

EXECUTIVE SUMMARY

Introduction

The Province was officially named Palawan in 1903 pursuant to Act No. 1363 of the Philippine Commission.

The Provincial Government of Palawan (PGP) is headed by Honorable Governor Jose Chaves Alvarez together with his Vice-Governor and 12 Members of the Sangguniang Panlalawigan.

As of December 31, 2016, the PGP has a total personnel complement of 3,233, consisting of 827 permanent, one temporary, 14 elective officials, 71 co-terminus, 990 executive contractual, 741 contract of service and 589 job order personnel.

Financial Highlights

The amount of fund appropriations, allotment releases and obligations of the PGP for Calendar Year (CY) 2016 as compared with CY 2015 are as follows:

Particulars	2016	2015	Increase/(Decrease)
Appropriations	₱2,339,591,058	₱ 2,873,753,237	(₱534,162,179)
Allotments	2,070,720,609	2,530,710,136	(459,989,527)
Obligations	1,922,860,750	2,334,109,756	(411,249,006)

Sources of Funds

The PGP generated a total consolidated income of ₱2,288,613,866 for the Year 2016 sourced from the following:

Sources of Income	CY 2016	CY 2015	Increase/ (Decrease)
Tax Revenue	₱ 154,129,222	₱126,385,039	₱ 27,744,183
Share from Internal Revenue Collections	1,944,445,054	1,770,483,912	173,961,142
Other Share from National Taxes	24,576,427	125,907,386	(101,330,959)
Service and Business Income	163,728,344	37,787,969	125,940,375
Shares, Grants and Donations	279,219	266,528	12,691
Other Income	1,455,600	195,243	1,260,357
Total	₱2,288,613,866	₱2,061,026,077	₱ 227,587,789

The total assets, liabilities, equity, income and expenses for the year compared with that of the preceding year are as follows:

Particulars	CY 2016	CY 2015	Increase/ (Decrease)
Total Assets	₱ 8,205,942,589	₱ 6,595,985,266	₱ 1,609,957,323
Total Liabilities	3,830,946,020	2,942,607,031	888,338,989
Total Equity	4,374,996,569	3,653,378,235	721,618,334
Total Income	2,288,613,866	2,061,026,077	227,587,789
Total Expenses	1,693,983,283	1,499,294,496	194,688,787

Scope of Audit

The Audit Team conducted financial, compliance and performance audits on the accounts, transactions and operations of the PGP for CY 2016. The audit consisted of review of operating procedures, inspection and evaluation of the Province's programs and projects, interview with concerned provincial government officials, verification, confirmation, reconciliation and analysis of accounts on a test basis and such other procedures considered necessary under the circumstances.

The objectives of the audit are to (a) ascertain the level of assurance that may be placed on management's assertions in the financial statements; (b) evaluate the extent of compliance with laws and regulations as well as the propriety and validity of transactions; (c) recommend measures to improve the efficiency and effectiveness of the agency's operations; and (d) determine the extent of implementation of prior years' recommendations.

Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Provincial Government of Palawan for CY 2016 due to the unreliable balance of Cash-in-Bank account amounting to ₱3,163,151,678.08 and unverified forwarded prior years Loans Payable balance of ₱2,787,982.83.

Significant Observations and Recommendations

For the first exception cited earlier, we recommended that the Accountant and the Treasurer (i) exert diligent effort in identifying the nature and causes of unreconciled discrepancies in the beginning balances of current and time deposit accounts; (ii) trace back all records which may be relevant to the occurrence of said discrepancies to

determine their particular nature and causes; and (iii) reconcile their records to ensure that all discrepancies are duly accounted for.

For the second exception, we recommended that the Accountant trace back all records pertaining to loans payable in prior years to obtain sufficient information to establish the nature and origin of the beginning balance amounting to ₱2,787,982.83.

The other significant observations and recommendations for CY 2016 are as follows:

1. Cash advances totalling ₱50,098,491.76, including dormant accounts of ₱15,635,972.36, remained unliquidated as of December 31, 2016 contrary to Section 89 of Presidential Decree (PD) No. 1445 and COA Circular No. 97-002 dated February 10, 1997.

We recommended that the Accountant (a) impose all available actions as provided by COA Circular No. 2012-004 on the settlement of cash advances; (b) intensify the monitoring of cash advances; and (c) henceforth, see to it that the provisions of PD No. 1445 and the two cited circulars are complied with in granting and liquidation of cash advances.

2. Infrastructure projects totaling ₱234,988,513.55 remained unfinished despite the expiration of contract time. Management failed to impose appropriate actions and remedies pursuant to Section III-A(2) of the Guidelines on Termination of Contracts and Section 4.2 of the Uniform Guidelines for Blacklisting of Manufacturers, Suppliers, Distributors, Contractors and Consultants.

We recommended that the:

- a. Governor (i) issue termination of contract to erring contractors for projects wherein they have incurred a negative slippage of ten percent (10%) or more in the completion of the work pursuant to Section III-A(2) of the Guidelines on Termination of Contracts; and (ii) cause the forfeiture performance security of contractors pursuant to Section 39.3 of the R-IRR of R.A. No. 9184; and
- b. the Head of Infrastructure Office (i) facilitate the preparation and issuance of a Blacklisting Order upon termination of contracts due to default of the contractors pursuant to Section 6 of the Uniform Guidelines for Blacklisting of Manufacturers, Suppliers, Distributors, Contractors and Consultants; (ii) strictly impose liquidated damages against delaying contractors pursuant to Section 8 of the Contract Implementation Guidelines for the Procurement of Infrastructure Projects; and (iii) henceforth, make sure that all infrastructure projects are strictly monitored in accordance with plans and schedules of implementation so that available actions or remedies can be imposed against erring contractors.

3. Special Education Fund (SEF) totaling ₱70,000,000.00 was deposited in High Yield Savings time deposit account instead of utilizing the fund contrary to the mandate of Provincial School Board under Section 99 of R.A. No. 7160, the Local Government Code of 1991, thereby defeating and further delaying the purpose of the fund to supplement the cost of operation and maintenance of public schools, construction and repair of school buildings, facilities and equipment, educational research, purchase of books and periodicals, and sports development.

We recommended that the (a) Provincial School Board utilize the SEF by appropriating it for its intended purpose; and (b) Provincial Treasurer and Administrator return the ₱70,000,000.00 from High Yield Savings to the SEF bank account.

4. The PGP failed to submit to the Office of Civil Defense (OCD) and Department of the Interior and Local Government – Local Government Operations Office (DILG-LGOO) the Local Disaster Risk Reduction Management Fund Investment Plan (LDRRMFIP) for the disaster mitigation, prevention and preparedness, as required by COA Circular No. 2012-002 dated September 12, 2012 and Sections 12(6) & (7) of the Philippine Disaster Risk Reduction Management Act of 2010, Republic Act (RA) No. 10121. As such, the propriety on the disbursements amounting to ₱14,003,309.02 charged to the Provincial Disaster Risk Reduction Management Fund (PDRRMF) could not be properly evaluated.

We recommended that the PDRRM Officer furnish the Audit Team with the required Annual LDRRMFIP for CY 2016 and ensure that the LDRRMFIP is based on the approved National Disaster Risk Reduction and Management Plan (NDRRMP) 2011-2028, validated and accustomed to the local needs encompassing disaster risk reduction and management such as disaster prevention and mitigation, disaster preparedness, disaster response, and disaster rehabilitation and recovery.

5. Infrastructure projects amounting to ₱41,864,972.33 were issued Notices of Award (NOA), Contracts and Notices to Proceed (NTP) with blank dates, thereby circumventing the rules on liquidated damages as provided under Section 8, Annex “E” of the Revised Implementing Rules and Regulations (R-IRR) of Republic Act (RA) No. 9184.

We recommended that the Head of Infrastructure Office (a) immediately confirm and establish the actual date of issuance of the NTP for Coron and Cuyo District Hospitals; (b) compute for the actual liquidated damages incurred to date; (c) undertake all available actions and remedies to mitigate the effects of delay in project completion; and (d) henceforth, refrain from issuing any NOA, contract or TP with no dates.

6. Construction materials amounting to ₱16,811,110.25 were not delivered to the project site of Coron District Hospital despite full payment thereof under Check

Nos. 1065195 and 1124505 dated August 27, 2014 and September 10, 2014 respectively.

We recommended that the Governor (a) advise the supplier to deliver the construction materials immediately otherwise, require the refund of ₱16,811,110.25 without prejudice in issuing a Blacklisting Order disqualifying the supplier from participating in the bidding of all government projects; and (b) require the concerned inspection officer and project engineer to satisfactorily explain their issuance of IAR despite incomplete delivery of the items.

We also recommended that the Head of Infrastructure Office institute strict policies on inspection and acceptance so that undelivered goods will not be paid.

7. The PGP rented equipment amounting to ₱3,775,403.40 from a private contractor for implementation of three infrastructure projects “By Administration” although the province had its own equipment which can be utilized for the projects in violation of Section 3.2, Annex “A” of GPPB Resolution No. 018-2006 dated December 6, 2006.

We recommended that the Head of Infrastructure (a) review the projects to be implemented by administration to ensure that PGP has the full capacity to undertake them in accordance with GPPB Resolution No. 018-2006 dated December 6, 2006; and (b) ensure the optimization of the utilization of PGP’s assets, particularly on construction equipment to avoid unnecessary rental cost.

8. Reporting/Liquidation of disbursements totaling ₱4,518,278.54 was delayed from six months to two years after actual utilization of the cash advances in violation of COA Circular No. 97-002 dated February 10, 1997 and Section 89 of Presidential Decree (P.D.) No. 1445. Moreover, additional cash advances were granted to Special Disbursing Officer despite non-liquidation/settlement of her previous accountabilities contrary to Section 89 of P.D. No. 1445.

We recommended that the Provincial Accountant:

- a. comply strictly to the Section 89 of P.D. No. 1445 on the grant and liquidation of cash advances;
- b. ensure that all cash advances are reported on and liquidated as soon as the purpose for which it was given has been served and that no additional cash advance is allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made; and
- c. at the end of each year, ensure that all cash advances, except for Petty Cash Fund, are fully liquidated.

9. Donations totaling ₱1,668,075.00 were paid without a clear public purpose in violation of Section 305(b) of R.A. No. 7160.

We recommended that the Provincial Administrator ensure that:

- a. all cash advances are only granted for a legally specific public purpose and requests for cash advance for operating expenses be accompanied with an itemized expenditure plan to serve as guide of the disbursing officer in utilizing the fund;
 - b. official travels be properly authorized through approved travel orders with supporting itineraries;
 - c. meetings and other events held by the Provincial Government be properly documented in order that the expenses incurred in connection thereto could be validated; and
 - d. refrain from granting any kind of benefit or allowance in the form of donations.
10. Procurement of goods and services amounting to ₱3,592,000.00 were made through a Non-Government Organization (NGO) using government funds, despite lack of proper evaluation of the NGO's qualification, necessity of the project, the needs of intended recipients and reasonableness of project requirements in violation of COA Circular No. 2007-001 dated October 25, 2007, thus, circumvented the requirement on competitive public bidding as provided under Articles IV of Republic Act (R.A.) No. 9184.

Furthermore, the NGO failed to render the accounts on fund utilization within the prescribed period, resulting in the delay in recording of expenditure.

We recommended that the Tourism Program Coordinator:

- a. submit to the Audit Team a copy of the following reports for its evaluation/review:
 - i. Evaluation Report documenting the process of selection of NGOs to implement the Palawan World's Best Island Project, including the screening of qualification documents, ocular inspection of NGO business site, and evaluation of the technical and financial capability of prospective NGOs;
 - ii. Certificate of Accreditation of Palawan Tourism Council issued by the provincial government through the BAC or other committee created for the purpose, if any;

- iii. Report on Sources and Details of Equity Participation, prepared and signed by the PTC;
 - iv. PTC's Audited Financial Reports for CY 2014;
 - v. Authenticated copy of PTC's accounting journals and ledgers showing all the transactions relative to the Palawan World's Best Island Project; and
 - vi. Management's report on validation of the project accomplishments, with an accurate list of the beneficiaries and their acknowledgement of the services or opportunities received.
- b. Henceforth, ensure strict compliance with the provisions of COA Circular No. 2007-001 when granting funds to NGOs/POs.
11. Physical inspection and evaluation of hospital and water system projects amounting to ₱152,908,876.20 for CY 2016 revealed several deficiencies in their implementation in violation of the respective Program of Works, Detailed Engineering Designs, Plans and Specifications of the projects.

We recommended that the Head of Infrastructure Office:

- a. cause the repair of all defects noted and submit a complete report on the same to the Audit Team;
- b. impose liquidated damages on the delay of construction of DJPRMHF computed based on the project duration of 200 calendar days as stated in the contract;
- c. for the Calategas Water System, cause the review of the conflicting dates on the POW and the turn-over report and submit a report on the actual dates when the project was started, completed and turned-over;
- d. review the SWA with conflicting and impossible dates and submit a report showing the correct work periods and the reason for such errors;
- e. enforce strict supervision on the implementation of infrastructure projects to ensure good quality of work and to avoid defects;
- f. make sure that all water supply system projects comply with the requirement on Quality Test for Water, pursuant to DPWH Department Order No. 102 dated May 27, 2016 re: Revised Criteria for Rating of Quality Assurance in Project Implementation;

- g. refrain from incurring rentals of equipment when implementing projects by administration pursuant to Section 3.2(b), Appendix 1, Revised Guidelines for the Implementation of Infrastructure Projects by Administration and make sure that the agency has all the proper equipment needed and that such equipment are available for use before undertaking any project by administration; and
- h. henceforth, ensure that (i) all engineering plans and designs are prepared with due diligence to avoid numerous corrections and revisions during project implementation; (ii) program of works are prepared with such accuracy to reflect fair and reasonable cost estimates; (iii) all necessary documents are approved by proper authorities before commencing the implementation of infrastructure projects.

These, together with the other observations and recommendations are discussed in detail in Part II of the report.

Summary of Audit Suspensions, Disallowances and Charges

As of year-end, the balances of suspensions, disallowances and charges were as follows:

Particulars	Beg. Balance	Issued	Settled	End Balance
Suspensions	₱300,000.00	₱ 0.00	₱ 0.00	₱300,000.00
Disallowances	66,823,290.75	0.00	0.00	66,823,290.75
Charges	0.00	0.00	0.00	0.00
Total	₱ 67,123,290.75	₱ 0.00	₱ 0.00	₱ 67,123,290.75

The audit observations and recommendations contained in the Report were discussed with the PGP officials and staff concerned on May 10, 2017. Management's views and comments are incorporated in the Report, where appropriate.

Status of Implementation of Prior Year's Audit Recommendations

Of the 17 audit recommendations embodied in the 2016 Annual Audit Report (AAR), three were fully implemented, six were partially implemented and eight are not implemented.