabela	2 to 13 days	Not specified	- Collection from July 2011 to October 2012. - The validation on the frequency of the deposits was

RRO	No. of days delayed	Amount of Collections	Remarks/Other Deficiencies
City			limited as some collections were not supported with the validated deposit slips.
15 (RDO 96)	Up to 119 days	₱500- 44,799,006.07	Although there are AGDBs within the vicinity of the RDO, some RCOs failed to deposit their collections daily and in full amount.
16 (RDO 101)	2 to 13 days	Not specified	RCOs explained that delays were due to distance between the station and nearest AGDB. However, verification disclosed that travel time from the station to the nearest AGDB will take only less than a day.
19	2 to 24 days	Not specified	- This is a reiteration of prior year's observation. - The RCOs incur delays in the deposit during tax deadlines due to the long period needed in the printing of the system generated official receipts which takes about five to six minutes. - Most RCOs are assigned to two or three municipalities, and the location of the AGDBs is quite far from their official station. Further, considering the distance of the AGDBs, if the RCOs will deposit daily their collections most of them can no longer go back to their stations on the same day, thereby hindering the discharge of their duties as agents of the Bureau.

256. Because collections were not deposited intact, the Audit Team found it difficult to trace which deposit pertained to what collection period.

257. The practices presented above were not strictly monitored by the Collection Section Chiefs/Supervisors since these remain unchecked and unsanctioned contrary to Items III.4 and 5 of RMO No. 21-2014.

258. While it is true that it may be costly and impractical to remit collections considering the travel time due to the distance/location of AGDBs, the rules and regulations do not make exemption. It should be realized that the risk of loss and/or misuse are far greater than the inconvenience and cost that may be incurred in complying with the prescribed period to deposit the collections.

259. **We recommended that Management:**

- a. **Require all RROs to ensure that all RCOs strictly adhere to the provisions of PD 1445 and RMO No. 21-2014 on the deposit of collections and impose disciplinary actions against erring personnel, if warranted;**
- b. **In areas where AGDBs are not easily accessible, consider the possible services of an AAB; and**

c. In RRO 13, direct the collectors for the meantime that no guidelines are issued yet, to apply for a cashier/manager's checks from the private banks in favor of the LBP, Bogo City if their collections are already in huge sums rather than transporting the same to the city.

260. Management comments:

a. In RRO 7, the Finance Division will issue a memorandum to the subject RCOs regarding the frequency of remittance of their collections.

b. In RRO 11, they have been implementing measures to prevent exposure of government funds from possible misuse, thus, will be imposing disciplinary actions on erring RCOs, if necessary.

c. In island municipalities where there are no AGDBs, the RCOs deposit their collections temporarily to their personal accounts with the private banks to minimize the risk of loss, to be withdrawn in time for its remittance to the National Treasury.

d. Regarding the use of manager's/cashier's check if collections are already in huge amounts, the ACIR of the Operations Group said that they will look into the matter and have it institutionalized. Further, he said that taxpayers should be encouraged to pay taxes through the use of the Electronic Filing and Payment System (eFPS) and G-Cash Payment.

Unsecured RCO's Office

The RCO of RDO 93A (Zamboanga City) was not provided with an enclosed office space and vault, thus, funds and other accountabilities in his custody are vulnerable to theft or loss.

261. Section 101 of PD 1445 states, *"Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefore and for the safekeeping thereof in conformity with law. XXX"*

262. Furthermore, Section 102 of the PD provides, *"The head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency. Xxx Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him, without prejudice to the liability of either party to the government."*

263. An agency's internal control is defined as the plan of organization to safeguard its assets, check the accuracy and reliability of its accounting data and promote operational efficiency.

264. It was noted that the Office of the RCO of RDO 93A in RRO 15 is not enclosed and not provided with vault, thus, collections, records and accountable forms held by the AO are exposed to risk of loss or theft.

265. The cash on hand and accountable forms are kept by the RCO inside the drawer of his table. Further, the AO is holding office on the rear end area together with the other agency personnel with only a small divider separating them from the other division. The AO's cash and accountable forms are visible not only to her co-employees but also to agency clients and taxpayers.

266. **We recommended and Management agreed that the concerned RCO be provided with appropriate office space with enclosures and vaults to safeguard government funds.**

RCOs not bonded or the bond not updated and inadequate

Some RCOs of RROs 2, 14 and 19 were either not bonded or the bond was not updated, while some RCOs of RROs 1 and 15 were not adequately bonded.

267. Section 101 of PD 1445 provides, *"Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law and shall be properly bonded in accordance with law."*

268. Treasury Circular No. 02-2009 dated August 6, 2009 provides in its Annex C the level or amount of bond of the cash accountability of an accountable officer for ready reference in the application and renewal of bonds of accountable officers.

269. Under the same Treasury Circular, a penal clause is provided which states, *"Unjustified failure of an accountable officer to comply with the requirements to apply the Fidelity Bond pursuant to this Circular and the Public Bonding Law shall subject the responsible official/employee to applicable criminal, and/or administrative liability under the Revised Penal Code and PD 1445"*.

270. Review and verification of the bonds of the RCOs disclosed the following:

RCOs not bonded

RRO 2 Of the five RCOs, two had not been bonded since CY 2014

RRO 19 An RCO who was not bonded was allowed to collect taxes in San Isidro,
(RDO 114) Davao Oriental for the months of October to December 2014.
Consequently, taxes totaling ₱1,117,062.47 was collected and handled
without any insurance at all.

Bonds not Renewed/updated

RRO 2 Bonds of three RCOs were not renewed.

Interview disclosed that although review of the maximum accountabilities of the concerned AOs was performed before the processing of applications for renewal of bonds, periodic review was not, however, conducted within the bond period, especially during the reshuffling of RCOs.

Information gathered from the concerned officer disclosed that bond applications for the renewal have been forwarded to the Bureau of the Treasury (BTr). However, due to incomplete attachments, same were returned to the agency. As of this writing, the bond premiums had not yet been paid pending completion of the required documents.

RRO 14 Some RCOs have not updated their bonds and three were not bonded at all, although some alleged that they were bonded and reasoned out that they do not have the copy of the bond confirmation because these were in the hands of their respective Administrative Officers either in the RDO or in the RRO.

The Audit Team asked for the bond confirmation from the Administrative Officer and found out that the same bonds were still to be updated or is still to be applied with the BTr.

Inadequate bonds

RRO 1 Bonds of some of RCOs with collections from ₱500,000.00 to ₱1,700,000.00 ranged only from ₱100,000.00 to ₱500,000.00, which is applicable only for those with collections ranging from ₱100,001.00 to ₱250,000.00. This is not in consonance with the level/amount of bond as required because the appropriate bond should have been ₱350,250 to ₱750,000.00

RRO 2 The amounts of bonds were not sufficient to cover any losses of government resources.

RRO 15
(RDO 92) Fidelity bond coverage of accountable officers is only for the maximum cash accountability of ₱225,000.00 while the maximum cash being handled ranged from ₱750,000.00 to ₱1,000,000.00 per municipality and these RCOs are handling as much as three municipalities.

RRO 19
(RDO Nos. 114 and 115) The bonds of RCOs are insufficient to cover their daily maximum cash accountability.

271. The foregoing practices if continued would expose the RROs to loss without adequate/non-indemnification.

272. **We recommended and Management agreed to require:**

- a. **RROs 2, 14 and 19 to ensure that all RCOs are bonded with the Fidelity Fund and to see to it that these bonds are renewed regularly; and**
- b. **RROs 1, 2, 15 and 19 to review the respective cash accountability of all RCOs and determine their maximum level of accountability, and increase their fidelity bond, if warranted.**

273. The Head Revenue Executive Assistant of the Collection Service informed that said Office is currently drafting the Memorandum regarding the bonding of the RCOs in order to address the issues.

Partial Settlement of Receivables Arising from Cash Shortages

In RRO 1, only ₱321,246.37 or 15 percent was collected out of the total cash shortages of six RCOs amounting to ₱2,100,193.02, leaving a balance of ₱1,778,946.65, thus, depriving the government of the use of the amount to finance its programs/projects/activities.

274. Section 105(2) of PD 1445 provides, *“Every accountable officer for government funds shall be liable for all losses resulting from the unlawful deposits, use, or application thereof and for all losses attributable to negligence in the keeping of funds.”*

275. Section 37 of PD 1445 – Retention of money for satisfaction of indebtedness to government.

“When any person is indebted to any government agency, the Commission may direct the proper officer to withhold the payment of any money due such person or his estate to be applied in satisfaction of the indebtedness.”

276. Verification and analysis of the *Other Receivables* account disclosed that of the total amount of ₱2,100,193.02 cash shortages of six RCOs as of January 1, 2015, only ₱321,246.37 or 15 percent was collected from one of the accountable officers during the year. This was receipted under OR No. ACF 2007 00664094 dated September 2, 2015, thus, leaving the amount of ₱1,778,946.65 unrecovered as at year-end.

277. For the past six years (CY 2009 to 2014), this observation has always been part of the Management Letters but remained unimplemented. Shown below are the status of the case of the AOs:

Accountable Officer	Balance as of January 1, 2015	Amount Restituted	Balance as of December 31, 2015	Status
1	₱246,057.90		₱246,057.90	Dismissed from the revenue service
2	282,416.34		282,416.34	Decision for approval
3	285,000.00		285,000.00	Decision for approval
4	321,246.37	₱321,246.37		Draft Resolution for correction
5	568,109.30		568,109.30	Decision for review
6	397,363.11		397,363.11	Dismissed from the revenue service (case forwarded to the RTC which decided convicting the accused of malversation of public funds)
Totals	₱2,100,193.02	₱321,246.37	₱1,778,946.65	

278. Management explained that they are encountering difficulties for the full settlement considering that all the concerned AOs are now inactive in the revenue service, hence, only minimal amounts were collected during the year. Nevertheless, the RRO is exerting its effort and looking for any legal means to collect the unremitted collections. Demand letters were sent to the subject AOs ordering them to remit all their collections to the LBP under the account of the BTr.

279. Because of the failure of Management to enforce full restitution/recovery of the amount from these RCOs, the government is continuously deprived of the funds which could have been used to finance its programs/projects/activities.

280. **We recommended and Management of RRO 1 agreed to:**

- a. Take action to fully recover the shortages of the former RCOs notwithstanding any pending legal action filed against them;**
- b. Require the Collection Supervisors to monitor closely the collection and remittances of the RCOs to prevent incurrence of unremitted collections in the future; and**

c. See to it that all benefits accruing to the RCOs are withheld upon due notice and demand for the immediate restitution of the shortage without prejudice to the filing of appropriate legal action against the erring accountable officers.

281. Management committed to adhere to our recommendation to closely monitor the collections and deposits of all the RCOs. They reasoned out that one of the initiatives they made was the issuance of Memorandum calling the attention of RCOs having late remittances of collections to avoid the accumulation of unremitted collections.

282. Management further commented that with regards to the status of the case filed by the Personnel Adjudication Division (PAD) of BIR-NO against the RCOs, two were already decided by which the concerned RCOs were dismissed from the revenue service, while the cases of the four AOs are still in process. The case of one dismissed RCO was forwarded to the Regional Trial Court.

Absence of Turn-over of Accountability in RRO 11

RDO No. 73 of RRO 11 has not submitted to the Audit Team an Invoice and Receipt on the transfer of funds from the former RCO to the newly designated RCO of the municipalities of Anini-iy and Tobias Fornier contrary to Sections 77 and 80 of PD 1445, hence, correctness of the balance of their accountabilities could not be established.

283. Section 77 of PD 1445 provides, *“Invoice and Receipt upon transfer of funds and property. When government funds and property are transferred from one accountable officer to another, or from an outgoing officer to his successor, it shall be done upon properly itemized invoice and receipt which shall invariably support the clearance to be issued to the relieved or out-going officer, subject to regulations of the Commission.”*

284. Furthermore, Section 80 of PD 1445 states, *“An accountable officer, upon ceasing to act in his official capacity as such, shall submit to the auditor of the agency concerned a report of his accountability. Any remaining balance of such accountability shall be deposited in the proper treasury without unnecessary delay.”*

285. Examination of the cash and accounts of the RCO of the municipalities of Anini-iy and Tobias Fornier revealed that he was relieved of his post on December 26, 2014. His accountabilities pertaining to the accountable forms were transferred to the newly designated RCO.

286. However, the RDO has not submitted to the Audit Team a final report of the accountability of the relieved RCO, thus, correctness of the balance of accountabilities could not be established.

287. Interview with the accountable officer revealed that there was no proper turnover of accountabilities from the preceding accountable officer.

288. **We recommended that Management:**

a. Require the former accountable officer to have proper turn-over of accountabilities and submit to the Audit Team the itemized invoice and receipt to determine the remaining balance of their accountabilities; and

b. Strictly adhere to the provisions stated in Sections 75, 77 and 80 of PD 1445.

289. Management said that the concerned RCO made proper turn-over of his accountabilities per BIR form No. 2625 to the former Chief, Administrative Section since the new chief assumed her post only on January 12, 2015.

290. Further, Management promised to continuously require the RCOs to follow strictly the provisions stated in Sections 77 and 80 of PD 1445.

Auditor's Rejoinder:

291. The AOs should submit to the Audit Team the Invoice and Receipt for the transfer of fund in order to determine the correct balance of accountability transferred to the newly installed RCO. Management has submitted the Invoice and Receipt on the transfer of accountable forms but without the final report of the accountability of the relieved RCO.

Doubtful Collection Reports in RRO 1

A discrepancy of ₱16,530,339.71 existed as at year end between the collection reports of the Revenue Accounting Section of the FD and the Collection Division of RRO 1 which affected the reliability, accuracy and completeness of the reported total collections during the year.

292. The BIR is tasked to collect taxes from the concerned taxpayers. The major types of taxes that are being collected are the income taxes, excise taxes, value-added taxes, percentage taxes and other taxes. These taxes are being collected thru the AABs like the LBP, the use of the MRCOS using the Collecting Officer Receipting Device (CORD) issued to the various RCOs and the use of the Tax Remittance Advice (TRA).

293. At the end of each month, the RCOs prepare and submit their collection reports to the Collection Section of the respective RDOs and these reports together with the reports on TRAs, Direct Crediting and AABs are consolidated by the Collection Section. The consolidated report is submitted to the Revenue Accounting Section of the Finance Division for recording in the books of accounts and to the Collection Division for

consolidation and submission of report to NO. The Revenue Accounting Section, however, records in the books of accounts only the collections from TRAs and MRCOS and prepares a consolidated statement for the RDOs using the Statement of Internal Revenue Collections. The Collection Division, on the other hand, consolidates all the reports of the RDOs and prepares the Collection Report of the RDOs by Nature of Source where the collections arising from Direct Crediting, AABs, MRCOS and TRAs are reported.

294. For CY 2015, RRO 1 had reported total collections of ₱9,893,779,965.46 broken down as follows:

Nature of Source	Amount
Direct Crediting	₱ 1,441,729.11
AABs	6,202,069,131.46
MRCOS	1,321,863,311.05
TRAs	2,368,405,793.84
Total	₱9,893,779,965.46

295. Review and evaluation of the reports of the Finance Division and Collection Division, however, showed discrepancies in the recorded collections from MRCOS and TRA totaling ₱16,530,339.71 despite having the same source of data. Details are shown below:

Office/Division	Amount of Collections		
	MRCOS	TRAs	Total
Finance	₱1,330,309,417.32	₱2,343,429,347.86	₱3,673,738,765.18
Collection	1,321,863,311.05	2,368,405,793.84	3,690,269,104.89
Difference	8,446,106.27	(24,976,445.98)	(16,530,339.71)

296. On the other hand, reconciliation of the collections from Direct Crediting and from the AABs with the NO is still on-going.

297. Due to the above-stated deficiencies, the reliability, accuracy and completeness of the reported total collections for the year were affected and were not ascertained.

298. The Collection Division replied that upon receipt of the AOM, they started tracing the causes of the discrepancies/differences and that after their careful validation and reconciliation with the Revenue Accounting Section, reconciling items totaling ₱8,432,960.36 were accounted for the MRCOS and ₱24,947,996.54 for the TRAs, thus, leaving unreconciled amounts of ₱13,145.91 and ₱28,449.44, for MRCOS and TRAs, respectively.

299. The OIC-Chief, Collection Division of RRO 1 committed to the Audit Team that they will continue with the reconciliation to account for the unreconciled amounts.

300. We recommended that Management require the Revenue Accounting Section of the FD to trace the causes of the noted discrepancy and to reconcile their reports.

Reported deposits of ₱16,175,382.92 in the RCD of the Collecting Officer of RDO 94 in RRO 15 were not supported with deposit slips, hence, casting doubt on the validity of the collections and deposits made.

301. Section 69 of PD 1445 states, *“Public officers authorized to receive and collect moneys arising from taxes, revenues, or receipts of any kind shall remit or deposit intact the full amounts so received and collected by them to the treasury of the agency concerned and credited to the particular accounts to which the said moneys belong”*.

302. Further, the Revised Cash Examination Manual (CEM) prescribed under COA Memorandum No. 2013-004 dated July 09, 2013 states, *“All COs shall deposit intact their collections, as well as collections turned over to them by sub-collectors/tellers, with Authorized Government Depository Banks (AGDBs) daily or not later than the next banking day. Where collections are minimal and daily deposit thereof becomes costly and impractical, the Collecting Officers shall deposit their collections at least once a week, or as soon as the collections reach ₱10,000.00”*.

303. Verification of the collections reported by the RCO of RDO 94 (Basilan Province) under BIR Form 12.31 (Report of Collections and Deposits) disclosed the following:

- a. No amount was reflected for the remittances/deposits made.
- b. Collections for November 2011 were not supported with duplicate copies of the Official Receipt with series number 4563501 to 4563600.
- c. Remittances/deposits of collections totalling ₱16,175,382.92 were not supported with a copy of the deposit slips to validate the remittances/deposits made.
- d. No Report of Collections and Deposits (RCD) and Report of Accountability for Accountable Forms (RAAF) were attached to the report.
- e. The last page of BIR Form 12.31 which showed the sale of documentary stamps for May 2012 and October 2012, was missing.

304. The accuracy of the collections and remittances from the sale of documentary stamps is doubtful due to the non-submission of the RCD and RAAF. The number of quantity/pieces of stamps issued and reported in the RAAF would show the quantity of documentary stamps sold.

305. The correctness of collections and remittances cannot be ascertained due to the failure to include the RCD, RAAF and deposit slips in the submission of the collection report.

306. We recommended that the RCO submit the RCD and RAAF for the period covering July 2011 to October 2012 and the validated deposit slips or confirmation of deposits/remittances to the BTr to establish the correctness and accuracy of collections and deposits/remittances made.

Failure of RCOs to collect surcharge, interest and compromise penalty in RRO 9

Seven RCOs of RDO 58, Batangas City failed to collect surcharge, interest and compromise penalty totaling ₱2,021,597.78 contrary to the provisions of the National Internal Revenue Code (NIRC) of 1997 and RMO 7-2015.

307. The NIRC of 1997 provides the following:

308. Section 247. General Provisions. –

(a) The addition to the tax or deficiency tax prescribed in this chapter shall apply to all taxes, fees and charges imposed in this Code. The amount so added to the tax shall be collected at the same time, in the same manner and as part of the tax.

xxx.

309. Section 248. Civil Penalties –

(a) There shall be imposed, in addition to the tax required to be paid, penalty equivalent to twenty five percent (25%) of the amount due, in the following cases:

(1) Failure to file any return and pay the tax due thereon as required under the provisions of this Code or rules and regulations on the date prescribed; or x x”

310. Section 249. Interest –

(a) In General. – There shall be assessed and collected on any unpaid amount of tax, interest at the rate of twenty percent (20%) per annum, or such higher rate as may be prescribed by the rules and regulations, from the date prescribed for payment until the amount is fully paid. xx x.”

311. Likewise, RMO 7-2015 dated January 22, 2015 was issued to adopt and implement a uniform application of the compromise penalties involving violations of the NIRC of 1997 as amended, as well as to update the Schedule of Compromise Penalties

specified under RMO 19-2007 and further deleted from the coverage thereof certain acts commonly resorted to by taxpayers as means of tax evasion.

312. Post audit of Revenue Official Receipts (RORs) covering the period September 1, 2014 to December 31, 2015 of the RCOs of RDO 58 disclosed that they failed to collect surcharge, interest and compromise penalty on returns filed beyond the date prescribed. There were instances that they collected only the 25 percent surcharge, but failed to collect the interest and compromise penalty. At times, compromise penalty was collected but not the 25 percent surcharge and interest. Further, there were times that nothing was collected.

313. Failure of the RCOs to strictly comply with the rules and regulations on the collection of surcharge, interest and compromise penalty deprived the Bureau of an increase in collections/revenues. This deficiency severely affects the revenue target of the RDOs and the Bureau thus, depriving the government of the benefits and use of funds on a timely basis.

314. The Regional Director explained that the RCOs collect whatever is presented by the taxpayer as there are goals to meet. However, increments are being assessed during the review of the income tax filed by the taxpayers.

315. One RCO explained that she is handling two municipalities and most taxpayers pay their taxes during the deadline so she could not issue official receipts exactly on the due date. Another RCO said that there are times that her CORD is out of order.

316. We recommended that the Regional Director direct the RDO to evaluate the income tax returns and collect the surcharge, interest and compromise penalty from the taxpayers based on the schedules provided by the Audit Team to the RCOs concerned.

317. Management said that in case the compromise penalty is not paid in full by the taxpayer, the transaction is still open for a criminal case and the taxpayer will be obliged to pay the underpayment.

Non-submission/late submission of reports and documents

Management in 10 RROs have either not submitted or have submitted to the Office of the Auditor the financial reports, DVs, liquidation reports, and other supporting documents but beyond the prescribed period, hence, precluding the Audit Team from conducting timely audit to ascertain the validity and regularity of the transactions.

318. Section 4 of PD 1445 provides that all financial transactions and operations of any government entity shall be governed by the following fundamental principles:

- Disbursement or disposition of government funds or property shall invariably bear the approval of the proper officials.
- Claims against government funds shall be supported with complete documentation.
- Generally accepted principles and practices of accounting as well as of sound management and fiscal administration shall be observed, provided that they do not contravene existing laws and regulations.

319. Section 100 of PD 1445 states, *“Disbursing officer in any government agency shall render monthly reports of their transactions pursuant to regulations of the Commission to be submitted not later than the fifth day of the ensuing month to the auditor concerned who shall conduct the necessary examination and audit within thirty days from receipt thereof.”*

320. COA Circular No. 2012-001 dated June 14, 2012 prescribed the revised guidelines and documentary requirements for common government transactions. Section 9.1.1.2 thereof provides for the additional documentary requirements to support the payment caused by variation Order/Change Order/Extra work Orders while COA Memorandum No. 2009-001 restated with amendments the COA issuance on submission of government contracts and their supporting documents to the COA to implement a systematic and effective review process with a view of generating timely and relevant audit results.

321. Sections 3.1.1 and 3.2.1 of COA Circular No. 2009-001 dated February 12, 2009 requires that, within five working days from execution of government contracts or issuance of purchase/job order (PO/JO), a copy of such documents/PO/JO and underlying documents shall be provided to the auditor for review in order to point out to management any defect and deficiency.

322. Further, Section 7.2.1 (a) of COA Circular No. 2009-006 dated September 15, 2009 requires that the accounting and/or bookkeeping reports and supporting documents submitted by the accountable officers shall be recorded immediately in the books of accounts and submitted to the Auditor within the first 10 days of the ensuing month.

323. Paragraph 6.05 of COA Circular No. 95-006 dated May 18, 1995 requires that the official involved in the daily recording of transactions in the books of accounts shall turn over the receipts and the disbursement records with all paid vouchers and documents evidencing the transaction to the Auditor within 10 days from date of receipt of said documents.

324. Paragraph 6.09 of the same Circular requires that a copy of the report of inspection or its equivalent shall be submitted to the Head of the Auditing Unit within 24 hours from acceptance of the items delivered and, in the case of unserviceable and disposable property/assets, immediately after inspection thereof by management.

325. Analysis showed that the Financial Reports and other pertinent documents of the RROs 3, 4, 5, 6, 9, 10, 12, 15, 16, and 18 were either not submitted or submitted to the auditor beyond the prescribed period. The delay in certain instances was up to 367 working days as shown below:

NO/ RRO	Document Requirements	Days of Delay	Remarks
3	Disbursement Vouchers (DV) and corresponding supporting documents	Not submitted	Audit disclosed that Accounts Payable of ₱451,417.98 was not supported with DVs and corresponding supporting documents contrary to the abovementioned provisions of the PD 1445. When queried on the absence of these documents, the Accountant informed that the DVs with incomplete supporting papers were returned to the concerned claimants. These were allegedly received on various dates even after the deadline for submission for the mandatory closing of accounts. Until the date of verification, there is no record of the return of the same.
4	Copies of contracts / PO and all supporting documents / Notice of Deliveries	Not submitted	Post-audit of procurement disbursements revealed that copies of contracts on services and Purchase Orders (POs) and all supporting documents forming part thereof and the Notice of Deliveries amounting to ₱21,862,303.73 issued by the Bureau for the procurement of goods and services were not submitted to the Office of the Auditor within the prescribed period.
5	Monthly Trial Balance (TB), Quarterly Financial Statements (QFS), Bank Reconciliation Statement (BRS), DVs, JEVs, RCIs, RAAF, and Payroll	1 to 212 days	Verification of the reports to the Auditor's office revealed that the Management was either late in submission or did not submit at all: a. Monthly TB – 11 to 49 days delayed; b. Quarterly FS - 11 to 49 days delayed; c. DVs – 26 days to 3 months delayed; d. JEVs for Collection and Disb. Books – 15 days to 3 months; e. Dec. 2015 DVs & JEVs for Disb. Books – not submitted; f. RCIs for Dec. 2015 – not submitted; g. Bank Reconciliation – 44 to 212 days delayed; h. RAAF – 1 to 238 days delayed; and i. Payroll – 5 to 146 days delayed
6	Jan to Sept BRS Oct to Dec BRS	-7 to 110 days - not submitted	Verification and analysis showed that the Accountant was not able to submit to the Office of the Auditor the required monthly BRS of their two bank accounts with the LBP for CY 2015 in accordance with the prescribed period in violation of the foregoing rules and regulations.

NO/ RRO	Document Requirements	Days of Delay	Remarks
9	Report of Checks Issued w/ DV, JEV, and BRS	Not yet submitted as of Feb. 5, 2016	Records showed that as of year-end, only the following reports were submitted for verification: • Report of Checks Issued w/ DV - Jan. to Oct. 2015; • JEV - January to October 2015; • BRS - MDS – Jan. to Oct. 2015; and • BRS - LCCA - Jan. to Oct. 2015
10	DVs and supporting documents	64 to 367 days	It is the practice of the accounting personnel to record the entries contained in the JEVs to the books of accounts but the DVs and its supporting documents were not immediately submitted to the Auditor after recording.
12	LDDAP-ADA, DVs, Payrolls	47 to 215 days	DVs paid through LDDAP-ADA for the months of August to November 2015, Disbursement Vouchers paid through check issuance from July to November 2015, and Payrolls from May-November 2015 are still not submitted to the office of the Auditor despite repeated demands. Those submitted on the other hand incurred delay ranging from approximately 47 to 215 days.
12	POs and other supporting documents	Not submitted	It was noted that POs are not submitted within five days from issuance. No delivery documents on the other hand were submitted to the Auditor, and instead the copies of the same were just submitted as part of attachments to the DVs. Furthermore, the signature and date of receipt by the suppliers of the purchase orders were not indicated thereto, hence the number of delay in the submission to the Auditor cannot be ascertained.
15	Supporting Documents of DV	Not submitted	Review of claims for the payment of the construction of two storey building for RDO 91-Dipolog including perimeter fence, parking area, drainage and pathway showed that these were not supported with the Statement of Work Accomplished/Progress Billing, Statement of Time Elapsed, Results of Test Analysis, Official Receipts, pictures, monthly certificate of payment, inspection report by the project engineer, copy of the approved change order or extra work order.
16	Documentary evidence to support the variation order/change order/extra work on the construction of three storey building at RDO-99 Malaybalay City	Not submitted	Records of the Audit Team disclosed that in the review of documentary requirements for the technical evaluation of infrastructure contract on variation order disclosed that as of October 12, 2015, some of the documentary requirements were not yet submitted to determine whether Management ensure that in the approval of the contract variation orders, applicable laws, rules and regulations, completeness of documentary requirements were not disadvantageous

NO/ RRO	Document Requirements	Days of Delay	Remarks
			to the government. Letters were communicated to Management thru Indorsement, Tracers, and Notice of Suspension but some of the documents necessary were not yet complied for a long period of time, thus, initial compliance of documents for technical review purposes to support the request at the COA Regional Technical Services Office could not yet be forwarded as the checklist prescribed under the Annex B and E of COA Circular No. 2009-001 were incomplete.
16	Copy of contract and supporting documents on the construction of three storey building at RDO 97, Gingoog City	Not submitted	Review of the Audit Team's records relative to the submitted documents by the Bids and Award Committee for public bidding disclosed that the Revenue Region conducted a bidding on Infrastructure Plan, Design & Construction of 2nd and 3rd floor Three Storey Building with covered Roof-Deck at RDO 97, Gingoog City on March 18, 2015 at the Revenue Region Conference Room. However, validation as to the records for contract furnished to the Audit Team revealed that contract for the subject procurement was not yet submitted in compliance with COA Circular No. 2009-001. Further confirmation was made against the PhilGEPS website revealed that the subject procurement was already awarded to WDM Construction and Supplies.
16	Authority to hold CA, approved PR, Certificate of emergency purchase, Certificate of Acceptance/Inspection, Request for quotation from suppliers	Not submitted	Management failed to strictly observe proper documentation of paying claims thru reimbursement and recording liquidation of various cash advances granted to Officials and employees for current operating expenses totalling ₱33,311.32 and ₱488,814.84, respectively.
18	DVs and Official Receipts	Not submitted	During post audit of transactions, it has been observed that various DVs were not submitted to the COA. Official Receipts to support payment of various transactions of the agency were also not submitted. The non-submission of DVs and official receipts as supporting documents precluded the Audit Team of up-to-date and efficient audit of transactions.

326. This practice of not complying with the above provisions denied the Bureau the benefit of timely audit and timely detection or correction of errors and deficiencies.

327. We recommended that Management direct the Finance and Administrative Division of the concerned RROs to submit the financial reports together with the DVs, ORs, payrolls and their corresponding supporting documents, contracts/POs/JOs/IARs within the prescribed deadline and monitor this closely to ensure effective compliance.

328. Management of RRO 6 commented that it has already submitted the BRS for October to November 2015 on March 21, 2016.

Value for Money Audit

Delayed construction of three BIR Building in RRO 14

Delay in the construction of three BIR buildings in RRO 14 resulted to foregone savings totaling ₱2,290,000.00 on rental expenses of RDO 87, 89 and 90.

329. Our audit disclosed that the BIR buildings were still not completed as of year-end. The expected date of completion of these buildings was last March 20, 2015, which by that time the personnel of the respective RDOs could have transferred to the new building.

330. The RDOs are paying rentals for the buildings they are occupying at a monthly rate of ₱65,000.00 to ₱94,080.00. The computation of the savings is presented below:

RDO	Location	Status of Completion	Expected date of Completion	Months Delayed	Rental Cost per Month	Total Cost of Delay
90	Maasin	In process	03/20/15	10	₱94,080.00	₱ 940,800.00
89	Ormoc	In process	03/20/15	10	65,000.00	650,000.00
87	Calbayog	In process	03/20/15	10	70,000.00	700,000.00
Total						₱2,290,800.00

331. The preceding computation showed the total rental cost savings of ₱2,290,800.00 which the agency failed to realize given the status of the building completion.

332. Moreover, the non-completion of the building on time prevented the immediate use of the facilities. Thus, the agency was not able to optimize the utilization of the funds allocated for said infrastructure projects.

333. We recommended and Management agreed to prepare feasibility studies, conduct proper planning and adhere to applicable laws, rules and regulations to minimize delays in construction.

Mobile Revenue Collection Officers System (MRCOS)

The objectives of the MRCOS to provide a facility for real-time recording and automatic generation of reports of all collection/return filing transactions, tracking of actual remittances of collections to the AGDBs, and ensure timely reconciliation of collection data with the BTr were not fully attained due to the absence/poor wireless data connectivity in RRO 2. In addition, errors and deficiencies were still

noted in CY 2015, affecting the accuracy and reliability of the collection reports generated, contrary to RMO 8-2013.

334. RMO No. 8-2013 dated March 27, 2013 provides the following purposes and objectives of the MRCOS:

- To address leakages in the collection and distortions of collection data that are attributable to the current tedious procedures in the acceptance, processing, remittance, and reporting of tax and non-tax collections by RCOs, Special Collecting Officers (SCOs) and other authorized Collection Officers (COs); and
- To respond to the imperative need to equip the RCOs, SCOs and other COs with a tool for the issuance of an acknowledgment, tax and/or a non-tax official receipt to a taxpayer or other concerned payee; and, at the same time, provide a facility for real-time recording and automatic generation of reports of all collection/return filing transactions, tracking of actual remittance of collections to the authorized depository banks, and ensure timely reconciliation of collection data with the BTr.
- Furthermore, Item III of the same RMO defines the following terms:

MRCOS or Mobile Revenue Collection Officers System – refers to the Mobile automated and integrated system that provides all authorized collection officers the means for the immediate capture of tax and non-tax payments, as well as receipt of no-payment tax returns, and the issuance of Revenue Official Receipts (RORs), Official Receipts (ORs) or Acknowledgement Receipts (ARs), as the case maybe, the automatic generation of pertinent reports, and secured real-time reporting of collection information to the BIR internal system; and

CORD or Collection Officer Receipting Device – refers to the mobile handheld receipting device and printer used for MRCOS assigned to only one RCO.

The CORD has an offline mode facility that is capable of issuing e-Receipts.

335. In CY 2015, RRO 2 for the first time, subscribed to a wireless data connectivity system with Smart and Globe Telecom from July 1 to December 31, 2015 to facilitate continuous connectivity in all municipalities of the Cordillera Administrative Region (CAR) to attain the objectives of the MRCOS. The internet service was integrated into the SIM cards received from the NO.

336. To enable the Audit Team to monitor and assess the implementation of the MRCOS for CY 2015, questionnaires were fielded from October to December 2015 to RCOs assigned in RDOs Abra, Benguet, Mountain Province and Ifugao to get their feedbacks as end users of that system. The Audit Team, however, was unable to distribute the same in RDO 11-Kalinga, Apayao.

337. Thirty RCOs in four RDOs confirmed that they received Long Term Evolution (LTE) data sim cards for their CORDs.

338. Among the questions posed was on the CORD wireless connectivity, where 25 of the 30 RCOs answered that the LTE sim cards did not help in the improvement of their operations. Their comments are summarized below:

RRO	Did the purpose of providing your device wireless data connectivity achieved?		Remarks (For those with “NO” Comments)	Assigned Municipalities of RCOs with “NO” answers
	Yes	No		
7 – Abra	3	7	Absence of or weak signal in the station town. The CORD can only connect online at the district office.	1. Pidigan/ San Quintin 2. Tubo/ Daguioman/ Luba 3. Tineg/Dolores/Langiden 4. Penarrubia 5. Bucay/Tayum 6. Pilar/San Isidro 7. Boliney/Malibcong (Total=15 municipalities)
9 – Benguet	1	6	Cannot connect online. No signal in the station town. Cannot upload more than 30 receipts. Sometimes, cannot generate List of Collections.	1. Tublay 2. Buguias 3. Bakun/Kibungan 4. Kabayan 5. Atok/Kapangan 6. Mankayan (Total=8 municipalities)
10 -Mountain Province	1	5	Absence of or weak signal in the station town.	1. Besao/Sadanga 2. Sabangan 3. Bauko 4. Tadian/Barlig 5. Sagada (Total =7 municipalities)
12-Ifugao	0	7	No signal in the station town. The CORD suddenly stops when generating Settlement Collection Lists.	1. Tinoc/Asipulo/Kiangan 2. Alfonso Lista 3. Banaue/Hungudan 4. Lamut 5. Hingyon/Lagawe 6. Aguinaldo/Mayoyao 7. Kiangan (Total =12 municipalities)
Total	5	25		

339. Of the 25 RCOs who answered, 18 were subscribed to GLOBE distributed as follows: seven each from Abra and Ifugao and four in Benguet, while the remaining seven were subscribed to SMART.

340. It can be gathered from the above responses that the objectives of the MRCOS to provide real-time recording and automatic generation of reports of all collections and return filing transactions thru the LTE sim card was not fully achieved at year-end

because concerned RCOs were still issuing e-Receipts offline due to the absence of or poor signals in their municipalities.

341. We had also assessed that those RCOs assigned to nearby municipalities from the capital towns were among those with no/poor connections. For example, municipalities that were only 15-30 minutes away from Bangued, the capital town of Abra, such as Bucay, Dolores, Penarrubia, and Pidigan had no/poor signal and same for Ifugao, where Kiangan is only 15 minutes away from Lagawe, the capital town.

342. Our post-audit of the collection reports for the year 2015 confirmed the above responses since we had observed that almost all RCOs in five RDOs issued e-receipts using the offline CORD mode. We based this observation on the serial numbers of the e-receipts issued, where the online serial numbers always started with “0”, while the Offline serial numbers with “1”. This same condition had been observed in CY 2014.

343. In the review of the Conforme Form for Smart Bro Postpaid Plan contract, we noted that the Agency agreed to, among others, the following:

4.1 “ .. I have been informed and I am aware that the Smart Bro service will only work best if and when 3G/HSPA/4G/LTE signal is present and strong; and

4.2 I am aware that there may be areas where the Smart 3G/HSPA/4G/LTE signal is not strong at all time and am still willing to avail of the same Smart Bro service and pay the corresponding amount....”

344. With the above information, the subscription plans that were supposed to ensure continuous connectivity could not be guaranteed by that provider.

345. Because of the conditions discussed above, we urge the agency to first monitor the frequency of the weak or no signal in all the RDOs before deciding to renew the plan contracts with the providers. Such result can be used as basis in evaluating the necessity of the subscribed connectivity plan in all or some municipalities as well as guide management in choosing the most suitable connectivity plan for the RDOs. In this way, government resources are not unnecessarily spent on services that are not after all necessary and guaranteed and/or maximized.

MRCOS still marked with errors

346. The implementation of the MRCOS was still marked with errors in CY 2015. The following were the deficiencies and errors that affected the reliability and accuracy of reports generated and submitted by the RCOs as gathered from the questionnaires floated:

- Total amount of collections in the Batch Control Sheet (BCS) differs with that of the Settlement Collection List for the same period and for the same set of eReceipts;

- Some eReceipts issued were not uploaded and were not included in the generated Settlement Collection List;
- System “hang” problem requires the RCO to restart and log-in again affecting the agency’s operations to the disadvantage of the taxpayers queuing to file and pay their taxes;
- When used online, the CORD suddenly becomes unresponsive, while issuing eReceipts and generating BCS;
- Registration of an eReceipt and a Settlement Collection List more than once in the system;
- Difficulty in the Settlement Collection List generation;
- Invalid characters in the printed eReceipts;
- eReceipt numbers skipped/excluded by the system;
- Date captured in the eReceipts was not the actual date when these were issued;
- Sudden disconnection of the printer to the CORD;
- eReceipts not chronologically arranged in the BCS and Cash Receipts Record (CRR); and
- Column was not provided for the eReceipt numbers in the MRCOS-generated BCS.

347. As required, the concerned RCOs communicated those deficiencies to the BIR Help Desk, however, it took some months for the latter to resolve the issues. Difficulty to reach the Help Desk was also cited because their number was always busy.

348. We also solicited suggestions from the end-users for the improvement of the MRCOS implementation. Their suggestions were as follows:

Improvements in the hardware (device and printer):

- Bigger font/screen so that checking of data by the taxpayer is facilitated before printing of the receipt;
- Change of thermal paper with quality that allows long preservation period of the payment details;
- Device that can easily connect to a wireless internet

Improvement on the features/system that would:

- Enable RCOs to issue eReceipts continuously;
- Generate reports in their stations (instead of in the district); and
- Provide immediate/real time accessibility to the Integrated Tax System (ITS) so that TIN number and other data relevant to the issuance of the eReceipts can be easily checked for errors, as well as open cases, so that double payment can be prevented.

349. The offline feature, which is the most used feature because of connectivity issues, cannot provide that information.

350. Other suggestions

- Preference to generating the CRR instead of the BCS because a column for the eReceipt numbers is provided; and
- Possibility of generating file copies of eReceipts for RCOs and FD.

351. Also, we suggested that the Bureau consider adding a feature where the monthly RAAF can be automatically generated based on the issuances of the accountable forms. In this way, accuracy on the reports on issued e-forms/receipts and correctness of reported collections are assured. This will also be very helpful for RCOs who are currently assigned two municipalities.

352. **We recommended to the Management of RRO 2 the following measures:**

- a. Conduct a study on the frequency of the no/poor signals in all the municipalities in each RDO within a reasonable time period; and if found that the occurrences for no/poor signal are much more frequent, reconsider adjusting or terminating the subscription plans, so that government resources are conserved and not unnecessarily wasted;**
- b. For glitches still experienced, instruct the RCOs and Collection Section Chiefs to coordinate constantly with the BIR Help Desk to follow-up the resolutions on reported errors so that the Help Desk will be reminded to do corrective actions. In cases of non-immediate response from the BIR Help Desk, document issues and submit the same thru the RDOs, who may personally facilitate the same at the NO; and**
- c. Consider the suggestions from the end users/RCOs on improvements to the hardware features of the CORD as well as on the system.**

353. According to the Administrative Division Chief, they only followed instructions from the NO on the data wireless connectivity subscriptions. End users were also consulted on which server has the best wireless connectivity in their areas. No feedbacks were received yet from the RDOs/RCOs regarding the no/poor connectivity issue; hence they were unaware of such issue. They added that the audit observation shall be forwarded/raised to the NO.

354. On the MRCOS, it was also mentioned that the Bureau has plans to upgrade the MRCOS and the CORD devices replaced.

The FD shall also follow-up their request for access into the system to facilitate their audit of collections and deposits.

Gender and Development

The Bureau failed to carry out all the planned GAD activities and to maximize the use of its approved budget, thus, the intended benefits of the plan was not fully achieved contrary to Section 34 of the GAA of 2015 or RA 10651. Also, the Bureau did not submit the GAD Plan and Budget and its corresponding Accomplishment Report within the prescribed period, contrary to the pertinent provision of COA Circular No. 2014-001, thereby, precluded the Audit Team from conducting timely and extensive review of the GAD activities and accomplishments of the agency.

355. Section 34 of the GAA of 2015 or R.A. 10651 in part states:

“Programs/Projects Related to Gender and Development. All agencies of the government shall formulate a GAD Plan designed to address gender issues within their concerned sectors or mandate and implement applicable provisions under R.A. No. 9710 or the Magna Carta of Women, Convention on the Elimination of all Forms of Discrimination against Women, the Beijing Platform Action, the Millennium Development Goals (2000-2015), the Philippine Plan for Gender-Responsive Development (1995-2025), the Philippine Development Plan (2011-2016)..

It requires that plans shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation, the economic empowerment especially of the marginalized women, the protection, promotion, and fulfillment of women’s human rights, and practice of gender-responsive governance are considered sufficient compliance with said requirement. Utilization of the GAD budget shall be evaluated based on the GAD performance indicators identified by said agencies.”

356. The Bureau had only expended five percent of the approved budget in the implementation of GAD, which is presented below:

NO/ RRO	Programmed Project Implementation			Remarks
	Implemented	Partially Implemented	Not Implemented	
NO		√		Approved a budget of ₱21,448,000.00 for its programs and projects, representing 0.76 percent of its total appropriation of ₱2,822,600,000. Of the approved budget, the agency has only expended ₱1,078,943.16 or 5 percent.

NO/ RRO	Programmed Project Implementation			Remarks
	Implemented	Partially Implemented	Not Implemented	
1			√	Budgeted an amount of ₱2,990,650.00 for its programs, but failed to have an approved plan of its GAD activities.
2		√		Only 18 percent of the ₱6,547,450.00 or 5 percent of its total budget of ₱130.949 million, was utilized.
4		√		Programs and projects amounted to ₱2,615,736.00 which represented only 0.87 percent, respectively of the total appropriations of ₱300,561,163.64.
5		√		Not able to implement all of its related activities and maximize the use of the ₱2,995,000.00 budgeted amount.
6	√			Only ₱2,402,798.28 or 94 percent of the budgeted amount of ₱2,550,000.00 for its activities/program was disbursed.
7		√		Only ₱2,854,649.39 or 42 percent of the GAD budget of ₱6,775,000.00 for the agency's GAD activities was disbursed.
8	√			The region had budgeted ₱4,566,000.00 for activities and reported a total disbursements of ₱5,454,945.25. It exceeded the GAD budget by ₱888,945.25 or 19.47 percent due to some GAD activities undertaken but were not included in the approved GAD Plan and Budget.
9	√			Conducted GAD-related activities in line with the advocacy and spent a total of ₱999,229.00.
10	√			No allotment but incurred expenses of ₱393,140.10 which were charged to MOOE.
11	√			Seminars/training activities were conducted and attended exclusively by the employees of the agency to increase GAD awareness.
12		√		Approved budget for GAD-related programs and activities amounting to ₱3,020,000.00 representing 10 percent

NO/ RRO	Programmed Project Implementation			Remarks
	Implemented	Partially Implemented	Not Implemented	
				of its total GAA. The actual expenditures incurred for these activities/programs is ₱837,524.60 or 27.73 percent of the approved GAD budget.
13			√	A total of ₱168,849.51 or 1.60 percent of the 5 percent agency's allotment of ₱210,565,000.00. Activities per GAD Plan were not implemented.
14		√		Of the ₱843,000.00 budget, only ₱71,000.00 was disbursed.
15		√		Of the ₱1,225,000.00 that was allotted for GAD related activities, only ₱414,486.53 was spent.
16		√		Only ₱289,835.87 was spent out of the ₱1,200,000.00 planned and budgeted.
17		√		Incurred a total amount of ₱1,339,899.76 for GAD project and activities.
19		√		₱942,311.29 was defrayed for the activities which include trainings, seminars and workshop on GAD and celebration of women's month.

357. Also, the NO's GAD Plan and Budget as well as the Accomplishment Report were only received on March 21, 2016, contrary to the provision of the COA Circular No. 2014-001 that the GAD Plan and Budget should be submitted to the Audit Team within five working days from the receipt of the PCW approved plan and the Accomplishment Report within five working days from the end of January of the preceding year. One of the GAD activities of the Bureau was information dissemination of COA Circular No. 2014-001 which was apparently not observed or complied with.

358. Interview with the GFPS personnel revealed that the received Accomplishment Report is not final yet and that the figures reported under the actual costs are not definite figures. As to date, the final copy is yet to be received.

359. Consequently, the Audit Team was not able to extensively review the GAD projects of the Bureau.

360. We recommended that Management require the GAD Focal Person to:

- a. Ensure the full-implementation of all programs/projects/activities embodied in the GAD Plan with due consideration of the corresponding budget in order to achieve the desired goals and objectives of the Plan; and
- b. Submit the GAD Plan and Budget and the corresponding Accomplishment Report within the prescribed period.

Senior Citizens and Persons with Disability

Deficiencies were noted in the implementation of the projects intended to address the concerns of senior citizens and the persons with disability as provided under Section 35 of the GAA of 2015 or R.A. 10651.

361. Section 35 of the General Provisions of the 2015 GAA provides that:

“All agencies of the government shall formulate plans, programs and projects intended to address the concerns of senior citizens and persons with disability, insofar as it relates to their mandated functions, and integrate the same in their regular activities.

Moreover, all government facilities, including infrastructure, non-infrastructure and civil works projects of the government, as well as office buildings, streets and highways, shall provide architectural facilities or structural features and designs that shall reasonably enhance the mobility, safety and welfare of persons with disability pursuant to B.P. Blg. 344 and RA No. 7277.”

362. The table below presented the deficiencies noted in the implementation of the projects.

NO/ RRO	Programmed Projects Implementation			Remarks
	Implemented	Partially Implemented	Not Implemented	
1			√	Failed to formulate adequate plan for the program/project/activity.
2		√		Implemented one unplanned activity for the senior citizens but no plans/programs/projects were implemented for persons with disabilities.

NO/ RRO	Programmed Projects Implementation			Remarks
	Implemented	Partially Implemented	Not Implemented	
3		√		The office building is provided with facilities and structural features and designs that shall reasonably enhance the mobility, safety and welfare of differently-abled persons.
4	√			Programs and projects implemented amounted to ₱632,100.00 which represented only 0.21 percent, respectively of the total appropriations of ₱300,561,163.64.
5			√	Unable to formulate plans, programs and projects.
7			√	Failed to formulate plan.
8	√			Provided ten sets of sofa seats (3 seater and 2 singles) to give senior citizens and persons with disability apriority on the front-line lane in the payment of taxes and other transactions with the Bureau.
9			√	Agency did not allot funds.
10				No observation reported.
11	√			Senior citizen and differently-abled persons transacting business are given priority and facilities are also provided.
12		√		Agency had expended for hand railings at RDO 78 Binalbagan.
13			√	Did not allocate funds and formulate plans and programs.
14			√	Did not provide for program/activity that will address the needs of the senior citizens and differently-abled persons.
16			√	Continually provided easy-access facilities to afford senior citizens and persons with disability with fast-lane lines and exclusive seats. The over-all cost in providing these facilities, however, did not meet the minimum requirement of 1 percent of the agency's budget.

NO/ RRO	Programmed Projects Implementation			Remarks
	Implemented	Partially Implemented	Not Implemented	
17	√			An active member of the Regional Council on Disability Affairs (RCDA), Regional Inter-Agency Committee on Senior Citizens (RIAC-SC) and Regional Monitoring and Coordinating Board (RMCB) which are spearheaded by the Department of Social Services and Development (DSWD).
18			√	Did not formulate any plan/program to address the above sector.
19			√	Failed to undertake related activities.

363. We recommended that Management formulate plans, programs and projects intended to address the concerns of senior citizens and differently-abled persons, and integrate the same in their regular activities.

Status of Suspensions, Disallowances and Charges

364. In line with the Commission's power and duties to audit and settle accounts pertaining to revenues and receipts as well as expenditures or uses of funds and property, hereunder is the status of settlements of accounts of BIR and its regional offices.

	Beginning Balance, Jan. 1	This Period January 1to December 31, 2015		Ending Balance, Dec. 31
		NS/ND/NC	NSSDC	
Suspension	₱4,555,870.77	₱44,335,672.89	₱22,038,623.09	₱26,852,920.57
RRO 7	-	20,564,008.48	-	20,564,008.48
RRO 13	2,398,285.69	-	74,139.88	2,324,145.81
RRO 16	2,087,970.08	23,771,664.41	21,905,686.21	3,953,948.28
RRO 19	69,615.00	-	58,797.00	10,818.00
Disallowance	49,068,766.82	2,353,889.74	25,999.34	51,396,657.22
NO	₱44,738,596.06	₱636,231.56	₱5,771.41	₱45,369,056.21
RRO 2	3,239,497.78	-	-	3,239,497.78
RRO 5	460,433.88	-	-	460,433.88
RRO 10	326,112.04	-	7,700.00	318,412.04
RRO 11	21,543.47	-	-	21,543.47
RRO 13	277,933.59	-	2,709.93	275,223.66
RRO 15	-	17,440.70	-	17,440.70
RRO 16	2,500.00	1,693,497.48	9,818.00	1,686,179.48
RRO 17	-	6,720.00	-	6,720.00
RRO 18	2,150.00	-	-	2,150.00

	Beginning Balance, Jan. 1	This Period January 1to December 31, 2015		Ending Balance, Dec. 31
		NS/ND/NC	NSSDC	
Charges	13,516,237.30	-	418,788.26	13,097,449.04
RRO 1	568,109.30	-	-	568,109.30
RRO 2	51,038.39	-	-	51,038.39
RRO 5	5,013,392.04	-	-	5,013,392.04
RRO 9	7,883,697.57	-	418,788.26	7,464,909.31

Compliance with Tax Laws

365. The Bureau dutifully remits monthly value added tax and other percentage taxes withheld on agency's purchase of goods and services, creditable income taxes withheld on compensation of personnel thru Tax Remittance Advice (TRA) in compliance with Revenue Regulations 2-98 dated January 14, 1998. Of the balance of *Due to BIR* as of December 31, 2015 totaling ₱34,086,764.80, ₱32,774,881.37 represents amount remitted, adjusted and refunded to employees in CY 2016. Details are shown below:

Particulars	Amount
Balance as of December 31, 2015	₱34,086,764.80
Less: Remittances/Adjustments:	
Remitted on January-February 2016 thru TRA	₱28,623,391.69
Prior year adjustments	158,778.84
Tax refund to employees due to salary differential	3,992,710.84
	32,774,881.37
Balance	₱ 1,311,883.43

366. The remaining balance of ₱1,311,883.43 are yet to be reconciled by the DAD/FD of NO and the RROs concerned, as broken down below:

NO/RRO	Amount
NO	₱ 2,725,686.81
2	(750,450.13)
3	126,639.00
5	(1,071,440.11)
6	1,182,953.42
7	(1,949,773.86)
9	1,443.35
14	136,836.78
18	909,988.17
Total	₱1,311,883.43

Compliance with GSIS Premium Deductions and Remittances (RA 8291)

367. The Bureau remits monthly the employees' and employer's contributions pursuant to Rule III of the Implementing Rules and Regulations of GSIS Act of 1997 (RA 8291). Of the ₱19,775,785.11 balance as of December 31, 2015, ₱3,640,491.65 was either unremitted as of March 31, 2016 or for further reconciliation of DAD/FD. Details are shown below:

	Amount
Unremitted balance	₱ 223,524.16
RRO 6	163,428.97
RRO 12	3,424.18
RRO 17	56,671.01
Reconciling item	₱3,416,967.49
NO	(32,275.86)
RRO 2	(22,434.68)
RRO 3	(926,333.64)
RRO 5	2,247,388.24
RRO 7	(303,689.06)
RRO 9	250,693.82
RRO 11	241,743.21
RRO 16	1,934,508.27
RRO 19	27,367.19
Total	₱3,640,491.65

Compliance with Supreme Court (SC) Decision

368. On Priority Development Assistance Fund (PDAF)

The BIR did not receive any PDAF.

369. On Disbursement Acceleration Program (DAP)

All balances of DAP releases to BIR were already reverted.

C. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

370. The status of the prior years' audit recommendations contained in the CY 2014 CAAR are summarized as follows:

Books	Total	Fully Implemented	Partially Implemented	Not Implemented
Disbursement Books	105	28	69	8
Collection Books	85	20	57	8
Total	190	48	126	16

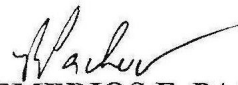
371. Management actions were validated by Audit Teams and presented in *Annex C*.

D. ACKNOWLEDGEMENT

372. We wish to express our appreciation to the Management and staff of BIR-NO and RROs for the cooperation and assistance extended to our Audit Teams during the audit.

373. We would appreciate receiving your reply, both hard and soft copy, within 60 days from receipt of this letter pursuant to Section 93 of the General Appropriations Act for FY 2015 (RA 10651) by accomplishing the Agency Action Plan and Status of Implementation (AAPSI) as required under COA Memorandum No. 2014-002 dated March 18, 2014.

Very truly yours,


REMEDIOS F. PACHECO
State Auditor V
Supervising Auditor