AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL

Property, Plant and Equipment

1. **The existence, completeness and valuation of the Property, Plant and Equipment (PPE) with carrying value of P189.933 billion as at December 31, 2022 cannot be ascertained due to material errors and deficiencies, hence, faithful representation of the account in the Financial Statements was not established, contrary to Philippine Accounting Standard (PAS) 1, to wit:**

    a. PPE with carrying amount of P123.389 billion was not stated at its revalued amount contrary to Paragraphs 31 and 34 of PAS 16;

    b. Existence of variance in the amount of P694.992 million between the accounting records and Report on Physical Count of Property, Plant and Equipment (RPCPPE) and P165.646 million, between engineering reports and accounting records for the cost of completed projects;

    c. Non-capitalization of major repairs of Infrastructure Assets totaling P497.585 million understated the PPE account;

    d. Misclassification of PPE accounts totaling P30.790 million to various asset and expense accounts; and

    e. Non-derecognition of demolished properties amounting to P65.895 million overstated the PPE account.

1.1. Paragraph 15 of PAS 1 states that "financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework (Conceptual Framework)*. xxx"*

1.2. Paragraphs 6, 7, 13, 31, 34 and 67 of PAS 16 provides for the definition, recognition criteria, revaluation of assets after recognition and relevant information on the derecognition, as follows:

6 xxx

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than one period.
xxx.

7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and
(b) the cost of the item can be measured reliably.

13 xxx Under the recognition principle in paragraph 7, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

31 After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

34 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only ***every three or five years.*** (Emphasis supplied)

67 The carrying amount of an item of property, plant and equipment shall be derecognized:

(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal

1.3. All inventory reports shall be prepared and properly reconciled with accounting and inventory records. One of the required preliminary activities prior to the conduct of inventory taking is the updating by the Accounting Unit of its record of acquisition/disposal/transfer of PPEs in the PPELCs and ensuring that the total balance of PPELCs tallies with the balances of controlling PPE accounts in the General Ledger. Further, Property and Accounting Units shall compare the latest Report on the RPCPPE/Property Inventory Report with the PPELCs. *(COA Circular No. 2020-006 dated January 31, 2020)*

1.4. Audit of PPE account disclosed the following errors and deficiencies:

PPE with carrying amount of P123.389 billion not stated at its revalued amount

PPA adopts the revaluation model in accounting its Property and Equipment and are carried in the books at appraised values except for additions in between the periods of appraisal which are recorded at acquisition cost net of value added tax (VAT). Appraisal is conducted once every five years pursuant to COA Resolution No. 89-17. As of December 31, 2022, the carrying amount of PPE amounted to P189.933 billion, composed of the following:

Account	Cost	Accumulated Depreciation	Accumulated Impairment Losses	Carrying Amount
PPE Subject for Appraisal	169,659,883,616.25	46,256,271,434.93	14,059,628.87	123,389,552,552.45
PPE Not Subject for Appraisal	66,583,085,911.75	39,316,296.79	0	66,543,769,614.96
Total	**236,242,969,528.00**	**46,295,587,731.72**	**14,059,628.87**	**189,933,322,167.41**

The last reappraisal of fixed assets was conducted in 2016. On May 20, 2021, PPA engaged the services of a third-party appraiser to reappraise its fixed assets in which the individual appraised value of the land and the replacement cost, new accumulated depreciation and carrying/sound value of all other PPE, except Office Furniture, Fixtures, Books and Office Equipment, as of June 30, 2021 were determined. However, Land, Service Concession Assets, Infrastructure Assets and Buildings and Other Structures, and Machinery and Transportation Equipment in the total amount of P123.389 billion as at December 31, 2022, was not stated at the revalued amount after five years. The appraisal reports were not yet complete as of audit date.

Non-presentation of PPE amounting to P123.389 billion at its revalued amount as of reporting date is not in accordance with Paragraphs 31 and 34 of PAS 16.

Variance of P694.992 million between the accounting records and RPCPPE and P165.646 million between the engineering reports and accounting records for the cost of completed projects

Comparison of the PPE items reported in the Statement of Financial Position and the consolidated RPCPPE disclosed the following variances:

Account	General Ledger (GL)	RPCPPE	Variance
Machinery and Equipment	6,403,318,774.25	5,773,516,592.94	629,802,181.31
Transportation Equipment	883,368,740.36	819,208,472.39	64,160,267.97
Furniture, Fixtures and Books	127,713,451.26	126,683,512.40	1,029,938.86
Total	**7,414,400,965.87**	**6,719,408,577.73**	**694,992,388.14**

The Controllership Department (CD) submitted PPE Reconciliation Statement for the variances between the accounting records and property records. However, additional adjustments have yet to be made in the RPCPPE and the books pending validation of documents and coordination between CD and Administrative Services Department (ASD).

In addition, the cost incurred for completed projects in PMO Bohol per engineering reports amounted to P76.807 million while the recorded cost per accounting records amounted to P242.453 million, or a variance of **P165.646 million.**

Non-capitalization of major repairs of Infrastructure Assets totaling P497.585 million

It is the policy of PPA under PPA Memorandum Circular No. 01-2014 that the construction of new port facilities and expenditures that are expected to increase the economic serviceable life of the asset or result in increased physical size or capacity or improved efficiency and productivity shall be **funded as Capital Outlay** while ordinary repairs and replacements of minor parts, structures or components to put back the asset into good operating condition and are not expected to impact the economic serviceable life of the asset shall be funded and recorded as **Repairs and Maintenance**. The cost is charged as *Capital Outlay* when the repair of depreciable assets whose condition is already below 80 percent of its operational capacity and with estimated repair cost equivalent to more than 20 percent of the recorded net book value of the asset. On the other hand, when the repair of depreciable assets whose operational efficiency is still 80 per cent and above and with estimated repair cost of 20 per cent or less than the net book value of the asset, the cost is charged under *Repairs and Maintenance.*

For CY 2022, major repairs and maintenance of Infrastructure Assets totaling P497.585 million in the following PMOs were charged to operating expenses as Repairs and Maintenance Expense– Infrastructure Assets:

No.	Port Management Offices	Amount
1	Palawan	37,905,019.87
2	Panay/Guimaras	52,864,870.25
3	Negros Oriental/Siquijor	95,254,474.97
4	Bohol	20,314,173.70
5	Western Leyte/Biliran	2,558,547.57
6	Surigao	5,387,585.00
7	Bataan/Aurora	141,452,934.53
8	Bicol	38,647,292.74
10	Zamboanga	78,821,820.78
11	Zamboanga del Norte	24,377,790.46
Total		**497,584,509.87**

Based on the Audit Teams' validation, these major repairs had extended the economic life of the assets, however, the costs incurred were not capitalized to the appropriate asset account contrary to the recognition principle of PAS 16 which prescribes that costs incurred subsequent to the purchase or construction of the long-lived assets, such as repairs, maintenance, or betterments, may entail adjustments to the carrying value or may be expensed, depending on the circumstances.

The non-recognition of the major repairs as asset resulted in the understatement of PPE account and understatement of Retained Earnings as at reporting date.

The non-capitalization of costs of major repairs of infrastructure assets had been a recurring observation from CYs 2014 to 2021, and the recognition of these costs as asset instead of expense was recommended.

The cost of major repairs previously recorded as expense were already reclassified to the proper asset account in CY 2022. However, those incurred in CY 2022 totaling P497.585 million, were still recorded as Repairs and Maintenance Expense – Infrastructure Assets instead of the appropriate Infrastructure Asset account contrary to Paragraph 13 of PAS 16.

It is the practice of the PMOs to charge annual repairs and maintenance of port facilities under Repairs and Maintenance Expense during budget preparation without determining whether these costs are capital expenditures or repairs and maintenance expense pursuant to PPA Memorandum Circular No. 01-2014 in consonance with PAS 16.

To address prior years' COA's recommendations and in compliance with the provisions of PAS 16, the General Manager issued a Memorandum on November 11, 2022, classifying all Repairs and Maintenance of Infrastructure Assets as Capital Expense and be funded from Capital Outlay.

Misclassification of PPE accounts totaling P30.790 million to various asset and expense accounts

Certain PPE accounts totaling P30.790 million were erroneously classified to various asset and expense accounts such as: a) cost of partially completed projects were credited to Retained Earnings instead of Construction in Progress – Infrastructure Assets account; b) buildings held for sale was recorded as PPE instead of Investment Property; c) various equipment was recorded as Repairs and Maintenance Expense instead of Information and Communication Technology Equipment account, etc.

Non-derecognition of demolished properties with an aggregate amount of P65.895 million

Demolished properties were not derecognized from the books of the following PMOs, contrary to Paragraph 67 of PAS 16, resulting in overstatement of PPE accounts:

PMO	Amount
PMO Cagayan de Oro	14,086,000.00
PMO Northern Luzon	4,044,905.05
PMO Batangas	47,764,200.00
Total	**65,895,105.05**

1.5. Aside from the above deficiencies, it was also noted that Property, Plant and Equipment Ledger Cards (PPELCs) for PPE items amounting to P701.542 million were not maintained in *PMO Surigao,* hindering reconciliation between the property and accounting records of all PPE items procured, donated or transferred.

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

a. **Instruct the Accounting Division to record Property, Plant and Equipment (PPE) at their revalued amount once the final appraisal reports are available in conformity with Paragraphs 31 and 34 of PAS 16;**

b. **Require the Accounting Division and Property Management Division to adjust/take up the reconciling items for variances amounting to P694.992 million between the accounting records and the Report on Physical Count of Property, Plant and Equipment;**

c. **Instruct the Port Manager to require the Engineering Services Division and Finance Division of Port Management Office (PMO) Bohol to reconcile the variance amounting to P165.646 million between the engineering report and accounting records;**

d. **Require the Port Managers to instruct the Finance Division of concerned PMOs to prepare the necessary adjusting entries to recognize major repairs of infrastructure assets to specific PPE account instead of Repairs and Maintenance Expense – Infrastructure Assets in accordance with PAS 16;**

e. **Instruct the concerned Port Managers to require their Finance Division/Resource Management Division to: 1) prepare the necessary adjusting journal entries to reclassify the PPE accounts erroneously recognized under various asset and expense accounts; and 2) derecognize from the books the demolished properties; and**

f. **Require the Port Manager to direct the Finance Division of PMO Surigao to maintain Property, Plant and Equipment Ledger Cards.**

1.7. During the exit conference, the Controllership Department stated that the variance between the accounting records and RPCPPE has been reduced by a total of P55.071 million. Reconciling items in the Head Office have already been adjusted as of April 2023. Items that need to be reconciled/adjusted in the RPCPPE are still being validated by the ASD.

Other Payables – Non-Current

2. **The balance of Other Payables – Non-Current account amounting to P607.053 million as at December 31, 2022 included outstanding payables for more than two to 11 years amounting to P297.261 million, which cast doubt on the validity of these obligations, hence faithful representation of the balance of the account in the financial statements as at reporting date was not ascertained contrary to Paragraph 15 of PAS 1.**

2.1. Paragraph 15 of PAS 1 states that *financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition* *criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting (Conceptual Framework).*

2.2. Paragraph 4.27 of the Conceptual Framework for Financial Reporting, for a liability to exist, three criteria must all be satisfied:

(a) the entity has an obligation (see paragraphs 4.28–4.35);
(b) the obligation is to transfer an economic resource (see paragraphs 4.36–4.41); and
(c) the obligation is a present obligation that exists as a result of past events (see paragraphs 4.42–4.47)

2.3. Other Payables – Non – Current account has a year-end balance of P607.053 million. This account pertains to various dormant Accounts Payable which were reclassified to Other Payables.

2.4. The amount of P297.261 million has remained outstanding for more than two to 11 years, P256.884 million of which pertains to the Head Office and P40.377 million pertains to the PMOs. The Schedule of Other Payables – Head Office as of December 31, 2022, disclosed that P156.114 million or 55 per cent of the total Other Payables – Head Office has been outstanding since 2011. While the total amount of P128.588 million has been outstanding since 2018.

2.5. The outstanding payables reported in Head Office amounting to P256.884 million substantially includes payables to eight contractors and various landowners. No claims have been filed by these contractors, landowners as well as the creditors in PMOs; thus, they have become dormant. No verification as to the validity and existence of these unsettled obligations was made by Management.

2.6. The existence of outstanding payables for more than two to 11 years casts doubt on the validity of the account, hence faithful representation cannot be ascertained, contrary to Paragraph 15 of PAS 1.

2.7. As stated under Paragraph 3.3.1 of Philippine Financial Reporting Standard (PFRS) 9, *An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.*

2.8. Due to the absence of verification of the contracts with the above contractors/vendors whose accounts have been non-moving for more than five to 11 years, it was not determined whether these already expired or obligation had been fulfilled, hence, the accounts have not been derecognized from the books.

2.9. **We recommended and Management agreed to require the:**

a. Port Construction and Maintenance Department, Dredging and Survey Department, Administrative Services Department and Port Managers to instruct the Finance Division/Resource Management Division of concerned Port Management Offices (PMOs) to verify the validity and

existence of unsettled obligations to the contractors, landowners and creditors amounting to P128.810 million; and

b. Controllership Department and Port Managers to direct the Finance Division/Resource Management Division of concerned PMOs to prepare adjusting entries, where appropriate, to derecognize from the books those payables which have been outstanding for five to 11 years and which no claim have been filed in conformity with Paragraph 15 of Philippine Accounting Standard 1 and Paragraph 3.3.1 of Philippine Financial Reporting Standard 9.

2.10. Management already coordinated with PCMD, DSD, and ASD to verify the validity and existence of the unsettled obligations to the contractors and supplier. If after thorough review and analysis they find it appropriate, the recommendation will be complied with and adjusting entries will be prepared to derecognize the outstanding/dormant payables from PPA books.

Income Tax Payable

3. **Liability totaling P269.076 million on income tax effect of reclassification to PPE account of Repairs and Maintenance Expense for current and prior periods was not recognized contrary to PAS 12 – Income Taxes, resulting in the understatement of Income Tax Payable and overstatement of Retained Earnings both by P269.076 million as at December 31, 2022. Likewise, the required disclosure on the amount of tax expense relating to the corrections of CY 2019, 2020, and 2022 errors was not made, contrary to Paragraph 80 of PAS 12.**

3.1. Paragraph 12 of PAS 12 provides that *Current tax for current period and prior periods shall, to the extent unpaid, be recognized as liability. xxx.*

3.2. Likewise, under Paragraph 80 of the same Standard, the amount of tax expense relating to changes in accounting policies and **correction of errors** is required to be disclosed.

3.3. In previous years, COA recommended to capitalize major repairs of infrastructure assets instead of recognizing these as Repairs and Maintenance (R&M) Expense pursuant to Paragraph 13 of PAS 16. In compliance thereof, reclassification of R & M Expense totaling P1.541 billion for CYs 2019, 2020 and 2022 was made to Retained Earnings (RE), thereby increasing the reported Net Income by the same amount and corresponding Income Tax Payable and Income Tax Expense, as follows:

Particulars	2019	2020	2022	Total
Reclassification of Repairs and Maintenance Expense to Fixed Assets	1,048,056,088.90	390,924,351.00	102,272,719.06	1,541,253,158.96
Income Tax Rate	30%	30%	various rates	
Income Tax Payable	**314,416,826.67**	**117,277,305.30**	**26,520,839.78**	**458,214,971.75**

Of the P1.541 billion R&M Expense, the amount of P630.463 million was already assessed and included in the computation of tax deficiency by the BIR. The tax deficiency computed and paid in 2022 amounted to P189.139 million, leaving a balance of P269.076 million, to wit:

Assessed by BIR / R&M Included on Tax Deficiency Payment	630,463,226.88
Income Tax Rate	30.00%
Income Tax Payable	189,138,968.06
Income Tax Payable	458,214,971.75
Less: Payment	(189,138,968.06)
Income Tax Still Due	**269,076,003.69**

3.4. However, examination of the Subsidiary Ledger and the Schedule of Computation of Income Tax Due/Payable for CYs 2019, 2020, 2021, and 2022 disclosed that the income tax effects of the CYs 2019 and 2020 reclassification and adjustments made in 2022 as presented above were not considered in the computation of Income Tax Due/Payable. Thus, the related Income Tax Payable and Income Tax Expense were not recognized in the books. Management asserted that they opted not to include the same because the Bureau of Internal Revenue (BIR) has an ongoing tax audit on their CYs 2019 and 2020 books.

3.5. Notwithstanding the ongoing BIR audit, recognition of the amount of Income Tax Payable and Income Tax Expense arising from the current and prior year's adjustments/reclassification is required under Paragraph 12 of PAS No. 12 – Income Taxes. Non-recognition of Income Tax Payable and Income Tax Expense is contrary to Paragraph 12 of PAS 12 – Income Taxes. As a result, Income Tax Payable is understated and Retained Earnings is overstated by both P269.076 million as at December 31, 2022.

3.6. It is worth mentioning that similar observation was already raised in the CY 2021 Annual Audit Report (AAR) where PPA was recommended to recognize the related Income Tax Payable and Income Tax Expense as a consequence of correction of prior years' errors.

3.7. Likewise, the required disclosure for the amount of tax expense to be recognized in the books relating to the corrections of current and prior years' errors was not made, contrary to Paragraph 80 of PAS 12.

3.8. **We reiterated our recommendations and Management agreed to require the Controllership Department in coordination with the Treasury Department to:**

a. Recognize in the books Income Tax Payable and Income Tax Expense amounting to P269.076 million arising from tax consequence of reclassification to Property, Plant and Equipment account of Repairs and Maintenance Expense for CYs 2019, 2020 and 2022 in adherence with Paragraph 12 of Philippine Accounting Standard (PAS) 12; and

b. Disclose in the Notes to Financial Statements the amount of tax expense relating to the current and prior period adjustments and reclassifications as required by Paragraph 80 of PAS 12.

3.9. The Controllership Department and Treasury Department commented that the tax consequence for the remaining balance of reclassification of R&M for CYs 2019 and 2020 and adjustments made in 2022 will be recognized in the books in 2023.

3.10. The Audit Team will monitor Management's action for the recognition of the Income Tax Payable and Income Tax Expenses in 2023 and the disclosure in the Notes to Financial Statements of the amount of tax expense relating to the current and prior period adjustments and reclassification.

Cash in Bank

4. **The balance of Cash in Bank account amounting to P7.565 billion as of December 31, 2022 is understated by P27.434 million (net) due to: (a) non-adjustment/recording of various book reconciling items presented in the Bank Reconciliation Statements (BRS) amounting to P26.854 million; and (b) non-restoration of stale checks, Authority to Debit Account (ADA) and cancelled checks amounting to P0.581 million to Cash in Bank, contrary to Paragraph 15 of PAS 1.**

4.1. Paragraph 15 of PAS 1, states that *Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity.* ***Fair presentation requires the faithful representation of the effects of transactions****, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Conceptual Framework.* (Emphasis supplied)

4.2. Faithful representation is one of the fundamental qualitative characteristics of financial information which means that information becomes useful if it faithfully represents what it purports to represent. It should be complete, neutral, and free from error. (Conceptual Framework for Financial Reporting)

4.3. Under Section 186 of Act No. 2031, otherwise known as the Negotiable Instruments Law, check must be presented for payment within a reasonable time after its issue or the drawer will be discharged from liability thereon to the extent of the loss caused by the delay. By current banking practice, a check becomes stale after more than six (6) months, or 180 days.[1]

4.4. Audit of BRS as of December 31, 2022 revealed that Cash in Bank account is understated by P27.434 million (net) due to the following deficiencies:

Book reconciling items of Cash in Bank account were not adjusted and recorded in the books of PMOs.

Below is the summary of book reconciling items not recorded in the books of PMOs and details are discussed in the succeeding paragraphs:

[1] *G.R. No. 146211 dated August 6, 2002*

PMOs	Book Reconciling Items	
	Understatement	Overstatement
PMO Mindoro	24,711,632.34	
PMO Masbate		1,918,558.38
PMO Panay/Guimaras	400,080.18	
PMO Misamis Oriental/ Cagayan de Oro	3,660,442.79	
Sub-Total	28,772,155.31	1,918,558.38
Total Net Book Reconciling Items-Understatement	**26,853,596.93**	

Book reconciling items of two bank accounts totalling P24.711 million remained unadjusted in the books of *PMO Mindoro*.

In PMO Masbate, book reconciling items presented in the BRS comprising of unaccounted difference and over-deposit totaling P114,802 to be added back to the Cash in Bank current account balance, and unaccounted difference amounting to P2.033 million to be deducted from savings account, or net overstatement of P1.919 million were not adjusted/taken up in the books.

Unadjusted book reconciling items to be added to the bank accounts of *PMO Panay Guimaras* presented in the BRS as of December 31, 2022 totaled P400,080.

PMO Misamis Oriental/Cagayan de Oro book reconciling items presented in the BRS as of December 31, 2022 but not adjusted in the books consist of unrecorded bank deposits amounting to P3.710 million and book errors amounting to (P49,184.29) or a total of P3.660 million.

Stale checks, Authority to Debit Account (ADA) and cancelled checks with total amount of P0.581 million remained unrestored, resulting in understatement of Cash in Bank account by the same amount.

Stale checks, ADA and cancelled checks in *PMO Mindoro* totaling P0.581 million to be restored to Cash in Bank account remained unadjusted in the books as of year-end.

4.5. In summary, the total misstatements requiring adjustments on Cash in Bank account as of December 31, 2022, are as follows:

Particulars	Understatement
a. Net Book Reconciling Items	26,853,596.93
b. Unrestored Stale Checks, ADA and Cancelled Checks	580,539.07
Net Understatement	**27,434,136.00**

4.6. Non-adjustment and non-recording of book reconciling items as well as not restoring the amount of stale checks, ADA, and canceled checks, resulted in net understatement of Cash in Bank by P27.434 million as of year-end, contrary to paragraph 15 of PAS 1.

4.7. This was already an issue raised in some PMOs in CY 2021 audit wherein the Audit Teams recommended to record/take up in the books all book reconciling items, however, the same issue has been raised again in other PMOs which affects the fair presentation of Cash in Bank account.

4.8. **We recommended and Management agreed to instruct the Port Managers to direct the Finance Division of concerned Port Management Offices (PMOs) to prepare the necessary adjusting entries to take up the book reconciling items and restore stale and unreleased checks, Authority to Debit Account and cancelled checks to Cash in Bank account to reflect the correct balance of the account.**

4.9. As a result of Management's coordination with the concerned PMOs, it was disclosed that the reconciling items for Cash in Bank account in *PMO Masbate* pertains to accumulated prior year error in uploading receipts and remittances of collections in the system (iPORTS). Copies of the adjustments made were submitted. Monthly monitoring of cash balances will be made to reconcile uploaded transactions. Also, iPORTS refresher training will be conducted on May 22-25, 2023, to address the issues and concerns on the system.

In *PMO Panay/Guimaras* books of accounts, the status of various reconciling items as of April 30, 2023 was provided as well as the courses of actions to be undertaken to resolve the remaining reconciling items, which are expected to be settled and recognized in the books in May 2023.

Inventories

5. **Inventories amounting to P3.750 million were recognized as outright expenses instead of Inventory accounts upon purchase/receipt, contrary to Paragraph 15 of PAS 1 and Paragraphs 9 and 33 of PAS 2, resulting in the understatement of Inventory account by P3.750 million and understatement of Retained Earnings by the same amount.**

5.1. Paragraph 15 of PAS 1, states that *financial statements shall present fairly the financial position, financial performance, and cash flows of an entity.* ***Fair presentation requires the faithful representation of the effects of transactions****, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Conceptual Framework for Financial Reporting (Conceptual Framework). xxx* (Emphasis supplied)

5.2. COA Circular No. 2020-002 dated January 28, 2020 which prescribes the adoption of the Updated Revised Chart of Accounts for Government Corporations (2019) defines the following accounts:

Account Title	Description of Updated Accounts per Annex C of COA Circular No. 2020-002
Office Supplies Inventory	*This account is debited to recognize the cost or value of purchased/acquired office supplies such as bond papers, pens, inks, paper clips, staple wires, rulers, and the like. This account is credited*

Account Title	Description of Updated Accounts per Annex C of COA Circular No. 2020-002
	for issues to end-users, transfers, losses, other disposals, and/or adjustments.
Construction Materials Inventory	*This account is debited to recognize the cost of construction materials purchased/acquired for stock and later issue for the construction, fabrication, repair and rehabilitation of government facilities undertaken by administration. This account is credited for issues to end-users, transfers, losses, other disposals, and/or adjustments.*
Semi-Expendable Assets	*This account is used to recognize the cost/fair value of the purchased/acquired assets within the capitalizable threshold. Credit this account for issues, transfers, losses or other modes of disposal.*

5.3. Audit of Inventories disclosed that Inventories with total cost of P3.750 million were recognized as outright expenses upon purchase/receipt instead of Inventory accounts in the following PMOs:

Expense Account	PMO Western Leyte/ Biliran	PMO Eastern Leyte/Samar	PMO Ozamiz	Total	Correct Account
Repairs and Maintenance	0.00	1,584,278.24	25,794.89	1,610,073.13	Construction Materials Inventory
Auditing Services	0.00	0.00	1,968.57	1,968.57	Supplies Inventory
Supplies Expense	0.00	0.00	274,519.84	274,519.84	Supplies Inventory
Semi-Expendable Expenses	1,289,979.45	394,308.03	179,110.33	1,863,397.81	Semi-Expendable Assets
Total	**1,289,979.45**	**1,978,586.27**	**481,393.63**	**3,749,959.35**	

The recognition as outright expense upon purchase of Inventories, resulted in the understatement of Inventory account and understatement of Retained Earnings.

Recording of inventory items as outright expense has been an issue in prior years' audit.

5.4. It was also noted that the balance of Office Supplies Inventory between GL amounting to P1.897 million and RPCI amounting to P2.906 million at the *Head Office* disclosed an unreconciled variance of P1.009 million.

5.5. Further, in *PMO MarQuez,* the **RPCI** for CY 2022 was submitted, however, Accountable Forms, Plates and Stickers Inventory valued at P5.039 million were not included. Due to the incomplete physical inventory, the existence of the Inventory amounting to P5.039 million was not established.

Items 4.1, 6.2 and 6.3 of PPA Memorandum Circular (MC) No. 09-2010 dated December 6, 2010 requires the following:

4.1 The Head Office, Port District Management Offices (PDMO) and Port Management Offices (PMO) ***shall conduct annual inventory of PPA supplies and materials on stock, furniture, fixtures, equipment and all other properties*** *except land as of 31 December of each year.*

6.2 Copy of the Inventory Report shall be submitted to Controllership Department for Head Office and to Finance Section for PDO/PMO for reconciliation with controlling accounts.

6.3 Copy of ***the reconciled PDO/PMO Inventory Report*** *shall be submitted to ASD Head Office not later than 20 January of each succeeding year for consolidation and submission to COA before 31 January of each year.* (Emphasis supplied)

5.6. The failure to conduct physical inventory and the non-reconciliation of variances between records and reports of inventories as at year-end is not consistent with the above PPA policy.

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

a. Direct the Port Managers to instruct the Finance Division/Resource Management Division of concerned Port Management Offices (PMOs) to recognize the cost of Inventories as asset upon purchase/receipt and expense only in the period when these are issued and/or consumed.

b. Require the Accounting Division, Controllership Department and Property Management Division, Administrative Services Department (ASD) to take up the reconciling items for the variances between the General Ledger and Report of Accountability for Accountable Forms and prepare adjusting entries, if any, to reflect the correct balance of the account; and

c. Instruct the PMD, ASD, and Finance Division of PMO MarQuez to conduct physical inventory of Office Supplies Inventory and Accountable Forms, Plates and Stickers Inventory, respectively.

5.8. Management commented that the Accounting Division, Controllership Department is currently working on establishing the subsidiary ledger card of inventories. Also, reconciliation of the submitted documents by ASD and accounting records is ongoing.

Operating Lease Receivables

6. **Rental receivables amounting to P21.034 million from a Diagnostic Laboratory for the use of bedrooms at PPA-GAD Center from September 1, 2020 to July 31, 2022 remained not recognized in the books as of December 31, 2022, contrary to PAS 1, resulting in the understatement of Operating Lease Receivables, Output VAT and Retained Earnings accounts by P21.034 million, P2.254 million and P18.780 million, respectively. Also, the rental receivables remained uncollected as at year-end.**

6.1. Paragraphs 15, 27 and 28 of PAS 1 - Presentation of Financial Statements on the fair presentation and accrual basis of accounting provides that:

> *15 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out set out in the Conceptual Framework for Financial Reporting (Conceptual Framework). xxx.*
>
> *27 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.*
>
> *28 When the accrual basis of accounting is used, an entity recognizes items as **assets,** liabilities, equity, **income** and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.* (Emphasis supplied)

Conceptual Framework for Financial Reporting defines asset as:

> *An asset is a present economic resource controlled by the entity as a result of past events.*

6.2. PPA uses accrual basis of accounting in recognizing its income.

6.3. A lease agreement was executed between PPA PMO NCR South and the Diagnostic Laboratory on May 20, 2020. Under the lease agreement, the Diagnostic Laboratory, a supplier of PPA, leased a portion of the ground floor of PPA - GAD Center constituting 260.61 square meters (sq.m.) with monthly rental rate of P117,535.11, excluding taxes. In addition to the use of ground floor, the latter and its subcontractor employees also used the 2nd floor bedrooms of the building from September 1, 2020 to July 31, 2022 without formal agreement with and payment made to PPA. There was an initial negotiation made between the Diagnostic Laboratory and PPA PMO NCR South on the use of additional rooms at PPA-GAD Center but did not materialize due to failure of the former to signify its concurrence after PPA PMO NCR South provided a draft Permit to Occupy (PTOc) citing the current rental rate based on the PPA Memorandum Order (MO) No. 31-2009. Nevertheless, the Diagnostic Laboratory and its subcontractor employees still occupied/used the 2nd floor bedrooms.

6.4. Despite the absence of PTOc, PPA PMO NCR South sent billings and notices to the Diagnostic Laboratory and its subcontractor to settle the unpaid rental obligations from September 1, 2020 to July 30, 2022 totaling P21.034 million, computed as follows:

Occupant	No. of Personnel	Rental Rate	VAT (12 per cent) (Temporary)	Total Amount Due
Diagnostic Laboratory	10	4,741,954.12	569,034.49	5,310,988.61
Subcontractor	36	14,038,457.79	1,684,614.93	15,723,072.72
Total		**18,780,411.91**	**2,253,649.42**	**21,034,061.33**

6.5. The billings were computed per individual personnel based on the adjusted bedroom rates pursuant to PPA MO No. 31-2009. The subject rent receivables was not yet recognized in the books of PPA PMO NCR South which is contrary to Paragraphs 15, 27 and 28 of PAS 1. As of audit date, no payments have been received from the Diagnostic Laboratory.

6.6. This is a reiteration of prior year's observation and recommendation to recognize in the books lease receivables for the use of additional rooms by the personnel of the Diagnostic Laboratory and its subcontractor at PPA-GAD Center.

6.7. The non-recognition of receivables resulted in understatement of Operating Lease Receivables, Output VAT and Retained Earnings accounts by P21.034 million, P2.254 million and P18.780 million, respectively.

6.8. Although no formal agreement was entered into by and between PPA and the Diagnostic Laboratory for the use of additional bedrooms, PPA particularly PMO NCR South, being the owner of the property, has a right to collect rental fees from the lessees. The area coverage of the original Lease Contract includes only the ground floor, but the occupation/usage was extended up to the 2nd floor bedrooms which is a violation of Section 1 on the area coverage of the original Lease Contract. Furthermore, PPA PMO NCR South is protected by Section 21 of the contract which states that *Failure of the LESSOR to insist upon strict performance of any of the terms, conditions and covenants hereof shall not be deemed a relinquishment or waiver of any right or remedy that said LESSOR may have nor shall it be construed as a waiver if any subsequent breach or default of the terms, conditions and covenants herein contained, which shall be deemed to have been made unless expressed in writing and signed by the LESSOR.*

6.9. Allowing the Diagnostic Laboratory personnel and subcontractor to occupy additional areas outside the coverage of the original lease contract without paying the rental fees would be an unjust enrichment on the client at the expense of PPA.

6.10. Personnel of the Diagnostic Laboratory had already vacated the 2nd floor bedrooms since July 2022 while it ceased operations and vacated the ground floor on December 27, 2022 and requested termination of its original lease contract.

6.11. On December 21, 2022, the Manager of Commercial Services Department (CSD), PPA Head Office sent a Memorandum to the PPA PMO NCR South and instructed to proceed with the termination process of the Lease Contract and to ensure that the latter has no outstanding account with PPA.

6.12. PMO NCR South Management commented that they are constrained to recognize the receivables in the books of PPA PMO NCR South due to the reason that revenues generated from usage of rooms at PPA GAD Center are normally being recognized by the Administrative Services Department (ASD) in relation with Section 1.1 of PPA Memorandum No. 04-2014, which states that the ASD is the responsible office for the management, maintenance and general housekeeping of PPA GAD Center.

6.13. **We recommended that Management:**

a. **Instruct the Accounting Division, Controllership Department in coordination with the Administrative Services Department to recognize in the Head Office books the outstanding receivables from the Diagnostic Laboratory pursuant to Section 1.1 of PPA Memorandum No. 04-2014;**

b. **Institute appropriate legal action against the Diagnostic Laboratory for non-payment of rental obligations despite collection and demand letters sent; and**

c. **Demand the Diagnostic Laboratory to settle first all its outstanding rental obligations for the use of ground floor and 2nd floor bedrooms before terminating the Lease Contract.**

Other Payables - TOGCC

7. **Payables to The Orchard Golf and Country Club (TOGCC) amounting to P221,897, recorded under Other Payables – Non – Current, is unreliable due to unreconciled discrepancy of P0.738 million between the accounting records and confirmation, which is not in conformity with Paragraph 15 of PAS 1.**

7.1. PPA owns one share of corporate club stock of the TOGCC and recorded in the books as Other Investments. This was acquired in July 1994, authorized under Ex Com Resolution No. 92-286 as confirmed under Board Resolution No. 1410 during the 200th Regular Meeting of the Board of Directors on July 5, 1994. We recommended on March 7, 2023 and Management agreed to immediately dispose the club share, it being contrary to PD No. 857 or the Revised Charter of the PPA which mandates that funds not immediately required to be expended in meeting its obligations or in the discharge of the functions of the Authority be invested in government securities approved by the Board.

7.2. Per Subsidiary Ledger of Other Payables account, PPA has an outstanding liability of P221,987 to the TOGCC as of December 31, 2022. However, confirmation reply from the Billing Department of TOGCC showed that for the billing date December 1, 2022, PPA has an outstanding balance of P0.960 million consisting of unpaid maintenance dues, late payment charges, Christmas donation, 12 per cent VAT on unpaid maintenance dues, unapplied withholding tax and others. Hence, a variance of P0.738 million.

7.3. The existence of unreconciled discrepancy of Other Payables account which affects faithful representation in the financial statements is not in conformity with Paragraph 15 of PAS 1.

7.4. **We recommended and Management agreed to instruct the Treasury and Controllership Departments to reconcile the discrepancy of payables with**

TOGCC and effect the necessary adjustments in the books, when appropriate, to reflect the correct balance of the account.

7.5. Management already reconciled the discrepancy of payables with TOGCC and adjustments were already made in the books on May 31, 2023. Management further commented that the recommendation to dispose the club share in the TOGCC has been considered. However, they were advised that the outstanding obligations be settled first before they can sell the share.

During the exit conference, the Treasury Department informed that the Board has instructed Management to dispose said share through public bidding.

7.6. **As a rejoinder, we further recommend that Management immediately settle its unpaid obligations to the The Orchard Golf and Country Club to prevent any impediment to the disposal of the club share.**

B. NON-FINANCIAL

Reimbursable Items

8. **Various office equipment, furniture, computers, computer software and high-end models and brands of electronic gadgets totaling P18.479 million were continuously procured through inclusion as reimbursable items in several dredging and infrastructure projects which unnecessarily increased project cost and created an oversupply of Machinery and Equipment, Furniture and Fixtures, Computer Software, and Semi-Expendable Assets contrary to Administrative Order No. 5, s. 2017.**

8.1. Section 1 of Administrative Order No. 6, s. 2017 dated September 19, 2017 states that:

> *Notwithstanding the repeal of AO No. 103, existing laws, rules and regulations mandating the judicious and prudent use of government funds shall remain in full force and effect, and all agencies and instrumentalities shall continue to ensure that no irregular, unnecessary, extravagant, excessive and unconscionable expenses shall be incurred by the Government.*

8.2. Item No. 7 of Annex C of COA Circular No. 2012-003 dated October 29, 2012, considers ***unnecessary expenditures*** the purchase of high-end or expensive models/brands of electronic gadgets such as mobile phones, desktops, laptops, etc. unless justified by circumstances.

8.3. Likewise, Item No. 11 of Annex D of COA Circular No. 2012-003, includes in the list of ***excessive expenditures of government funds***, the inclusion in the contract of specific infrastructure projects, special items such as of motor vehicles and computers which unnecessarily increased project costs due to the provision of indirect costs.

8.4. In the past several years, PPA includes cost of motor vehicles as reimbursable items in the preparation of Approved Budget for the Contract (ABC) for the procurement of infrastructure projects. The contractor procures such item and turns over to PPA after completion of the project and the cost is reimbursed through inclusion in the contract cost. In compliance with COA's recommendation, PPA immediately ceased the practice of inclusion of the cost of motor vehicles in the ABC of infrastructure procurement in 2021.

8.5. However, for CYs 2021 and 2022, recorded PPE and semi-expendable property accounts amounting to P18.479 million were acquired through procurement by contractors as included in the contract cost of the projects. These items included desktop computers, laptops, printers, scanners, projectors, hard drives, cameras, speakers, drones and other semi-expendable items. Apart from this, 19 contracts awarded in CY 2022 include reimbursable items of furniture and fixtures, and information and communication technology equipment such as high-end model/brand of cellular phones and tablets.

8.6. PPA had accumulated these assets over the years as a result of its inclusion as reimbursable items in infrastructure projects. In addition, PPA continued to procure information and technology (IT) equipment in 2020 to 2022 while there are serviceable IT equipment currently used by PPA personnel.

8.7. Inclusion of reimbursable items which are indirect costs to the projects is considered excessive and unnecessary pursuant to COA Circular No. 2012-003 and contrary to AO No. 6, s. 2017 which mandates the judicious and prudent use of government funds and no irregular, unnecessary, extravagant, excessive and unconscionable expenses shall be incurred by the Government.

8.8. **We recommended and Management agreed to require the Port Planning and Design Department and Dredging and Survey Department to:**

a. Discontinue immediately the inclusion of machinery and equipment, furniture and fixtures, computer software, and semi-expendable items as reimbursable items in all infrastructure projects; and

b. Instruct immediately the concerned contractors to exclude all reimbursable items in the contract cost for all on-going projects.

8.9. The Engineering and Controllership Department had no objection on the COA's recommendation to immediately discontinue the inclusion and provision of reimbursable items in the contract of infrastructure projects and will immediately advise the concerned Contractors with ongoing projects to defer the procurement of said items presently included in the contract and likewise, deduct the value of reimbursable items, if found included in the claims for payment/progress billings of dredging and infrastructure projects.

Untitled Lands

9. **Parcels of land recorded in the books of PPA with an area of at least 3.925 million square meters (sq. m.) valued at P73.548 billion were not supported by Original/Transfer Certificate of Titles showing ownership of the land/reclaimed land contrary to Section 39(2) of Presidential Decree (P.D.) No. 1445. Thus, ownership of the land is uncertain.**

9.1. Section 39 (2) of PD No. 1445 states that in the case of deeds to property purchased by any government agency, the Commission shall require a certificate of title entered in favor of the government or other evidence satisfactory to it that the title is in the government.

9.2. The certificate of title is the best form of evidence of land ownership under the system of land registration (the Philippines follows the Torrens System). Being the best form of evidence, it prevails over other evidence of ownership such as tax declarations, real property tax receipts, deeds of sale, among others. Thus, if a person claiming ownership over a property shows his tax declarations and receipts as evidence, and another one claiming ownership produces a certificate of title, the certificate of title shall be given more weight.[2]

9.3. Verification of Land account and the Schedule of Fixed Asset – Land and Service Concession Asset – Land showed that only 40,547 sq. m. valued at P258.345 million are covered with Transfer Certificate of Title (TCT) under the custody of the Treasury Department - Head Office. While Land comprising an area of 3.925 million sq. m. valued at P73.548 billion are not yet covered by Original/Transfer Certificate of Title (O/TCT), showing proof of ownership of the original land or reclaimed land in the name of the PPA.

9.4. The land areas under *PMO NCR South* totaling 1,456,740 sq. m. valued at P41.521 billion includes the 606,740 sq. m. port area property valued at P10.921 billion, which was the reclaimed area of the North Harbor, Manila Bay with an area consisting approximately of 375.34 hectares. This is being claimed by the Government Service Insurance System (GSIS) as its property and is recorded at P17.200 billion in its books of accounts, thus overstating the assets of the National Government as it is also recorded in the books of PPA.

9.5. Likewise, parcels of land with a total area of 4,627.46 sq. m. covered under the South Harbor Expanded Port Zone (SHEPZ) with recorded book value of P166.589 million was also under dispute by the National Power Corporation (NPC).

9.6. Absence of the O/TCT to prove ownership exposes the Land to counterclaim of ownership from third parties and renders the ownership of the Land uncertain and non-compliance to the provisions of Section 39(2) of PD No. 1445 on the issuance of Certificates of Title.

9.7. Management commented that it is not only the sole discretion and action of the agency, PPA submits all the necessary documentation and it only relies on the dispatch of the other concerned agencies. Management further commented that the PPA is dedicated to resolve the issues.

9.8. **We recommended that Management require the Property Management Division, Administrative Services Department and Legal Services Department to expedite the submission of all the necessary documentation to the concerned agency for the processing of the titles of the lands.**

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[2] *G.R. No. 163551 dated July 18, 2011*

9.9. During the exit conference, Management informed that a Special Committee has been created to monitor the status of titling and they are in close coordination with the DENR, PMOs NCR North and South. Further, Management mentioned that the inventory of all the properties of PPA has already been done, with and without titles. On June 20, 2023, Management is planning to present to the executive committee.

9.10. As to the land dispute issues with the GSIS, Management commented that efforts are being exerted to meet with the GSIS Management. COA - GSIS issued a letter to the GSIS to derecognize from their books and for PPA to recognize the subject property.

Inter-Agency Payables

10. **Employees' withheld premium contributions/loan amortizations and employer's contributions for current and prior years totaling P5.234 million remained outstanding and unremitted to the GSIS, Pag-IBIG and PhilHealth, contrary to Section 6 (b) of Republic Act (RA) No. 8291, Item E(4) of HDMF Circular No. 275 dated January 22, 2010 and PhilHealth Circular (PC) No. 0001, s. 2014.**

10.1. PPA Head Office withholds and remits employees' contributions/loan amortizations and employer's contributions to the Government Service Insurance System (GSIS), Pag-IBIG and PhilHealth pursuant to Section 6 (b) of Republic Act (RA) No. 8291, Item E (4) of Home Development Mutual Fund (HDMF) Circular No. 275 dated January 22, 2010 and PhilHealth Circular (PC) No. 0001, s. 2014.

10.2. Section 6(b) of RA No. 8291, otherwise known as "The Government Service Insurance System Act of 1997 mandates that e*ach employer shall remit directly to the GSIS the employees' and employers' contributions <u>within the first ten (10) days of the calendar month following the month to which the contributions apply</u>. The remittance by the employer of the contributions to the GSIS shall take priority over and above the payment of any and all obligations, except salaries and wages of its employees*. (Underscoring supplied)

10.3. Likewise, Item E(4) of HDMF Circular No. 275 dated January 22, 2010 requires that *employers shall remit the required monthly employer and employee contributions to the nearest Pag-IBIG branch or its authorized collecting banks, together with the duly accomplished Membership Contribution Remittance Form (MCRF), in accordance with the remittance schedule.*

10.4. Furthermore, Section 18(b) of the Revised IRR of RA No. 10606 or the National Health Insurance Act of 2013 states that t*he monthly premium contribution of employed members shall be remitted by the employer on or before the date prescribed by the Corporation.* Also, PhilHealth Circular (PC) No. 0001, s. 2014, dated January 9, 2014 prescribes the revised payment schedule for the applicable month starting March 2014 onwards for all government and private employers.

10.5. The balances as of December 31, 2022 of Due to GSIS, Pag-IBIG and PhilHealth accounts in Head Office after deducting remittances made in January 2023 disclosed unremitted balance of P2.670 million, broken down as follows:

Account Name	Beginning Balance	Withheld	Remitted*	Unremitted Balance
Due to GSIS	1,327,515.65	63,250,371.80	62,375,144.68	2,202,742.77
Due to Pag-IBIG	318,171.09	4,320,518.70	4,457,869.34	180,820.45
Due to PhilHealth	121,758.01	5,274,996.43	5,110,193.15	286,561.29
Total	**1,767,444.75**	**72,845,886.93**	**71,943,207.17**	**2,670,124.51**

*Includes amount withheld in December 2022 but remitted in January 2023

10.6. Based on the available Schedule as of December 31, 2021 and Subsidiary Ledger as of December 31, 2022, the balances which pertain to current and prior years' transactions showed over and under remittance of premium contributions and loan amortizations withheld from employees.

10.7. The under remittance of premium contributions and loan amortizations withheld from employees are accumulated from CYs 2011 to 2022. Comparison of the balances between CYs 2021 and 2022 showed that there is an increase in under remittance of the Due to GSIS and PhilHealth and over remittance of Due to Pag-IBIG. Similarly, the employer's share of P2.564 million was not remitted to the GSIS, Pag-IBIG and PhilHealth.

10.8. Management informed the Audit Team that due to unavailability of data for prior years' transactions, the Accounting Division and the Human Resource Services Division will only be able to reconcile the current year balances.

10.9. Non-remittance of the balances of the said accounts contravenes Section 6 (b) of RA No. 8291, Item E(4) of HDMF Circular No. 275 dated January 22, 2010 and PC No. 0001, s. 2014.

10.10. The Audit Team recognizes the effort exerted by the Controllership Department and Human Resource Management Department particularly the Accounting Division and Human Resource Services Division in analyzing, validating and reconciling the above accounts in compliance with our prior year's recommendation, thereby reducing the unremitted balance of Due to Pag-IBIG for employees' contributions and loan amortizations by P137,351. However, Due to GSIS and Due to PhilHealth unremitted balances have increased by P875,227 and 164,804, respectively, in CY 2022.

10.11. **We reiterated our recommendations and Management agreed to require the:**

a. Human Resource Management Department and Controllership Department to reconcile the CY 2022 balances of employees' premium contributions/loan amortizations and employer's contributions to the GSIS, Pag-IBIG and PhilHealth;

b. Human Resource Management Department to confirm from Government Service Insurance System, Pag-IBIG, and PhilHealth the unremitted balances of Philippine Ports Authority employees' premium contributions/loan amortizations and employer's contributions; and

c. Henceforth, cause the immediate remittance and adjustment of the outstanding balances, when necessary, once the reconciliation is completed and/or confirmation is made.

Locally-Funded Projects

11. **The detailed engineering for infrastructure projects required under Section 17.6 of the 2016 Revised Implementing Rules and Regulations (RIRR) of RA No. 9184 have not been sufficiently carried out, resulting in the suspension of five projects with contract cost totaling P1.941 billion, delaying the attainment of benefit the public could derive from the projects.**

11.1. Section 17.6 of the 2016 RIRR of RA No. 9184 states that ***No bidding and award of contract for Infrastructure Projects shall be made unless the detailed engineering investigations, surveys and designs, for the project have been sufficiently carried out*** *and duly approved in accordance with the standards and specifications prescribed by the HoPE concerned or his duly authorized representative, pursuant to the recommendation of the end-user or implementing unit and in accordance with the provisions of Annex "A" of this IRR.* (Emphasis supplied)

11.2. Further, Item 2 of Annex "A" of the same RIRR lists down the activities included in the schedule of detailed engineering. Among these activities are Survey, Site Investigation, Preparation of Site or Right-of-Way Plans including Schedule of Acquisition, Preparation of Utility Relocation Plan, and Environmental Impact Statement for critical project as defined by the Department of Environment and Natural Resources (DENR).

11.3. Under the GCG Memorandum Order No. 2014-10 or the approved Rationalization Plan of PPA, the functions of the Port Planning Design Department (PPDD) include the following:

- Conducts pre-feasibility studies, feasibility studies, preliminary engineering studies and appraisals for major port developments and expansions including environmental impact studies.
- Prepares the Terms of Reference for the conduct of feasibility studies, master plans and technical surveys/studies.
- Formulates the design criteria and performs the design analysis of new port facilities and also for major rehabilitation works.

11.4. Also, under the same GCG MO, one of the functions of the Programming and Survey Division of the Dredging and Survey Department (DSD) is to undertake hydrographic surveys/investigations and determines the volume of dredge materials to be removed.

11.5. Monthly Physical and Financial Status Report (MPFSR) as of December 25, 2022 showed that five projects were suspended due to pending issuances of Environmental Compliance Certificates (ECC), increase in fuel cost, current dredging works that are ongoing from a private corporation within the area and removal of obstruction along the area. This apparently reveals an inadequate conduct of detailed engineering by the PPDD and the DSD. The bidding was conducted and the contract was awarded considering that the detailed engineering was not sufficiently carried out.

11.6. This shows that the functions of PPDD and the Programming and Survey Division of the DSD under the GCG Memorandum Order, as far as the conduct of preliminary engineering studies and hydrographic surveys/investigations is concerned were not undertaken before advancing with the procurement, hence, the issues that arose during the project implementation that led to the suspension of the five projects.

11.7. These suspended projects were either not started or have only reached 7.659 per cent completion, and two have been suspended since December 2021. Due to the suspension of project implementation, the objective of the infrastructure projects to develop, improve port facilities and provide efficient port services to the public is not attained.

11.8. **We recommended and Management agreed to instruct the Port Planning and Design Department and the Programming and Survey Division of the Dredging and Survey Department to strictly and sufficiently carry out the detailed engineering of all infrastructure and dredging projects.**

DOTr Projects

12. **The utilization and implementation of DOTr – Tourism and Social Reform Related Port Projects (TSRRPP) Fund covering Calendar Years (CYs) 2015 to 2019 for the construction, development and improvement of port projects, were found with deficiencies as follows:**

   a. Unutilized fund amounting to P174.531 million due to suspended and unimplemented projects from CYs 2015 to 2018, resulting in non-achievement of the benefits that the public can derive from the projects; and

   b. Unremitted unexpended fund balance for completed Manoc-Manoc Port Project under PMO Panay/Guimaras including interests earned amounting to P6.227 million as of December 31, 2022, contrary to Item 4.9 of COA Circular No. 94-013 and Memorandum of Agreement (MOA) between PPA and DOTr.

12.1. The DOTr entered into several MOAs in various years with PPA for the implementation of the DOTr – TSRRPP fund for the procurement, construction, development and improvement of port projects, as shown below:

MOA	Program Year (GAA)	Number of Port Projects
May 12, 2015	2015	41
September 15, 2017	2016-2017	19
September 15, 2017*	2018	18
November 23, 2020	2019	4
	Total	**82**

****For the 1st and 2nd Supplemental MOA***

12.2. The report on the utilization and implementation of DOTr-TSRRPP fund showed that out of 82 projects in the MOA, only 58 were completed as of December 31, 2022. Further review disclosed the following deficiencies:

Unutilized fund amounting to P174.531 million due to suspended and unimplemented projects from CYs 2015 to 2018

Review of the status on the implementation of the 2015 to 2019 DOTr – TSRRPP disclosed that of the 82 projects, three were suspended and six were not yet implemented nor started as of December 31, 2022, summarized as follows:

No.	Name of Projects/ Project Description	Program Year (GAA)	Target Completion Date	No of Days Delayed	Percentage of Completion	Cash Balance as of December 31, 2022	Remarks
Suspended							
1	Pilar Port Development Project Port of Brgy. Asinan, Pilar, Siargao Island, Surigao	2015	22-Jun-20	922	7.476	9,730,695.53	Suspended on August 13, 2019 due to the pending issuance of **Environmental Compliance Certificate (**ECC)
2	Codon Port Development Project Port of Codon, Brgy. Codon, San Andres, Catanduanes	2016	15-Sep-19	1,203		19,758,039.40	Suspended since May 21, 2019 due to the pending issuance of ECC
3	Higatangan Port Development Project Brgy. Libertad, Higatangan Island, Naval, Biliran	2017	13-May-19	1,328	11.591	8,583,152.71	Suspended since February 13, 2019 due to non-acquisition of ECC
	Subtotal					**38,071,887.64**	
Not Yet Implemented/Started							
1	Construction of Concrete Jetty Project Port of Brgy. Hali-an, del Carmen, Siargao Island	2015				2,333,910.00	The POW is under evaluation of PPDD.
2	Excavation, Extension of Breakwater and Construction of Boat Mooring Facilities Port of Sabtang Batanes	2016				44,995,552.50	Letter dated May 4, 2022 was sent to DOTr submitting the revised POW for further evaluation and concurrence/ approval. Awaiting DOTr's approval of revised POW.
3	Tingloy Port Development Project Port of Tingloy, Tingloy, Batangas	2016				9,881,047.00	PPDD Memorandum dated July 21, 2022 was sent to PMO Batangas, on the submission of POW.
4	Brgy. Caub Port Development Project Del Carmen, Surigao del Norte	2016				9,862,711.25	Revised Plan and POW was submitted to PPDD on August 22, 2022.
5	San Jose Port Development Project San Jose Port, Palauan, Mindoro Occidental	2017				9,999,850.00	Notice of Award was issued on March 17, 2023 and signed by the Contractor on April 17, 2023.
6	Construction of Calayan Port Calayan, Cagayan	2018				59,385,596.33	Failure of Bidding – No bid was submitted PMO Northern Luzon was advised by PPA Head Office dated

No.	Name of Projects/ Project Description	Program Year (GAA)	Target Completion Date	No of Days Delayed	Percentage of Completion	Cash Balance as of December 31, 2022	Remarks
							March 9, 2023 to revise the POW.
	Subtotal					**136,458,667.08**	
	Grand Total					**174,530,554.72**	

Unutilized funds for the suspended and unimplemented/not yet started projects amounted to P174.531 million. As shown in the above table, the suspension/non implementation of the projects is attributed to absence of Environmental Compliance Certificate (ECC), revision of program of works, modification of the design plan and failure of bidding.

Considering that these funds were released by the DOTR from CYs 2015-2018 and included in the budget of DOTR on those years, the delay in the implementation of these projects is disadvantageous to the government.

Unremitted unexpended fund balance for completed Manoc-Manoc Port Project under PMO Panay/Guimaras including the interests earned amounting to P6.227 million.

Item No. 4.9 of COA Circular No. 94-013 states that *The Implementing Agency (IA) shall return to the Source Agency (SA) any unused balance upon completion of the project.*

Based on the above Circular, PPA as the Implementing Agency shall return to DOTr as the Source Agency any unused balance upon completion of the project.

Likewise, the four MOAs executed between PPA and DOTr on various years require that any excess of the cash out of the Project Fund, which is not spent by PPA after the completion of the project, shall be returned to DOTr with proper acknowledgement of the return (Official Receipt). This includes all interests earned by the Project Fund if deposited in an interest-bearing account.

Verification of Cash Balance of the DOTr – TSRRPP fund in the Report of Disbursements as of December 31, 2022 submitted by the Project Management Team Office (PMTO) revealed that the Development of Manoc-Manoc Port Project was completed on June 8, 2020. However, the fund balance amounting to P6.227 million remained unremitted as of year-end.

Inquiry with the concerned HO/PMTO personnel disclosed that they are still awaiting the PMO Panay/Guimaras' reconciliation of the unutilized balance of Manoc Manoc Project.

12.3. Due to the above deficiencies, the benefits that the public can derive from the projects were not achieved. Also, the unexpended fund balance not returned to the source agency is contrary to Item 4.9 of COA Circular No. 94-013 and MOA between PPA and DOTr.

12.4. **We recommended and Management agreed to require the:**

   a. **Port Manager to instruct the: 1) Engineering Services Division of concerned Port Management Offices (PMOs) to follow up the issuance of Environmental Compliance Certificate (ECC) from the Department of Environment and Natural Resources; and 2) Finance Division to return the funds if the ECC could no longer be secured;**

   b. **Port Construction and Maintenance Department to evaluate the suspended projects on the feasibility of continuing its implementation;**

   c. **Port Planning and Design Department to: 1) follow up from the Department of Transportation (DOTr) the approval of the submitted revised Program of Work (POW); 2) fast track the approval of submitted revised plan and POW; otherwise, return to the DOTr the amount allocated for the suspended projects, if warranted;**

   d. **Port Manager to direct the Engineering Services Divisions of PMO Batangas and PMO Northern Luzon to expedite the preparation and revision of POW and submit immediately to the PPDD for evaluation and approval; and**

   e. **Project Management Team Office to follow up the submission of reconciliation of unremitted unutilized fund from PMO Panay/Guimaras and remit immediately to the DOTr.**

12.5. Management commented that the unremitted unutilized balance for the Manoc Manoc Project in PMO Panay/Guimaras is already for fund transfer to DOTr.

Technical Specification Requirements

13. **The procured 12 units Body Scanner Machines with a total cost of P167.760 million were accepted by PPA upon delivery despite non-compliance by the Supplier with certain PPA specification requirements per approved contract, hence, the effective utilization of the equipment was not fully attained.**

13.1. Article II of the Contract on the Supplier's Undertaking and Scope of Work enumerated the technical specifications to be executed and completed by the supplier in conformity with the provisions of the Contract and Contract Documents. Also, under Article X of the Contract provides that *the SUPPLIER agrees that neither the execution of a test and/or inspection of the equipment or any part thereof, nor the attendance by PPA or its representatives, shall release the SUPPLIER from any warranties or other obligations under this Contract.*

13.2. Section 4.2 of Appendix 17 of the 2016 RIRR of RA No. 9184 on Contract Implementation Stage provides:

> *Pursuant to Section 69 (6) of RA 9184 and without prejudice to the imposition of additional administrative sanctions as the internal rules of the agency may provide and/or further criminal prosecution as provided*

by applicable laws, ***the procuring entity shall impose on contractors after the termination of the contract the penalty of blacklisting for one (1) year for the first offense, blacklisting for two (2) years for the second offense from participating in the public bidding process, for violations committed during the contract implementation stage****, which include but not limited to the following:*

a) xxx

b) Failure by the contractor to fully and faithfully comply with its contractual obligations without valid cause, or failure by the contractor to comply with any written lawful instruction of the procuring entity or its representative(s) pursuant to the implementation of the contract.

xxx

In addition to the penalty of blacklisting, the performance security posted by the contractor shall also be forfeited. (Emphasis supplied)

13.3. On February 23, 2018, PPA awarded a contract to the Supplier as the Single Calculated and Responsive Bid for the procurement of 12 Units of Body Scanner Machines amounting to P167.760 million. The contract was approved on April 10, 2018 and delivery was made to the following PMOs:

Port Management Office	Quantity
PMO Bicol (Matnog)	2
PMO Panay/Guimaras	2
Misamis Oriental/Cagayan de Oro	2
Misamis Occidental/Ozamis	2
Zamboanga	2
Zamboanga del Norte	2
Total	**12**

13.4. Based on the COA Information Technology Audit Office (ITAO) Technical Evaluation and Inspection Report dated November 17, 2022, it was noted that specification requirements for the: 1) number of people per mass screening; 2) area of field of view; 3) software development kit (SDK); 4) inclusions of battery or uninterruptible power supplies (UPS); 5) equipment manuals; 6) availability of spare parts; and 7) after-sales services and/or service units for the 12 units of Body Scanner Machines delivered by the Supplier, were non-compliant with the specification requirements of the PPA. Details of the deficiencies are presented below:

No.	PPA Requirement		Results of COA ITAO Evaluation	Remarks
1	Number of people per mass screening	The equipment must be able to screen at least five (5) persons simultaneously.	Non-compliant	Maximum of three (3) persons only that can be screened simultaneously.

No.	PPA Requirement		Results of COA ITAO Evaluation	Remarks
2	Field of view	(Minimum at 4.5mm) 750mm x 1200mm	Non-compliant	Area is short of .075m^2 (0.1m x 0.75m) or 100mm which can be seen in the brochure submitted by the supplier.
3	Software development kit (SDK)	An SDK to facilitate integration with broader security solutions.	Non-compliant	No SDK presented to the inspection team.
4	Battery/UPS for mobile scanner and mobile trolley		Non-compliant	No UPS/Battery presented during the inspection
5	Equipment Manuals	Delivery of equipment manuals. One set of equipment manual shall be included for each unit of equipment delivered	Partially Compliant	Equipment manual for the laptop was found. There is no equipment manual for the baggage scanner machines.
6	Spare parts	The Supplier shall warrant the availability of spare parts for a period of at least five (5) years from the purchase of subject units.	Non-compliant	Availability of the replacement for the Single Board Computer (SBC) were not supplied since it is within the five (5) year period. Spare parts were not provided as needed.
7	After-Sales Services	The Supplier shall provide for technical support, whether through phone-in hotline or on-site visits, if necessary. Phone-in concerns to the Supplier's technical support group shall be resolved within thirty-six (36) hours from the call. Any request for an on-site inspection/work on the equipment shall be done within 24-72 hours from the time of such request.	Non-compliant	Technical support request not resolved within the time frame as per contract. PMO Zamboanga Del Norte: July 21, 2022 report of malfunction (no power)I not yet resolved as of January 6, 2023. PMO Panay/Guimaras: May 3, 2021 when the unit was reported to be non-operational, not yet resolved as of December 27, 2022. PMO Misamis Occidental/Ozamiz: August 1, 2022 report of malfunction, not yet resolved as of December 21, 2022.
	Service Unit(s)	The Supplier shall warrant the availability of a service unit in	Non-compliant	Service units were not deployed within 48 hours

No.	PPA Requirement	Results of COA ITAO Evaluation	Remarks
	case of repairs, or in the event of a breakdown of any of the purchased equipment. The temporary unit shall be deployed to the concerned PMO within 48 hours from PPA's request. Any replacement shall be of the same or superior specifications and acceptable to the PPA.		in PMO Iloilo (PMO Panay/Guimaras).

13.5. Based on the above deficiencies, the supplier was found to have not complied with certain terms and conditions set forth in the terms of reference and specification requirements per contract, thus not responsive. Notwithstanding the deficiencies on the technical specifications, PPA accepted the equipment compliant with the specification requirements.

13.6. **We recommended that Management:**

a. Require the Port Police Department to explain why: 1) it accepted the procured units when some of the specification requirements were not complied with; 2) the supplier was not required to replace the Single Board Computer (SBC) since it is within the five year period; and 3) the technical support requests in Port Management Office (PMO) Zamboanga, PMO Panay/Guimaras and PMO Occidental Ozamis were not resolved within the time frame as per contract;

b. Require the supplier to fulfill its obligations under the contract, particularly to provide: 1) body scanner machine with screening capacity of at least five persons simultaneously; 2) body scanner machine with field of view to a minimum at 4.5mm) 750mm x 1200mm; 3) replacement of Software Development Kit (SDK) to facilitate integration with broader security solutions; 4) battery/Uninterruptible Power Supply for mobile scanner and mobile trolley; 5) equipment manual for the baggage scanner machines; 6) replacement for the SBC; and 7) technical support within the time frame as per contract; and

c. Henceforth, remind the concerned end-users to exercise their duty in ensuring that specifications of procured equipment are compliant with the specification requirements per contract before acceptance.

13.7. During the exit conference, the Port Police Department asserted that the specifications of the body scanning machines delivered were compliant with the end-user's specification requirements.

13.8. As a rejoinder, the Audit Team informed the Port Police Department to submit its written position for transmittal to the COA ITAO for its further evaluation.

Sublease Rental

14. **PPA has not strictly implemented its own policy and guidelines on leasing, hence, lessees at PPA PMO NCR South with expired lease contracts were continuously allowed to sublease despite the absence of prior approval by the Authority, contrary to PPA Administrative Order (AO) Nos. 22-95 dated December 5, 1995 and 07-2009. Consequently, the 10 percent sublease rental share cannot be imposed, depriving the government of an estimated additional revenue of P33.578 million.**

14.1. One of the sources of income of PPA PMO NCR South is rent/lease income from the use of its property.

14.2. Section 12 of the lease contract as required by Section 17 of PPA Administrative Order (AO) No. 22-95 provides:

> Section 12 - *Prohibition Against Assignment, Transfers and Other Conveyances. The LESSEE shall not assign, sublease, transfer, convey, encumber or otherwise transact with its right under this contract, neither shall LESSEE sublease premises or any portion of the premises thereof, unless there is prior approval by the LESSOR.*

14.3. Likewise, Item 2 of PPA AO No. 07-2009 provides that *the lessee which subleases in part or in whole the leased property, as approved by the Authority shall be charged 10 per cent sublease rental share per month, plus VAT.*

14.4. Verification disclosed that four lessees (Lessee 1, Lessee 2, Lessee 3 and Lessee 4) with expired contracts have lease arrangements with PPA. These lessees are subleasing portions of their leased properties to various private companies. Per list provided by the Real Estate Management Division (REMD), Lessee 1, Lessee 2 and Lessee 3 currently have 24, 19 and 73 sub-lessees, respectively. However, the current subleasing operations of these lessees lacked approval by PPA, which is contrary to Section 12.3 of PPA AO No. 22-95.

14.5. Since the original Leased Contracts/PTOc of the concerned lessees expired from 2010 to 2018, their subleasing arrangements from contract expiry date to present are subject to 10 per cent sublease rental share per month, pursuant to PPA Administrative Order No. 07-2009 issued on November 13, 2009.

14.6. As of date, the concerned lessees still have no issued PTOcs/Lease Contracts but still occupying the leased areas/property and were allowed to continue their subleasing operations without approval by the Authority. Management did not strictly implement its leasing guidelines.

14.7. Allowing the lessees to sublease part of the leased properties without approval, deprived the government of additional revenue. PPA cannot enforce collection of sublease rental share without approved PTOcs/lease contracts and subleasing agreement.

14.8. The sublease rental share that could have been earned from the lessees for the period 2015 to 2017 and 2019 to 2020 amounted to P33.578 million, computed as follows:

Particulars	Lessee 1	Lessee 2	Lessee 3	Total
Net/Estimated Rental Revenue*	70,556,526.00	255,737,897.00	9,485,611.92	335,780,034.92
Multiply by Sublease Rental Share Rate	10%	10%	10%	10%
Opportunity Loss	**7,055,652.60**	**25,573,789.70**	**948,561.19**	**33,578,003.49**

* Based on the Financial Statements of the lessees filed at the Securities and Exchange Commission whose source of rentals solely comes from the sublease arrangements and list submitted by REMD

14.9. PPA PMO NCR South was deprived of an estimated additional total revenue of P33.578 million for six years alone from sublease arrangements with the three lessees. The financial statements of the 4th lessee was not available.

14.10. These lessees are enjoying the benefit from using government properties more than the government itself through their sublease arrangements. Lessees charge sub-lessees rentals ranging from P250.00 to P435.00 per sq. m. which is far higher than the current rental rate being charged by PPA from them which only ranged from P23.33 to P53.80 per sq. m.

14.11. Section 14.6 of PPA Administrative Order No. 22-95 states that *all occupants of areas/properties without valid written permits, contracts or other forms of authorization shall be notified by the respective Port Managers to apply for lease within a period of ninety (90) days. Those who refused to heed shall face eviction proceedings.* These provision was not implemented by PPA.

14.12. PPA PMO NCR South Management commented that the four lessees have pending requests for extension or application for lease at PPA – Head Office and have already requested the two lessees to apply for Permit to Occupy (PTOc). Likewise, they issued a Memorandum dated June 7, 2022 to the PPA General Manager, recommending the filing of legal action against several former lessees still occupying PPA managed properties at the South Harbor Expanded Port Zone (SHEPZ) but received no response yet.

14.13. Based on the copies of issued Notices to Vacate/Notices to Apply for Lease submitted by PPA PMO NCR South, the most recent issuance was on February 21, 2022, but still no response was received from the concerned lessees.

14.14. This is a reiteration of prior year's audit observation with modification and additional information.

14.15. **We recommended that PPA Management:**

a. Fast track the approval of the concerned lessees' request for extension or application for lease and Permit to Occupy, and accordingly impose the 10 per cent monthly sublease rental share, retroactively, as appropriate; and

b. **Initiate the legal eviction proceedings to those lessees who failed to vacate/apply for lease pursuant to Section 14.6 of Philippine Ports Authority Administrative Order No. 22-95.**

Unregistered Motor Vehicles

15. **At least 166 units of Motor Vehicles with total cost of P219.847 million are not registered under the name of Philippine Ports Authority, thus, do not bear government plates and do not have the proper markings, contrary to COA Circular No. 75-6 dated November 7, 1975 and PPA Memorandum Circular No. 06-2004 dated February 6, 2004.**

15.1. Item Nos. V(2) and V(4) of COA Circular No. 75-6 dated November 7, 1975, which prescribes the use of government motor vehicles, aircrafts, and watercrafts states that:

> *(2) Marking "For Official Use Only"*
>
> *All motor vehicles owned by the National Government, its agencies and instrumentalities, and all local government units including government-owned or controlled corporations, except those used by the officials enumerated under No. I hereof, should be plainly marked:*
>
> ***FOR OFFICIAL USE ONLY (3 inches)***
>
> *under which should be written the corresponding name of the bureau, office,* ***corporation****, provincial, city, municipality, or other local government unit operating or using the name.*
>
> *The mark should appear on each side of the motor vehicle. When there is no sufficient space on each side, the same should appear at the back and on the front just below the windshield of the motor vehicle.*
>
> *xxx*
>
> *(4) Use of Government Plates -*
>
> ***All government motor vehicles shall bear government plates only****. In case of bureaus, offices and agencies maintaining funds for intelligence purposes, the heads of such bureaus, offices or agencies are hereby requested to submit a list of security vehicles which may be added to the existing list of vehicles exempt from using government plates. Only the President, however, can authorize additional exemptions.* (Emphasis supplied)

15.2. Likewise, Item Nos. 4.1.5 and 4.1.6 of PPA Memorandum Circular No. 06-2004 dated February 6, 2004, states:

4.1.5 *Except vehicles assigned to the General Manager and Assistant General Managers and Assistant to the General Manager which shall bear security plates,* ***all other PPA motor vehicles shall bear government plates.***

4.1.6 *All motor vehicles of PPA Head Office, PDOs, PMOs and Projects should be marked, "****For Official Use Only****" under which should be written Philippine Ports Authority. The marks should appear on each side of the motor vehicle.* (Emphasis supplied)

15.3. Ocular inspection of motor vehicles at the Head Office and the PMOs, inquiry with the General Services Division (GSD) and Resource Management Division, and based on the Certificate of Registration/Official Receipts disclosed that at least 166 motor vehicles do not bear government plates, not registered under the name of Philippine Ports Authority and most of which are not properly marked with "For Official Use Only" and the name "Philippine Ports Authority" in accordance with the requirements under Item Nos. V.2 and V.4 of COA Circular No. 75-6 and Item Nos. 4.1.5 and 4.1.6 of PPA Memorandum Circular No. 06-2004.

15.4. It was also observed that 13 motor vehicles with a total cost of P15.520 million were registered under PPA but without proper markings of "For Official Use Only" and the name "Philippine Ports Authority" and do not bear red plates.

15.5. Non-compliance with the marking requirements and use of government plates may result in the unauthorized use of the agency's motor vehicles as absence of marking and government plates do not identify the vehicles as owned by the government. Also, there were instances when the vehicles were delayed and/or apprehended due to implementation of number coding scheme in the National Capital Region (NCR) which marked government vehicles are exempted.

15.6. The ASD manages the PPA Head Office motor pool and the provision of transportation service. While the GSD under the ASD has the responsibility to undertake the operation and maintenance of Head Office equipment, motor pool and transportation facilities, it shall be responsible for the registration of all official vehicles at Head Office pursuant to PPA Memorandum Circular No. 06-2004.

15.7. **We recommended that Management direct the General Services Division, Administrative Services Department and Port Managers to instruct the Administrative Section, Resource Management Division of Port Management Offices (PMOs) to:**

a. Expedite the registration of all motor vehicles not registered under the name of Philippine Ports Authority at the Head Office and PMOs; and

b. Comply with the required markings and use of government plates for all motor vehicles except for vehicles assigned to the General Manager, Assistant General Managers and Assistant to the General Manager which shall bear security plates.

15.8. During the exit conference, Management commented that it will be clarified first since most of these motor vehicles were used in different projects and turned over to PPA upon project completion. However, COA emphasized that these motor vehicles and corresponding Deed of Assignments were already turned over to PPA and were already recognized in the books as PPE, hence, we reiterated our recommendation to which Management agreed to comply, to expedite the registration of all motor vehicles not registered under the name of PPA at the Head Office and PMOs and comply with the required markings and use of government plates.

COMPLIANCE WITH REPUBLIC ACT No. 9184

16. **The contract for the Supply, Delivery, Installation Testing and Commissioning of Air Conditioning Units for Port Management Offices amounting to P86.272 million was awarded to a supplier with inadequate Net Financial Contracting Capacity (NFCC) based on the submitted Audited Financial Statements, contrary to Section 23.4.1.4 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184.**

16.1. Pursuant to Section 12 of the RIRR of RA No. 9184, the BAC has the power and function to create a Technical Working Group (TWG) from a pool of **technical, financial, and/or legal experts** to assist in the procurement process, particularly in the eligibility screening, evaluation of bids, and post qualification.

16.2. Item 2 on How the Post-Qualification be conducted under the Generic Procurement Manual (GPM) Volume II, Manual of Procedures for the Procurement of Goods and Services provides that the BAC or Technical Working Group (TWG) verifies, validates, and ascertains the genuineness, validity and accuracy of the legal, technical and financial documents submitted by the bidder with the Lowest Calculated Bid (LCB), using the non-discretionary criteria.

16.3. Likewise, Section 34.3 of the RIRR of RA No. 9184 states that the post-qualification shall verify, validate, and ascertain all statements made and documents submitted by the bidder with the Lowest Calculated Bid/Highest Rated Bid, using non-discretionary criteria, as stated in the Bidding Documents. These criteria shall consider, but shall not be limited to, the following:

> *xxx*
>
> c) *Financial Requirements.* ***To verify, validate and ascertain*** *the bid price proposal of the bidder and, whenever applicable, the required committed Line of Credit in the amount specified and over the period stipulated in the Bidding Documents, or* ***the bidder's NFCC to ensure that the bidder can sustain the operating cash flow of the transaction****.* (Emphasis supplied)

16.4. Section 23.4.1.4 of the RIRR of RA No. 9184 requires that the computation of a bidder's NFCC must be at least equal to the ABC to be bid, calculated as follows:

> NFCC = [(Current assets minus current liabilities) (15)] minus the value of all outstanding or uncompleted portions of the projects

under ongoing contracts, including awarded contracts yet to be started, coinciding with the contract to be bid.

The values of the domestic bidder's current assets and current liabilities shall be based on the latest Audited Financial Statements submitted to the BIR.

16.5. On April 18, 2022, PPA awarded the contract to the supplier of air conditioning units in the amount of P86.272 million as the Single Calculated and Responsive Bidder. Review and validation of the submitted audited Financial Statements (FS) and re-computation of NFCC revealed that the contractor failed to meet the eligibility criteria under Section 23.4.1.4 of 2016 RIRR of RA No. 9184, which requires that NFCC must be at least equal to ABC.

16.6. The Audit Team noted that the entries in the audited FS specifically the Balance Sheet and Statement of Cash Flow were erroneous. Using the accounting equation "Asset = Liabilities + Equity", the Total Assets is not equal to the sum of Liabilities and Equity. On the other hand, the balance of Cash reflected in the Statement of Cash Flow is not reconciled with the balance presented in the Balance Sheet, resulting in inadequate NFCC.

16.7. The NFCC establishes the bidder's liquidity, its capacity to absorb the additional obligations in connection with the contract to be bid and to finance its implementation/completion.

16.8. As stated in the GPM Volume II, Post-qualification is the process of verifying, validating and ascertaining all the statements made and documents submitted by the bidder with the LCB, which includes ascertaining the said bidder's compliance with the legal, financial and technical requirements of the bid, using a non-discretionary criterion as stated in the bidding documents. Under the financial requirements**, the BAC ought to verify, validate and ascertain** xxx **the bidder's NFCC to ensure that the bidder can sustain the operating cash flow of the transaction**.

16.9. Based on the foregoing, the BAC and TWG did not conduct the required validation of the NFCC during the post qualification, hence, the bidder was not disqualified from participating in the procurement and was awarded the contract despite failure to comply with the NFCC requirement. The supporting documents submitted by the bidder contain erroneous information, and in spite of that, the TWG considered it compliant and the BAC declared it as responsive.

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

a. Bids and Awards Committee (BAC) and Technical Working Group (TWG) to conduct due diligence in checking the accuracy of entries of submitted documents to ensure that the contracts are awarded to qualified bidders; and

b. BAC to remind the TWG to carry out their duties and responsibilities in validating the technical proposals to ensure compliance with the Revised Implementing Rules and Regulations of Republic Act No. 9184.

16.11. Management explained that the Technical Working Group (TWG) has computed and validated the NFCC of the Refrigeration and Airconditioning Services in accordance with the prescribed formula in computing the NFCC under Section 23.4.1.4 of the 2016 RIRR of RA No. 9184.

16.12. Management further commented that in NPM 008-2014, the GPPB opined that the NFCC is computed using the values of the current assets and current liabilities appearing in the bidder's Audited Financial Statements stamped "received" by the BIR or its duly accredited and authorized institutions for the preceding calendar year.

16.13. Accordingly, the TWG has evaluated and validated the NFCC of the supplier using the values for current assets and current liabilities as reflected in the certified true copy of the audited FS, particularly the Balance Sheet as of December 31, 2021, which was part of an Independent Auditor's Report and duly filed with the BIR.

16.14. As a rejoinder, we maintain that the supplier was not compliant with the NFCC requirement during the bidding process using the recomputed values of the audited FS. The TWG failed to recompute/check the accuracy of the figures reflected in the audited FS to ensure that the bidder can sustain the transaction’s operating cash flow.

16.15. During a separate meeting with the BAC and exit conference, it was manifested that the latter will instruct the TWG to check the computation and accuracy of the audited FS submitted by the bidders. Likewise, as an initial step, the BAC/TWG will verify/confirm from the BIR the submitted audited FS of the supplier.

17. **The regularity and propriety of bidding process covering various contracts with a total contract cost of P26.514 billion cannot be ascertained due to absence of control measures adopted during the bid opening such as affixing the initials of BAC members on each and every page of the original copies of opened technical and financial proposals, contrary to the Generic Procurement Manuals (GPM) Volumes II and III, Manual of Procedures for the Procurement of Goods and Services, and Infrastructure Projects, respectively, and COA Circular No. 2011-002 dated July 22, 2011.**

17.1. Section 123 of Presidential Decree (PD) No. 1445 defines internal control as the plan of organization and all the coordinate methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.

17.2. Sections 6.1 and 6.2 of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 was provided for the Standardization of Procurement Process and Forms, to wit:

> *6.1 To systematize the procurement process, avoid confusion and ensure transparency, the GPPB shall pursue the development and approval of generic procurement manuals, standard Bidding Documents, and forms, including those to be used for major procurement like drugs and textbooks.*

6.2 ***Procuring Entities are mandated to use the Generic Procurement Manuals (GPMs), Philippine Bidding Documents (PBDs)****, and other standard forms issued by the GPPB. However, whenever necessary, to suit the particular needs of the Procuring Entity, modifications may be made, particularly for major and specialized procurement, subject to the approval of the GPPB*. (Emphasis supplied)

17.3. Item 7 on how the Bids should be received and opened under the GPM Volume II, Manual of Procedures for the Procurement of Goods and Services 9 provides that *the BAC shall ensure the integrity, security and confidentiality of all submitted bids****. As such, it may adopt controls to preserve the integrity of bids submitted, i.e., affixing the initials of the BAC members or their representatives in each and every page of the original copies of all bids received and opened***.

17.4. Likewise, Item 9, on how the Bids should be received and opened under the GPM Volume III, Manual of Procedures for the Procurement of Infrastructure Projects provides that ***All members of the BAC, or in their absence their alternates, who are present during the bid opening, shall initial every page of the original copies of all bids received and opened****.*

17.5. Moreover, COA Circular No. 2011-002 dated July 22, 2011, states that *all agencies shall establish and maintain an adequate internal control system in order to achieve economy, efficiency, and effectiveness in the management and utilization of their resources, and prevent illegal, irregular, unnecessary, excessive, extravagant and unconscionable expenditures and uses of funds and property xxx.*

17.6. Forty-six (46) awarded contracts with total contract cost of P26.514 billion in CYs 2021 and 2022 were entered into by and between PPA and Contractors/Suppliers being the Single Calculated and Responsive Bidder, Lowest Calculated and Responsive Bidder and Highest Responsive Bidder.

17.7. During bid opening, concerned BAC members and the TWG check the completeness and veracity of the bid proposals submitted by the bidders. However, as informed in a letter to COA dated January 30, 2023, by the BAC Chairperson, signing of each and every page of the original copy of the technical and financial proposals is no longer mandatory. Also, per verification by the Audit Team of certain contracts, it was confirmed that no initials by the BAC members were affixed in the opened bid proposals.

17.8. Absence of initials affixed by the BAC in the opened bid proposals may open opportunities for irregularities on the bids received and opened and may compromise the integrity, security and confidentiality of all submitted bids. Contrary to the BAC statement that such control is no longer mandatory, it should be noted that ensuring the integrity, security, and confidentiality of bids submitted for goods and services is mandatory and this is achieved by affixing the initials of the BAC members or representatives in each and every page of the original copies of all bids received and opened. Also, affixing initials of the BAC members or in their absence their alternates who are present during the bid opening in each and every page of the original copies of all bids received and opened for infrastructure projects is mandatory.

17.9. Besides, COA Circular No. 2011-002 dated July 22, 2011, mandated agencies to establish and maintain an adequate internal control system in order to achieve economy, efficiency and effectiveness in the management and utilization of resources and to prevent illegal, irregular, unnecessary, excessive, extravagant and unconscionable expenditures and uses of funds.

17.10. **We recommended that Management install control measures during the opening of bid proposals by requiring the Bids and Awards Committee members or their representatives to affix their initials in each and every page of the original copies of all bids received and opened in compliance with the Generic Procurement Manuals (GPM) Volumes II and III, Manual of Procedures for the Procurement of Goods and Services, and Infrastructure Projects, respectively, and Commission on Audit Circular No. 2011-002 dated July 22, 2011.**

17.11. During the exit conference, the BAC Chairman emphasized that PPA has a lot of bidders and that this control measure is only effective if it can be ensured that each and every page is initialed. As the bidding documents involve numerous pages, some pages can unavoidably be missed and that could defeat the purpose. Also, if this control measure is intended to ensure that there will be no insertions, the requirement under the instructions to bidders under PPA, all bids submitted must be hard-bound, book-bound, and properly labeled with index tabs. The BAC is strict about it because it prevents the insertions and unauthorized removal of documents.

17.12. Management further stated in their letter reply that they have sought the opinion of GPPB regarding the requirement of signatures of the BAC members on every page of the original copies of the bids opened.

17.13. As a rejoinder, we maintain that pursuant to the 2016 RIRR of RA No. 9184, Procuring Entities are mandated to use the Generic Procurement Manuals (GPMs), Philippine Bidding Documents (PBDs), and other standard forms issued by the GPPB requiring the BAC members or their representatives to affix their initials in each and every page of the original copies of all bids received and opened.

18. **Provisions of the 2016 Revised Implementing Rules and Regulations (RIRR) of RA No. 9184, Government Procurement Policy Board (GPPB) Resolution and COA Circular Nos. 2009-001, 2012-001, and 2012-003 were not complied with during the procurement bidding process of contracts, rendering the transparency, competitiveness, accountability, efficiency and economy in the procurement not assured.**

18.1. The procurement of government shall be governed by the principles of transparency, competitiveness, accountability, equity, efficiency and economy in the procurement process.

18.2. As a result of review of the contracts in the procurement of goods and services and infrastructure projects in Head Office, the following deficiencies were noted which are not compliant with the 2016 RIRR of RA No. 9184, GPPB Resolution, and COA Circulars:

No	Contract/ Contract Amount	Deficiencies	Provisions of 2016 RIRR of RA No. 9184/GPPB Resolution/ COA Circular Not Complied With	Effects
1	Various Contracts/ 1,746,258,449.77	Non-submission of various documents supporting the contracts for the 10 projects which were bid and awarded in 2021 and 2022.	Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009 and Item 9.1 of the COA Circular No. 2012-001 dated June 14, 2012.	Precluded the timely and complete auditorial review and technical evaluation of the procurement.
2	Various Contracts/ P1,924,621,052.95	The entire bid evaluation for the procurement of three projects were completed/signed by BAC beyond the maximum allowed period of seven calendar days (CD) from deadline for receipt of bids.	Section 32.4 of 2016 RIRR of RA No. 9184	The delay incurred extends the implementation of the project, thus, delaying the benefits of the intended users that can be derived from the project.
3	Various Contracts/ P3,203,686,377.06	No proof that the bidder submitted its latest income and business tax returns, and other appropriate licenses and permits required by law and stated in the Bidding Documents within five calendar days from receipt by the bidder of the notice from BAC that the bidder has the Lowest Calculated Bid.	Section 34.2 of 2016 RIRR of RA No. 9184	
4	Various Contracts/ P2,316,097,607.06	Authenticity of the bid security was not established during the conduct of post qualification.	Section 34.3.b.iv of 2016 of RA No. 9184.	Non-performance of verification of the validity and authenticity of the eligibility documents submitted by the bidders may lead to awarding the contract with suppliers that cannot commit to enter into a contract.
5	Various Contracts/ P185,920,159.12	Performance security for two projects was posted one day before the receipt of Notice of Award (NOA) by the winning bidder.	Section 37.2.1 of 2016 RIRR of RA No. 9184	
6	Various Contracts/ P1,611,901,323.79	The awarding and signing of contracts for six projects are beyond the allowed maximum period of 10 calendar days.	Section 37.2.2 of 2016 RIRR of RA No. 9184	The delay incurred in the preparation and signing of the contract extends the implementation of the project.
7	Various Contracts/	No proof of invitation sent to an observer from a duly	Section 13 of 2016 RIRR of RA No. 9184	Although observers have no right to vote in the BAC

No	Contract/ Contract Amount	Deficiencies	Provisions of 2016 RIRR of RA No. 9184/GPPB Resolution/ COA Circular Not Complied With	Effects
	P2,814,712,909.66	recognized private group and/or non-government organization (NGO) for all BAC meetings for 15 projects.		Meetings, inviting observers is necessary to enhance transparency of the procurement process.
8	Construction of Port Operational Area, Port of Currimao, Ilocos Norte/ P152,602,461.11	The Approved Budget for Contract (ABC) for the project amounting to P154 million is not in accordance with the approved Annual Procurement Plan (APP), amounting to P148 million.	Sections 7.2 and 20.1 of 2016 RIRR of RA No. 9184 Section 3 of COA Circular 2012-003 dated October 29, 2012.	No procurement shall be undertaken unless it is in accordance with the approved APP, including approved changes thereto. Hence, this project is considered irregular.
9	Various Contracts/ P1,362,622,921.91	SLCCs of the winning bidders are not considered "similar" to the contract to be bid due to failure to meet the major categories of work of the three projects.	Section 23.4.2.4 of 2016 RIRR of RA No. 9184	
10	Various Contracts/ P1,216,634,921.64	Special Philippine Contractors Accreditation Board (PCAB) License of the winning bidders of two projects were valid only until June 30, 2022 and not renewed as verified in PCAB website. PCAB license must be valid until completion of the project.	GPPB Resolution No. 10-2019	Failure to provide PCAB License renders the bidder disqualified.
11	Procurement of Information Technology (IT) Resources/ P24,995,000.00	Technical Specifications of the IT Resources to be delivered are tailored fit to specific brands.	Section 18 of 2016 RIRR of RA No. 9184	Deprived other private contracting parties who are eligible and qualified to participate in competitive bidding.

18.3. Non-compliance with the provisions of 2016 RIRR of RA No. 9184, GPPB Resolution, and COA Circular Nos. 2009-001 2012-001 and 2012-003, renders the transparency, competitiveness, accountability, efficiency and economy in the procurement not assured.

18.4. **We recommended that Management:**

a. Instruct the Bids and Awards Committee (BAC) to:

i. Submit immediately all the lacking supporting documents to facilitate technical review and evaluation of the contracts;

ii. Conduct bid evaluation within seven calendar days from the deadline of receipt of bids pursuant to Section 32.4 of 2016 Revised

Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184;

iii. **Require bidders to submit the latest income and business tax returns, and other appropriate licenses and permits within five calendar days from receipt by the bidder of the notice from the BAC that the bidder has the Lowest Calculated Bid;**

iv. **Validate the authenticity of the bid security and its correctness as required in the Bidding Documents in the conduct of the Post-Qualification;**

v. **Instruct the bidders to post the required Performance Security within 10 days from receipt of the Notice of Award as required under Section 37.2.1 of 2016 RIRR of RA No. 9184;**

vi. **Submit proof of invitation sent to an observer from a duly recognized private group and/or non-government organization (NGO);**

vii. **Ensure that the Single Largest Completed Contracts of the bidder are similar to the contract to be bid in compliance with Section 23.4.2.4 of 2016 RIRR of RA No. 9184;**

viii. **Remind all prospective bidders to ensure that the submitted Philippine Contractors Accreditation Board License is valid until completion of the project;**

b. **Approve the contract within 10 calendar days from receipt by the winning bidder of the Notice of Award pursuant to Section 37.2.2 of 2016 RIRR of RA No. 9184; and**

c. **Instruct the end-users to prepare the Technical Specifications for the procurement of Goods based on relevant characteristics, functionality and/or performance requirements instead of specific brands.**

18.5. On the submission of lacking Annual Procurement Plan (APP) and Project Procurement Management Plan (PPMP) for the National Disaster Risk Reduction and Management Fund (NDRRMF) project which was included in the unsubmitted documents pertaining to the 10 projects, the BAC in their letter-reply dated May 9, 2023 explained that the NDRRMF project was downloaded to the PPA for implementation, hence not included in the APP and PPMP. The funds allocated for the project were from the GAA and not from PPA corporate funds. Section 7.1, Rule II - Procurement Planning of the 2016 RIRR of RA No. 9184 states that "All procurement shall be within the approved budget of the Procuring Entity and should be meticulously and judiciously planned by the Procuring Entity." Considering that the project is not a PPA project, no budget was allocated, hence not included in the APP and PPMP.

18.6. We do not concur on Management's explanation that the NDRRMF Fund project was downloaded to PPA, hence, not included in the APP and PPMP. As stipulated in the MOA, the project shall be undertaken in accordance with RA No. 9184 and its 2016 Revised Implementing Rules and Regulations. **Hence, we reiterate our recommendation that Management require the BAC to submit APP and PPMP for the NDRRMF project.**

DISASTER RISK REDUCTION AND MANAGEMENT FUND

19. **Unexpended fund amounting to P1.471 million for the Preliminary Engineering Activities of the Construction of Port Facilities in the Most Affected Area (MAA) of Marawi City funded under Fiscal Years (FYs) 2020 and 2021 National Disaster Risk Reduction and Management Fund (NDRRMF) was not reverted to the Bureau of the Treasury (BTr) contrary to the Memorandum of Agreement (MOA) executed among Task Force Bangon Marawi (TFBM), Department of Budget and Management (DBM) and PPA.**

19.1. In 2020, the Task Force Bangon Marawi (TFBM), Department of Budget and Management (DBM) and Philippine Ports Authority (PPA) executed a MOA for the implementation of the Marawi Reconstruction Rehabilitation and Recovery Program (MRRRP) funded under the FYs 2020 and 2021 NDRRMF. Among the PPA's responsibilities is to prepare the engineering plans and program of work and other necessary documents for the Project in accordance with existing PPA engineering standards and submit such to the TFBM for review and concurrence and undertake the project in accordance with RA No. 9184 and its 2016 Revised Implementing Rules and Regulations.

19.2. As provided for in Item IV of the MOA, any unobligated allotments as well as unpaid obligations and undisbursed funds shall be reverted to the National Treasury.

19.3. On October 16, 2020, PPA received the amount of P2.931 million from the DBM thru the Bureau of the Treasury under SARO-BMB-C-20-0010171, for the implementation of Hydrographic and Topographic Survey of Islamic City of Marawi (MAA-Sector 8), Port of Marawi.

19.4. The preliminary engineering activities was already completed and paid on July 12, 2021, leaving undisbursed fund of P1.471 million. However, as of report date, said fund was not reverted to the BTr which is not compliant with the MOA.

19.5. **We recommended and Management agreed to require the Controllership Department in coordination with the Treasury Department to revert the unexpended fund for the Preliminary Engineering Activities of the Construction of Port Facilities in the Most Affected Area (MAA) of Marawi City to the Bureau of Treasury in compliance with the Memorandum of Agreement.**

19.6. The Controllership Department is still waiting for the reply of National Disaster Risk Reduction and Management Council (NDRRMC) for the status of preliminary engineering activities at Sector 9 to confirm if the said project is still on-going or cancelled/terminated. Meanwhile, the Controllership Department informed that it will comply to revert the unutilized fund of Sector 8 to the BTr.

GENDER AND DEVELOPMENT

20. **PPA has allocated only P984.913 million or 4.20 per cent of its CY 2022 approved Corporate Operating Budget (COB) for the implementation of GAD-related programs, projects, and activities contrary to Section 6.2 of Philippine Commission on Women (PCW) – National Economic and Development Authority (NEDA) – Department of Budget and Management (DBM) Joint Circular No. 2012-01 and COA Circular No. 2014-001.**

20.1. Section 6.1 of PCW-NEDA-DBM Joint Memorandum Circular No. 2012-01 requires that at least five percent (5%) of the total agency budget appropriations authorized under the annual General Appropriations Act (GAA) shall correspond to activities supporting GAD plans and programs.

20.2. Further Item 1.2.2.1.3. of the PCW Memorandum Circular No. 2021-04 dated August 24, 2021 provides that *for GOCCs computation of the minimum five percent (5%) GPB requirement shall be based on their corporate operating budget (COB).*

20.3. PPA GAD Plan and Budget (GPB) was endorsed and approved by the PCW on March 15, 2022. However, the budget allocated for the implementation of PPA's FY 2022 GAD-related programs, projects and activities was short by P188.794 million.

20.4. The allocated budget amounting to P984.913 million was computed based on the FY 2022 Board of Directors (BOD) approved Budget Estimates prepared in 2021 with total budgetary outlays of P19.642 billion and the GPB was initially submitted to PCW thru the Gender Mainstreaming Monitoring System (GMMS) portal on November 15, 2021. However, the amount was not subsequently adjusted considering the revised FY 2022 (BOD) approved Proposed Budget of P25.228 billion as submitted to the DBM, thus, deficient or short by 0.80 per cent which is not compliant with the requirement of at least five per cent of the FY 2022 DBM approved COB pursuant to PCW Memorandum Circular No. 2021-04 dated August 24, 2021.

20.5. As a result, the allocated budget for GAD as reflected in the GPB may be inadequate to address various gender issues since the resources are limited, thus, its pursuit of gender equality may not be fully attained.

20.6. **We recommended and Management agreed to require the Gender and Development (GAD) Focal Point System to adjust the 2023 GAD Plan and Budget taking into account the changes of the revised Proposed Budget and resubmit it to PCW for its review and reindorsement to comply the allocation of five per cent budget for GAD activities.**

20.7. The GAD Focal Point System requested PCW on April 26, 2023 for the resubmission of the 2023 GPB to reflect the Total Budget of the Authority from

P20.657 billion to P26.056 billion per Board Resolution No. 3202 dated February 27, 2023.

21. **Various GAD programs, activities and projects (PAPs) in the PPA GAD agenda were not reflected in the GPB for CY 2022 contrary to Section 5.1 of the PCW - NEDA – DBM Joint Circular No. 2012-01.**

21.1. Section 5.1 of PCW-NEDA-DBM Joint Circular No. 2012-01 states that:

> *Set the GAD agenda or identify priority gender-issues and/or specific GAD mandates and targets to be addressed over a one-year or three-year term by the central office in consultation with regional offices, bureaus, and attached agencies. This GAD agenda shall be the basis for the annual formulation of PAPs to be included in the GPB of the department and its attached agencies, bureaus, regional offices and units.*

21.2. Review of the CY 2022 GPB revealed that, of the 23 PAPs identified in the GAD agenda for Year 3 or CY 2022, 11 PAPs were not included in the GPB.

21.3. The non-inclusion of all PAPs in the GPB suggests that PPA is unable to fully address the gender issues covered by the GAD agenda and GPB, thereby hindering the PPA in achieving its GAD goals and depriving the intended recipients of any potential benefits from the GAD PAPs.

21.4. **We recommended that Management require the GAD Focal Point System to incorporate all the identified programs, activities and projects in the GAD agenda to the annual GPB.**

21.5. Management explained that while some GAD PAPs agenda were not reflected in the GPB for CY 2022, various initiatives were accomplished such as GAD trainings and seminars and participation to GAD activities not only initiated by DOTr but those directly spearheaded by PCW. Further, GAD agenda and related framework have already been submitted in the past while the conduct of Harmonized Gender and Development Guidelines (HGDG) assessment has been applied for those PAPs mainstreamed to different accounts to get the budget utilized for 2022. The provision of kids' corner was not implemented in view of health protocols which needed to be considered.

21.6. The PPA-Head Office GAD TWG (PPA-HO GADTWG) Secretariat convened on January 26, 2023 to discuss and to reflect various GAD-related matters that may affect the implementation of GAD PAPs, e.g., trainings, agenda, analysis tools, etc. PPA intends to revise its GAD Agenda to incorporate gender issues and PAPs which were not included during the period of preparation of the said report.

22. **PPA GAD PAPs as outlined in the GAD GPB were not completely implemented and the allotted budget was not fully utilized, thus, not compliant with the rules and regulations of Executive Order (EO) No. 273**.

22.1. EO No. 273 dated September 8, 1995, approving and adopting the Philippine Plan for Gender-Responsive Development, 1995 to 2025, hereinafter referred to as the

Plan, requires that all government agencies, departments, bureaus, offices and instrumentalities, including government-owned and/or controlled corporations, at the national, sub-national and local levels, are directed to take appropriate steps to ensure the full implementation of the policies/strategies and programs/projects outlined in the Philippine Plan for Gender-Responsive Development and to institutionalize GAD efforts in government by incorporating GAD concerns, as spelled out in the Plan in their planning, programming and budgeting processes.

22.2. Per GAD Accomplishment Report for CY 2022, the gender issues and activities identified in the GPB were not fully implemented and the budget allotted to resolve gender issues were not totally utilized.

22.3. Of the nine GAD activities in the approved GPB for CY 2022, two were fully implemented, five were partially implemented, and two were not implemented. Budget amounting to P984.913 million for the client-focused activities and organization-focused activities were not fully utilized. Only P2.365 billion of the GPB was spent on the said GAD activities.

22.4. **We recommended that Management require the Gender and Development (GAD) Focal Point System to institute effective measures to monitor and ensure that GAD-related activities outlined in the GAD Plan and Budget GPB are fully accomplished and funds are fully utilized.**

22.5. Management remarked that while PPA continues to provide compliance to various government requirements to ensure gender sensitivity and responsiveness inside the port premises, the continued existence of COVID-19 cases in 2022 and its serious threat to the economic disruption prompted PPA to realign and reprioritize various projects, activities and programs deemed for implementation. Among these projects were meant to mitigate the impact of the pandemic.

COMPLIANCE WITH PROPERTY INSURANCE LAW

The Authority complied with the provision under Republic Act No. 656, also known as Property Insurance Law, as amended by Presidential Decree No. 245 which requires property to be covered by an insurance policy. The Authority procured insurance policy from GSIS for the insurable property.

COMPLIANCE WITH TAX LAWS

Note 35 to the financial statements disclosed the supplementary information required by the Bureau of Internal Revenue in Revenue Regulations No. 15-2010 prescribing as to taxes, duties and license fees paid or accrued during the taxable year.

PPA is duty bound to pay the Income Tax as a GOCC under Item C of Section 27 of Republic Act No. 11534 or CREATE. However, some of the current and prior period adjustments with tax implications were not taken into consideration in the computation of income tax, hence, not yet remitted.

COMPLIANCE WITH GSIS, PAG-IBIG AND PHILHEALTH

Monthly deductions of GSIS premiums are regularly remitted to GSIS, as well as the PhilHealth and Pag-IBIG contributions. Below is the summary of remittance of premiums and loan amortizations to GSIS, Pag-IBIG and PhilHealth for CY 2022:

Account Name	Amount Remitted		Total
	Employees' Share	PPA's Share	
Due to GSIS	270,378,954.42		270,378,954.42
Retirement and Life Insurance Premiums		115,394,174.19	115,394,174.19
Employees Compensation Insurance Premiums		1,929,500.00	1,929,500.00
Due to Pag-IBIG	29,014,877.31		29,014,877.31
Pag-IBIG Contributions		1,916,891.02	1,916,891.02
Due to PhilHealth	22,739,680.83		22,739,680.83
PhilHealth Contributions		18,327,467.12	18,327,467.12
Total	322,133,512.56	137,568,032.33	459,701,544.89

However, the balance of Due to GSIS, Pag-IBIG and PhilHealth of Head Office and Port Management Offices amounting to P12.513 million remains unreconciled and unremitted as at December 31, 2022.

STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES

Prior to the effectivity of COA Circular No. 2009-006, disallowances and charges amounted to P8.373 million and P3,986, respectively.

As of December 31, 2022, transactions suspended in audit amounted to P218.413 million while disallowances and charges amounted to P549.206 million and P21.238 million, respectively. The breakdowns are shown below:

Particulars	Beginning Balance January 1, 2022	This Period (Jan. 1 to Dec. 31, 2022)		Ending Balance December 31, 2022
		Amount Issued	Amount Settled (NSSDC)	
Notice of Suspension (NS)				
Head Office	0.00	210,275,779.56	0.00	210,275,779.56
PMO NCR South	316,022.56	0.00	0.00	316,022.56
PMO Mindoro	0.00	27,889.41	22,264.41	5,625.00
PMO Panay/Guimaras	150,752.45	0.00	150,752.45	0.00
PMO Western Leyte/Biliran	7,816,004.93	702,876.97	702,876.97	7,816,004.93
PMO Negros Occidental/ Bacolod/Banago/Bredco	2,915,470.89	0.00	2,915,470.89	0.00
Total	**11,198,250.83**	**211,006,545.94**	**3,791,364.72**	**218,413,432.05**
Notice of Disallowance (ND)				
Head Office	*373,973,393.64	31,033,953.50	2,466,182.44	402,541,164.70
PMO NCR South	4,396,000.00	3,559,642.54	3,317,061.23	4,638,581.31
PMO NCR North	*4,478,000.00	2,865,512.12	0.00	7,343,512.12
PMO Northern Luzon	10,158,010.15	4,820,793.27	0.00	14,978,803.42
PMO Bataan/Aurora	5,891,956.04	0.00	0.00	5,891,956.04
PMO Batangas	4,729,500.00	2,425,991.73	2,069,000.00	5,086,491.73

Particulars	Beginning Balance January 1, 2022	This Period (Jan. 1 to Dec. 31, 2022) Amount Issued	This Period (Jan. 1 to Dec. 31, 2022) Amount Settled (NSSDC)	Ending Balance December 31, 2022
PMO Marinduque/Quezon	2,101,500.00	1,569,823.97	654,000.00	3,017,323.97
PMO Palawan	24,999.48	1,436,500.00	370,916.67	1,090,582.81
PMO Mindoro	0.00	10,984,195.00	392,500.00	10,591,695.00
PMO Bicol	9,264,017.46	0.00	231,774.00	9,032,243.46
PMO Masbate	2,109,690.00	0.00	122,506.00	1,987,184.00
PMO Panay/Guimaras	14,725,059.02	40,000.00	0.00	14,765,059.02
PMO Western Leyte/Biliran	124,453.88	427,557.15	138,977.13	413,033.90
PMO Eastern Leyte/Samar	0.00	801,250.00	0.00	801,250.00
PMO Zamboanga	694,700.00	8,383,290.80	0.00	9,077,990.80
PMO Zamboanga del Norte	248,000.00	4,359,059.59	0.00	4,607,059.59
PMO Misamis Oriental/CDO	2,987,612.08	6,810,706.68	0.00	9,798,318.76
PMO Misamis Occidental/Ozamiz	0.00	4,949,941.75	0.00	4,949,941.75
PMO Lanao del Norte/Iligan	0.00	6,517,286.14	0.00	6,517,286.14
PMO Davao	247,500.00	6,096,022.37	0.00	6,343,522.37
PMO Socsargen	14,616.20	0.00	0.00	14,616.20
PMO Agusan	1,118,500.00	2,024,736.00	0.00	3,143,236.00
PMO Surigao	1,468,540.00	2,446,376.24	0.00	3,914,916.24
PMO Negros Occidental/ Bacolod/Banago/Bredco	5,719,021.64	5,864,752.36	0.00	11,583,774.00
PMO Negros Oriental/Siquijor	0.00	7,076,008.00	0.00	7,076,008.00
Total	**444,475,069.59**	**114,493,399.21**	**9,762,917.47**	**549,205,551.33**
Notice of Charge (NC)				
Head Office	8,258,443.28	0.00	0.00	8,258,443.28
PMO NCR South	6,376,401.14	0.00	0.00	6,376,401.14
PMO NCR North	4,186,261.74	0.00	332,699.85	3,853,561.89
PMO Davao	15,042.35	0.00	15,042.35	0.00
PMO Negros Occidental/ Bacolod/Banago/Bredco	2,749,581.63	0.00	0.00	2,749,581.63
Total	**21,585,730.14**	**0.00**	**347,742.20**	**21,237,987.94**

*As adjusted due to issuance of amended ND