EXECUTIVE SUMMARY

Introduction

The Province of Palawan is an archipelagic province in the MIMAROPA-Region IV-B located in the western part of the Philippines approximately 240 kilometers southwest of Manila. The Province was officially named Palawan in 1903 pursuant to Act No. 1363 of the Philippine Commission. Popularly known as "The Last Frontier", it is endowed with beautiful scenic areas best for tourism.

The Province of Palawan is a first class province. It is the largest province in the country in terms of total area of jurisdiction. Its capital is the city of Puerto Princesa, a highly urbanized city governed independently from the province. The Province is composed of 23 municipalities and 367 barangays with a total population of 849,469 based on calendar year (CY) 2015 census.

The administration and supervision over the affairs and operation of Provincial Government of Palawan (PGP) for CY 2019 was under the leadership of Governor Jose Chaves Alvarez with the assistance of the Vice-Governor Victoriano Dennis Socrates and Members of the Sangguniang Panlalawigan and the Department Heads.

As of December 31, 2019, the PGP has a total personnel complement of 6,483, consisting of 860 permanent employees, 16 elective officials, 113 co-terminus, 5,110 contract of service and 384 job order personnel.

Financial Highlights

The amount of fund appropriations, allotment releases and obligations of the PGP for CY 2019 as compared with CY 2018 are as follows:

Particulars	2019	2018	Increase/(Decrease)
Appropriations	₱3,882,975,422.65	₱4,460,842,667	₱(577,867,244.35)
Allotments	3,583,144,298.11	4,401,223,905	(818,079,606.89)
Obligations	3,266,708,020.91	3,548,154,897	(281,446,876.09)

Sources of Funds

The PGP generated a total consolidated income of ₱3,109,535,413.99 for the year 2019 sourced from the following:

Sources of Income	CY 2019	CY 2018	Increase/ (Decrease)
Tax Revenue	₱ 229,643,361.33	₱ 433,510,726.42	₱(203,867,365.09)

Sources of Income	CY 2019	CY 2018	Increase/ (Decrease)
Share from Internal Revenue	2,609,898,826.00	2,372,894,251.00	237,004,575.00
Other Share from National Taxes	11,285,136.50	10,641,000.63	644,135.87
Service and Business Income	258,293,065.70	209,663,927.08	48,629,138.62
Shares, Grants and Donations	414,801.46	659,183.52	(244,382.06)
Other Income	223.00	3,475,640.25	(3,475,417.25)
Total	**₱3,109,535,413.99**	**₱3,030,844,728.90**	**₱78,690,685.09**

The total assets, liabilities, equity, income and expenses for CY 2019 compared with that of the preceding year are presented below.

Particulars	CY 2019	CY 2018	Increase/ (Decrease)
Total Assets	₱13,036,142,132.28	₱ 11,277,134,447.77	₱1,759,007,684.51
Total Liabilities	5,865,541,747.33	5,155,501,627.84	710,040,119.49
Total Equity	7,170,600,384.95	6,121,632,819.93	1,048,967,565.02
Total Income	3,109,535,413.99	3,030,844,728.90	78,690,685.09
Total Expenses	2,629,385,404.02	2,293,737,908.97	335,647,495.05

Scope of Audit

The Audit Team conducted financial and compliance audits on the accounts, transactions and operations of the PGP for CY 2019. The audit consisted of review of operating procedures, inspection and evaluation of the PGP'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 audit was conducted to (a) determine whether Management presented fairly the financial statements in adherence to the Philippine Public Sector Accounting Standards; (b) ascertain the level of assurance that may be placed on management's assertions in the financial statements; (c) evaluate the extent of compliance with laws and regulations as well as the propriety and validity of transactions; (d) recommend agency improvement opportunities; and (e) determine the extent of implementation of prior years' audit recommendations.

Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the PGP for CY 2019 due to the following:

a. non-recognition of receivables from PhilHealth, Department of Health and patients totaling ₱220,788,577.20 as of December 31, 2019 which understated the year-end balances of Accounts Receivable and total Hospital Fees Income accounts by the same amount as of year-end;

b. erroneous recording of collections from Health Care Institutions (HCIs) of the PGP for CYs 2006 to 2019 totaling ₱576,439,478.22 to Other Payables - Others account in the Trust Fund instead of Hospital Fees account as income in the special accounts of the General Fund (GF) thereby understating assets and expenses by ₱249,485,121.47 and ₱326,659,193.99, respectively, in that fund as of year-end; and

c. non-capitalization of borrowing cost of ₱44,772,367.34 from loans from CYs 2016 to 2019 to the appropriate qualifying asset which overstated Interest Expenses and understated the related infrastructure assets by the same amount as of CY 2019.

Significant Observations and Recommendations

For the exceptions cited above, we recommended that the (a) OIC-Provincial Accountant (i) recognize the receivables in the books, together with the corresponding adjustments on Equity account for the unrecorded revenues; (ii) strictly adhere to IPSAS 1, paragraph 7 on accrual basis of accounting for transactions; (iii) determine the actual capitalizable borrowing costs per year by computing the prorated actual interest expense at the project completion year and draw the adjusting journal entries to account or capitalize the borrowing costs to the related qualifying asset account in compliance with the pertinent provisions of IPSAS 5; (iv) fully disclose the details or information regarding the capitalizable borrowing costs in the Notes to Financial Statements in accordance with Paragraph 40 of IPSAS 5; (v) recognize collections from HCIs as Hospital Fees in the special account of the GF while the corresponding asset or expense accounts be debited upon disbursements thereof; and (vi) henceforth, stop the practice of recording hospital income under Other Payables account in the TF; (b) concerned HCIs personnel coordinate with the OIC-Provincial Accountant by regularly providing information and details of receivables to facilitate their recognition in the books; and (c) Provincial Planning and Development Officer (PPDO) and the OIC- Provincial Engineer provide (i) the necessary information to the Provincial Accounting Office to determine the actual status of the qualifying assets funded by the loan proceeds as basis in the computation of the actual capitalizable borrowing cost; and (ii) separate quarterly status/accomplishment report for the projects funded by loan proceeds and submit to the Provincial Accounting Office for information/reference.

The other significant observations and recommendations for CY 2019 are as follows:

1. Cash advances totaling ₱85,946,505.11 remained unliquidated at year-end, contrary to Section 5 of COA Circular No. 97-002 dated February 10, 1997 and Section 89 of Presidential Decree (P.D.) No. 1445, thus related assets and/or expenses were not recorded in the year these were incurred.

   We recommended that the:

   a. OIC-Provincial Accountant (i) require the concerned accountable officers to immediately settle or refund the cash advances which are already due for liquidation; (ii) continue the implementation of adequate control in the grant and liquidation of cash advances; and (iii) henceforth, fully comply with the provisions of COA Circular No. 97-002 on the granting, utilization and liquidation of cash advances; and

   b. Provincial Legal Officer initiate the filing of appropriate charges against the erring accountable officers who still failed to settle their accounts after demand;

2. Lease Agreements for rental of the PGP heavy equipment units to various municipalities in the Province of Palawan do not contain provisions on the amount of monthly lease payment and duration of the lease period as required by COA Circular Nos. 2009-001 and 2012-001 dated February 12, 2009 and June 14, 2012, respectively, causing difficulties in their enforcement and resulted in accumulation of uncollected operating lease receivables amounting to ₱216,670,751.12 as of December 31, 2019, thus deprived the PGP of additional resources therefrom. Further, the technical description of the equipment was not also stated in the Memorandum of Agreements (MOAs) as basis of the amount of monthly rentals and for proper identification.

   We reiterated our recommendation that the Provincial Governor, in collaboration with the concerned Municipal Mayors, fast track the amendment of the respective MOAs to include monthly lease payment, duration of the lease period and specificity on the technical description of the equipment, and thereafter, undertake necessary measures for the immediate settlement of the amount due from the latter.

3. The balances of reciprocal accounts Due from/to Other Funds, Due from/to Special Accounts and Due from/to Local Economic Enterprises (LEEs) accounts have discrepancies amounting to ₱422,302,005.25, (₱410,856,837.52) and (₱420,851.23), respectively, due to the failure of the Accounting Department to analyze and conduct periodic reconciliation of the accounts thereby affecting the reliability of balances as of year-end.

We recommended that the OIC–Provincial Accountant (a) continue the effort in identifying the source/s of unreconciled difference between the reciprocal accounts; (b) immediately effect the adjustments upon identification thereof; and (c) ensure that the reciprocal accounts are reconciled at all times.

4. Priority development projects under the 20% Development Fund (DF) totaling ₱93,460,377.12 awarded in CYs 2014 to 2018 consist of 14 on-going projects, five suspended and seven which were not yet even started as of December 31, 2019 manifesting lack of urgency in the implementation and monitoring of contracted projects. Also, despite utilization rate of 78.8% or ₱596,790,177.90 out of the total ₱757,346,891.97 budget for CY 2019, the PGP reported only infrastructure projects costing ₱194,491,260.93 or 32.6% in the Full Disclosure Policy (FDP) Form No. 7 - 20% Component of the Internal Revenue Allotment (IRA) Utilization, thus misinforming the public on the actual status of implementation of projects and utilization of the Fund.

   We recommended that the:

   a. Provincial Governor ensure the full or optimum utilization of the 20% DF by spearheading the effective and efficient implementation of the prioritized projects to maximize the developmental benefits of the intended beneficiaries pursuant to Section 5 of DILG and DBM JMC No. 2017-1 dated February 22, 2017;

   b. OIC-Provincial Engineer (i) require the concerned project engineers, officers and employees to be prudent in overseeing the timely implementation of PPAs under their responsibility; (ii) maintain close coordination with the PPDO for proper monitoring of project implementation to ensure the correctness and completeness of information being reported in the Status Report of Government PPAs and in the FDP Form No. 7 on the 20% component of the IRA utilization in order to comply with the Full Disclosure Policy of the DILG and transparent information to the public; and (iii) provide satisfactory explanation as to why the projects were not yet completed or implemented despite the lapse of considerable time; and

   c. Provincial Planning and Development Coordinator (i) ensure that the information provided in the Status Report of Government PPAs are complete before its submission to the Audit Team, other PGP Offices and Government Agencies; (ii) coordinate with the Provincial Engineering Office and the Provincial Accounting Office in order to obtain the necessary information for the Status Report of Government PPAs; (iii) continue efforts in identifying projects that are doable and most beneficial to the constituents; and (iv) consider projects related to environmental management.

5. Post-qualification of bids was not properly conducted which resulted in the award of 41 contracts totalling ₱168,016,683.00 despite (a) misrepresentation in the

statements of the contractors on their on-going contracts; (b) contractors' having negative slippage of more than 15% on on-going contracts; and (c) absence of documentary basis and/or inaccurate computation of Net Financial Contracting Capacity (NFCC) of contractors in violation of Section 34.3 of the Revised IRR of RA No. 9184 thereby casting doubt on the validity of the awards made as well as the legality of the contracts entered into between the PGP and the contractors.

We recommended that the:

a. Bids and Awards Committee (BAC) and the Technical Working Group (TWG) render satisfactory explanation on their failure to (i) validate the misrepresentation of the contractors in their statements of on-going contacts; and (ii) for declaring the lowest calculated responsive bid and recommending award of contract to contractors with negative slippage of more than 15% on on-going contracts and baseless and/or inaccurate NFCC;

b. BAC, more particularly the TWG; henceforth (i) conduct a comprehensive evaluation of the bidder's eligibility documents to ensure the completeness and veracity of the information stated/contained in the contractor's technical and financial documents and rule out any misrepresentation to establish the bidder's eligibility and qualification for the award of contract;

c. OIC-Provincial Engineer (i) provide the BAC with monthly status reports on all infrastructure projects per individual contractor for information and reference in evaluating the technical eligibility of contractors with the lowest calculated bid prior to the post-qualification process;

d. BAC disqualify all subsequent bids of contractors with negative slippage of at least 15% on any on-going contract pursuant to Rule X, Section 34.3 b of the Revised IRR of RA No. 9184; and

e. Provincial Legal Officer consider filing a case against the concerned contractors for misrepresentation of information pursuant to Section 65.3 of the Revised IRR of RA No. 9184.

6. Inspection conducted by the COA Technical Audit Specialist (TAS) from COA Region IV-B disclosed several deficiencies in the actual works performed on the Concreting of Latungay - Sta. Teresita Road Phase 2, Dumaran, Palawan and Concreting of Highway Junction - Tumarbong Road, Roxas, Palawan with contract amount of ₱38,889,231.12 and ₱29,923,726.45, respectively, resulting in a total cost deficiency of ₱1,179,185.97 and ₱615,385.08, respectively. Moreover, project implementation was delayed by 156 calendar days for the first project and 136 calendar days for the second project at the date of inspection.

We recommended that the:

a. OIC-Provincial Engineer (i) monitor and institute corrective measures on the results of inspection noted by the COA-TAS; (ii) submit a revised PERT/CPM and/or Bar Chart/S-Curve showing the projected and actual physical accomplishment as of March 23, 2019 for Latungay - Sta. Teresita Road project and April 20, 2019 for Tumarbong Road Project; and provide the necessary documents, reports and information to the Provincial Accounting Office for the computation of the liquidated damages (LD); and

b. OIC-Provincial Accountant compute for the LD due from the contractor upon submission by the Provincial Engineer of the necessary documents, reports and information; and (ii) deduct the computed LD from any amount/money due to the contractor such as from the retention money or other securities posted by the contractor whichever is convenient to the procuring entity or enforce the necessary actions/procedures to collect the LD.

7. The allocation/budgeting, utilization and reporting of Special Education Fund (SEF) were not compliant with Sections 272 and 100 of the Local Government Code of 1991, Department of Education (DepEd)-DBM-DILG Joint Circular No. 01, s. 2017, dated January 19, 2017 and Section 7(b) of RA No. 10410, otherwise known as the "Early Years Act of 2013", resulting in inappropriate and under-utilization of SEF and inaccurate reporting thereof. Moreover, development fund loan in the amount of ₱54,402,340.17 was obtained despite adequate cash balance resulting in incurrence of unnecessary interest expenses of ₱15,981,225.41.

   We recommended that the:

   a. Provincial Local School Board (LSB) (i) judiciously plan and formulate a SEF Budget in line with strategic prioritization policies in the allocation to schools taking into consideration equitable sharing, priority needs and other factors pursuant to Section 272 of RA No. 7160 and Section 4 of DepEd, DILG and DBM Joint Circular No. 1, s. 2017 dated January 19, 2017; (ii) realign the ₱75,815,261.86 unexpended CY 2019 non-SEF related budget in consonance with the aforementioned guidelines; (iii) maximize utilization of SEF fund in accordance with the approved budget and fast track implementation of priority programs; and (iv) refrain from obtaining loans and use available fund instead;

   b. Accounting and Budget concerned personnel conduct periodic reconciliation of records to generate accurate and relevant reports; and

   c. Accounting Office personnel (i) observe strict compliance with the rules regarding the grant and liquidation of cash advances; (ii) enforce settlement/liquidation of advances granted to the municipalities; (iii)

observe proper recognition of expenses paid out of cash advances; and (iv) submit to the Audit Team the required documents in support to the ₱9,759,125.53 payables taken-up at year-end for scrutiny of the validity and completeness of the transactions; (v) draw Journal Entry Voucher (JEV) to correct entries made on JEV-2019-12-000520 dated December 27, 2019 and submit copy of such to the Audit Team for validation; (vi) coordinate with DepEd Division Office to facilitate the liquidation/settlement of the cash advance balances from DepEd employees; and (vii) stop the grant of cash advances to non-PGP personnel.

8. Deficiencies were noted in the appropriation, procurement, record keeping, and inventory control of Drugs and Medicines (D&M) and Medical, Dental and Laboratory Supplies (MD&LS) from CYs 2016 to 2019 totaling ₱200,683,460.58 in violation of Sections 4 and 84 of PD No. 1445, Sections 7.1 and 7.2 of RA No. 9184, Sections 11 and 44 of the IPSAS 12 and Section 114 of the Manual on NGAS, Volume I, respectively, resulting in unlawful utilization of fund, unreliable financial records and risk of possible inventory loss or misuse.

   We recommended that the:

   a. Provincial Treasurer and the OIC-Provincial Accountant transfer the PhilHealth collections/reimbursement from Trust Fund to the General Fund for appropriate budgetary legislation and ascertain that proper accounting principles on inventory and revenue recognition are applied;

   b. BAC, Budget Officer and End-User observe the laws on procurement budgeting in pursuance to Sections 7.1 and 7.2 of RA No. 9184;

   c. Head of Hospital Operations and Chief of Hospitals maintain and submit the following:

      i. Stocks Inventory Report showing the quantity of medicines received from the Province, as well as the transfer from one hospital to another, the complete description of medicines received, the quantity of medicines utilized for a month and balance of medicines in quantity per item at the end of the month;

      ii. Requisition Issue Slip duly supported with Supplies Availability Inquiry before preparing Purchase Request (PR);

      iii. Utilization Report which shows the complete name of patient, date of visit, complete address, age, gender, health complaints of patient, diagnosis, complete description and quantity of dispensed medicines;

iv. Monthly Summary of Medicines utilized which shows the quantity of medicines dispensed to patients taken from utilization report and complete description of medicines;

v. annual inventory report showing the quantity of medicines remaining in stock as of year-end and complete description per items of medicines;

vi. prescribed format of stock card (SC); and

vii. Semestral Financial Report.

d. OIC-General Services Officer (i) institute controls over the drugs and medicines and other medical supplies by maintaining relevant records/documents in coordination with the hospital Supply Officer/personnel in the requisition and issuance of inventory items; (ii) maintain SCs and reconcile his records with those of the accounting; (iii) conduct inventory of drugs/medicines and medical supplies at least semi-annually or whichever is practical and applicable; and iv) verify and adjust accordingly any differences or reconciling items noted;

e. GSO, BAC-TWG and TWG of PhilHealth Funds (i) ensure that the drugs/medicines to be requisitioned are only those drug products which conform with Philippine National Drug Formulary (PNDF), Volume I, current edition, pursuant to EO No. 49. In case of drugs not listed in the PNDF, Vol. I, a written request with corresponding justification be submitted by the supplier to the Head of the National Drug Policy Office for approval; and (ii) use the Philippine Drug Price Reference Index as a guide in preparing the Project Procurement Management Plan and PR before conducting bidding to ensure conformity with DOH and DILG guidelines and to avoid procurement of expensive pharmaceutical products; and

f. HCIs' pharmacists and chief of hospitals and the OIC-General Services Officer consider adopting and implementing the supply of D&M and MD&LS on consignment basis for convenience in inventory stocks monitoring, to lessen procurement activities and ensure availability of hospital supplies without need for disbursement of government funds.

9. Expenditures incurred for meals and snacks served to visitors and those consumed during meetings, conferences, and regular sessions totaling ₱24,419,513.50 for CY 2019 alone were considered non-essential and could be dispensed with pursuant to Section 343 of RA No. 7160 resulting in incurring unnecessary and irregular expenses contrary to COA Circular No. 2012-003 dated October 29, 2012.

We recommended that the (a) Local Chief Executive, Vice-Governor, SP members, department heads and other offices and committees (i) observe the prohibition against expenses for reception and entertainment; and (ii) utilize the discretionary fund for this purpose instead; and (b) Accountant and the Budget Officer (i) ensure that meals and snacks served during ordinary staff meetings or monthly conferences, regular sessions and for the entertainment of guests and visitors are not charged against local funds since these are chargeable against the personal representation allowances of the LGU officials concerned; (ii) make sure that all expenditures are within the approved budget; and (iii) stop direct budget augmentation without proper legislative authorization.

10. Deficiencies were noted in the disbursement for prisoners' subsistence allowance such as (a) food supplies totaling ₱22,250,121.73 were not procured thru competitive bidding in violation of Section 10 of the 2016 Revised Implementing Rules and Regulations (IRR) of RA No. 9184; (b) exceeded the appropriations therefor by ₱13,536,653.00 due to direct augmentation; (c) excessive rice consumption by ₱3,104,783.89; and (d) total subsistence exceeded the ₱60.00 daily budget per inmate prescribed by Sanggunian Panlalawigan (SP) Resolution No. 14258-19 dated February 26, 2019 resulting in irregular and excessive disbursements amounting to ₱2,951,181.73.

    We recommended that the (a) BAC exert effort to comply with R.A. No. 9184 and its IRR in the procurement of food supplies for detainees' and prisoners' subsistence; (b) OIC - Budget Officer stop direct budget augmentation without proper legislative authorization and avoid certifying availability of appropriations should there be none; (c) OIC - Provincial Accountant and the Internal Audit Services Officer implement sound internal control to ensure proper and prudent management of government's resources for the PSA; and (d) OIC - Provincial Warden (i) require the SDOs to provide satisfactory explanation regarding excessive rice consumption and excessive/irregular expenditures; and (ii) ensure that the SDOs under his supervision disburse fund for detainees' and prisoners' subsistence within the authorized limit of ₱60.00 per person a day as provided by the PGP SP Resolution No. 14258-19.

11. The PGP was not able to fully implement its environmental Programs, Projects and Activities (PPAs) embodied in the Annual Investment Plan for CY 2019 and in its Provincial Ecological Solid Waste Management Plan for CYs 2019 to 2028, which was not in consonance with the provisions of RA No. 9003 or the Ecological Solid Waste Management Act of 2000 thus, effective Solid Waste Management beneficial to the constituents of the Province was not achieved.

    We recommended that the Local Chief Executive, through the Provincial Environment and Natural Resources Officer, (i) appropriate adequate funding and prioritize the implementation of various programs identified in the AIP and in the ten-year PESWMP; (ii) provide a proof that the ten-year PESWMP was submitted and approved by the National Solid Waste Management Council; and (iii) prioritize the implementation of infrastructure projects related to Solid Waste Management.

12. The Provincial Disaster Risk Reduction and Management Office (PDRRMO) failed to submit to the Audit Team the Local Disaster Risk Reduction Management Fund Investment Plan (LDRRMFIP) for the disaster mitigation, prevention and preparedness as required under Sections 5.1.2 and 5.1.3 of COA Circular No. 2012-002 dated September 12, 2012 and Sections 12 (c) (7) of RA No. 10121, otherwise known as the Philippine Disaster Risk Reduction Management Act of 2010, thus disbursements amounting to ₱29,324,205.26 under the PDRRMF could not be validated.

    We recommended that the PDRRM Officer (a) cause the immediate submission of LDRRMFIP for CY 2019 to the Audit Team as required under Sections 5.1.2, and 5.1.3 of COA Circular No. 2012-002 and Section 12(c)(7) of RA No. 10121 for validation of the reported disbursements totaling ₱29,324,205.26; and (b) ensure timely preparation of LDRRMFIP for the succeeding years and furnish a copy thereof to the Audit Team for reference in audit.

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:

	Amount			
Particulars	**Beg. Balance**	**Issued**	**Settled**	**Ending Balance**
Suspensions	₱ 300,000.00	₱ 0.00	₱ 0.00	₱ 300,000.00
Disallowances	83,634,401.00	0.00	0.00	83,634,401.00
Charges	669,269.75	0.00	0.00	669,269.75
Total	**₱84,603,670.75**	**₱ 0.00**	**₱ 0.00**	**₱84,603,670.75**

The audit observations and recommendations contained in the Report were discussed with the PGP officials and staff concerned on May 28, 2020. Management's views and comments were incorporated in the Report, where appropriate.

Status of Implementation of Prior Year's Audit Recommendations

Of the 12 audit recommendations embodied in the 2018 Annual Audit Report (AAR), three were fully implemented, eight were partially implemented and one was not implemented.