



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Regional Office No. IV
Commonwealth Avenue, Quezon City

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April 26, 2010

MR. JOSEFINO I. TORRES
Regional Director
Department of Labor and Employment
Regional Office No. IVB - MIMAROPA
Quezon Avenue., Quezon City

*noted:
JIT
4/28/2010*

Dear Mr. Torres:

**Management Letter on the Audit of the
Department of Labor and Employment, Regional Office No. IV-B
For the period January 1 to December 31, 2009**

1. Pursuant to Section 2, Article IX-D of the Constitution of the Philippines and Section 43 of Presidential Decree 1445, otherwise known as the Government Auditing Code of the Philippines, we have audited the accounts and operations of the Department of Labor and Employment, Regional Office No. IV-B (DOLE IV-B) for the period ended December 31, 2009. The audit was conducted in accordance with laws, rules and regulations and generally accepted auditing standards. 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) verify the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.
3. The audit observations with the recommended courses of action are discussed in detail in this ML prepared by Ms. Coleta G. Cedro, Audit Team Leader under the supervision of Ms. Merne T. Peñaranda, Supervising Auditor.
4. Deficiencies observed in the course of the audit were earlier communicated through Audit Observation Memoranda (AOM) and discussed in an exit conference conducted on April 22, 2010 with concerned DOLE IV-B officials and employees. Their comments were incorporated in this ML, where appropriate. The significant audit observations and the

recommendations shall be incorporated in the Consolidated Annual Audit Report (CAAR) of the Department of Labor and Employment for the CY 2009.

5. The agency's financial condition and results of operations for the Calendar Year 2009 compared with that of the preceding year are summarized below and shown in detail in the attached audited financial statements, marked as Annex A.

	CY 2009	CY 2008	Increase (Decrease)
Balance Sheet			
Assets	39,288,838.04	28,534,796.73	10,754,041.31
Liabilities	5,259,178.45	4,707,083.05	552,095.40
Government Equity	34,029,659.59	23,827,713.68	10,201,945.91
Statement of Income and Expenses			
Income	49,138,094.57	26,425,314.60	22,712,779.97
Expenses	37,070,474.30	15,213,257.71	21,857,216.59
Excess of Income over Expenses/ (Deficit)	12,067,620.27	11,212,056.89	855,563.38

A. Summary of Recommendations

6. For the significant deficiencies observed in the course of audit, we recommend that:
 - a. the Accountant prepare Bank Reconciliation Statements to establish the correctness of the cash accounts reported in the financial statement of the agency;
 - b. Management require the concerned officers and employees with outstanding cash advances to immediately liquidate all cash advances as soon as the purpose has been served or within 30 and 60 days after completion of the domestic or foreign travel, respectively. Remedies provided therein should be strictly imposed including the withholding of the salaries of concerned officials and employees who refuse to liquidate their cash advances;
 - c. Management form an Inventory Committee of two or more employees including the Supply Officer to conduct physical inventory of all the PPE of the Agency at least once a year and prepare the RPCPPE for submission to the Auditor not later than January 31 of each year. Require the Supply Officer to investigate causes of shortage/overage, if any;
 - d. Officials concerned process and pay only claims with complete documentation;
 - e. Management instruct the Cashier to stamp "PAID" all the disbursement vouchers and its supporting documents after payment is made to preclude the re-use of the same; and
 - f. Management instruct the concerned officials and employees to submit copies of the perfected contracts to the Auditor within the prescribed period for timely review and evaluation of these contracts.

B. Detailed Observations and Recommendations

Cash in Bank

The accuracy of the reported balance of Cash in depository bank maintained by the Agency cannot be conclusively established due to the non-submission of Bank Reconciliation Statements (BRS).

7. Section 74 of Presidential Decree 1445 requires monthly reconciliation with the depositories of the agency while COA Circular No. 96-011 dated October 2, 1996 requires the Accountant to reconcile the bank statements with the general ledger of the agency within ten (10) days from the receipt of the bank statement and submit to the Auditor concerned the bank reconciliation prepared.

8. The objective of bringing into agreement the cash balance per books of the agency and that of the bank is to establish the correct cash balance at the balance sheet date and also to prove the integrity of the cash records.

9. As of December 31, 2009 the reported Cash in Bank was ₱3,492,263.96. The completeness and accuracy of the said balance could be ascertained due to the non-preparation and submission of the Bank Reconciliation Statements (BRS).

10. The BRS is not only an important tool for checking the accuracy of the reported cash balance but is also required under existing regulation to be regularly prepared by the accounting division for submission to the Auditor within a specified time frame.

11. We recommended that the Accountant prepare Bank Reconciliation Statements to establish the correctness of the cash accounts reported in the financial statement of the agency.

12. Management commented that they will start the preparation of the Bank Reconciliation Statements in the ensuing year.

Cash Advances

Cash advances amounting of P3,974,555.75 remained outstanding at year-end contrary to Section 4.1.2,4.1.3, 5.1.3 and 5.8 of COA Circular No. 97-002 dated February 10, 1997 5 thus, subjecting public funds to potential loss or misappropriation.

13. Below are the related provisions of COA Circular No. 97-002:

- Section 4.1.2 "No additional cash advances shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made."

- Section 4.1.3 “A cash advance shall be reported on as soon as the purpose for which it was given has been served.”
- Section 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.”
- Section 5.8 “All cash advances shall be fully liquidated at the end of the year.”

14. Aging of the Advances to Officers and Employees account showed the following:

	Amount	%
Over 91-365 days	P 86,618.00	2
Over one (1) year	114,624.70	3
Over two (2) years	3,773,313.05	95
Total	<u>₱3,974,555.75</u>	100

15. Audit revealed that out of the balance of ₱3,974,555.75, the amount of ₱3,773,313.05 or 95% remained in the books for more than 2 years which consist mostly of pre-travel and training/seminar expenses. Also, noted was the granting of new cash advances without the liquidation of previous cash advances to the disadvantage of the Government.

16. We recommended that Management require the concerned officers and employees with outstanding cash advances to immediately liquidate all cash advances as soon as the purpose has been served or within 30 and 60 days after completion of the domestic or foreign travel, respectively. Remedies provided therein should be strictly imposed including the withholding of the salaries of concerned officials and employees who refuse to liquidate their cash advances.

17. Management stated that they have informed in writing the concerned officials and employees with unliquidated cash advances as of December 31, 2009 and directed them to immediately liquidate the same. Further, they have refrained from granting cash advances to officials and employees with outstanding cash advances.

Property, Plant and Equipment (PPE)

The existence, validity and correctness of the recorded Property, Plant and Equipment (PPE) accounts with a total book value of ₱2,148,172.15 at year-end could not be ascertained due to the failure of the Agency to conduct physical inventory of its properties as required under Section 66 of the Manual on the New Government Accounting System (NGAS), Volume II.

18. Section 66 of the Manual on NGAS, Volume II provides the use of the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) to report the physical count of property, plant and equipment by type as of a given date. They show the balances of the accounts per cards and per count and shortage/overage, if any.

19. Inquiry and verification revealed that the PPE of the Agency were not inventoried. The Supply Officer failed to submit to the Office of the Auditor the required RPCPPE as of a given date as evidence that conduct of physical count was made.

20. As a result, the existence, validity and accuracy of the recorded balances of the PPE accounts could not be fully determined.

21. We recommended that Management form an Inventory Committee of two or more employees including the Supply Officer to conduct physical inventory of all the PPE of the Agency at least once a year and prepare the RPCPPE for submission to the Auditor not later than January 31 of each year. Require the Supply Officer to investigate causes of shortage/overage, if any.

22. Management committed to immediately implement the Audit Team's audit recommendation and have already created an Inventory Committee per Office Order No. 28 dated April 3, 2010.

Others

Some claims were paid despite the lack of required supporting documents contrary to Section 4(6) of PD 1445 and which cast doubt on the validity and propriety of those claims.

23. Section 4(6) of PD 1445 state, "Claims against government funds shall be supported with complete documentation".

24. Post-audit revealed that several claims were paid even without the required supporting documents, thus the legality and propriety of those claims could not be ascertained.

25. We recommended that officials concerned process and pay only claims with complete documentation.

26. Management agreed with the Audit Team's finding and recommendation and ensured that they will only process claims with complete supporting documents in the ensuing year.

Disbursement vouchers and its supporting documents were not stamped "PAID" after payment is made contrary to Section 2.Q of COA Circular No. 92-389 dated November 3, 1992 to preclude the possible re-use of the same.

27. Section 2.Q of COA Circular No. 92-389 states, "Paid vouchers, including its supporting documents, shall be perforated and conspicuously stamped "Paid" by the Cashier. The stamp shall provide space for the number of the check issued and date of actual payment, and its size should be 2" x 3"."

28. Review of the disbursement vouchers of the Agency showed that the above-mentioned requirement was not complied with as all paid vouchers and their corresponding supporting documents were not stamped "PAID".

29. We recommended that Management instruct the Cashier to stamp "PAID" all the disbursement vouchers and its supporting documents after payment is made to preclude the re-use of the same.

30. Management stated that they will comply with the audit recommendation in the ensuing year.

The Agency failed to submit the copies of government contracts, purchase orders and their supporting documents to the Auditor within the prescribed period for review and evaluation as required under Sections 3.1.1 and 3.2.1 of COA Circular No. 2009-001 dated February 12, 2009, thus timely audit action could not be readily communicated.

31. Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009 requires that within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall furnish to the Auditor of the agency concerned.

32. Section 3.2.1 of the same Circular requires that a copy of any purchase order irrespective of amount, and each and every supporting document, shall within five (5) working days from issuance thereof be submitted to the Auditor concerned.

33. Records show that copies of perfected contracts and approved purchase orders were not submitted to the Auditor within the reglementary period prescribed by the above-mentioned Circular. This precluded the Auditor from undertaking timely review and evaluation of the same as well as communicating whatever deficiencies noted thereon.

34. We recommended that Management instruct the concerned officials and employees to submit copies of the perfected contracts to the Auditor within the prescribed period for timely review and evaluation of these contracts.

35. Management promised to submit the perfected contracts to the Auditor within the prescribed period.

COMPLIANCE WITH TAX LAWS

36. DOLE IV-B had complied with Revenue Regulations No. 2-98 dated May 17, 1998 in relation to Republic Act No. 8424 relative to the withholding on income subject to the expanded withholding tax and final withholding tax, withholding of income tax on compensation, withholding of creditable Value-Added tax and other percentage tax. In compliance with the Joint Circular No. 1-2000 dated January 3, 2000 issued by the Department of Finance,

Department of Budget and Management and the Commission on Audit, the taxes withheld from suppliers/contractors and employees amounting to P680,426.86 were duly remitted to the Bureau of Internal Revenue.

C. Status of Implementation of Prior Year's Audit Recommendations

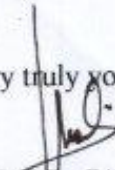
37. We made a follow-up on the action taken by the DOLE Region IV-B to implement one prior year audit recommendation and we noted that such was partially implemented (Annex B).

D. Acknowledgment

38. We wish to express our appreciation to the Management and staff of DOLE Region IV-B for the cooperation and assistance extended to our audit team during the audit.

39. We would appreciate receiving your reply within one month from receipt of this letter.

Very truly yours,


LEONARDO L. JAMORALIN
Regional Director

Copy furnished:

The Supervising Auditor
Audit Group B
This Regional Office

The Audit Team Leader
DOLE Region IV-B
Quezon City