ANNEX A

REPUBLIC OF THE PHILIPPINES
Department of Environment and Natural Resources
COMMISSION ON AUDIT
Quezon City

17 July 2006

HON. ANGELO T. REYES
Secretary
Department of Environment & Natural Resources
Visayas Avenue, Quezon City

Subject: Consolidated Report on the Audit of Metro Manila Air Quality Improvement Sector Development Project funded by Official Development Assistance (ODA) loans

Dear **Secretary:**

I. Introduction

1. Pursuant to Section 8(b) of Republic Act No. 8182 dated 11 June 1996 or the ODA Act of 1996 the Commission on Audit conducted an audit of the Metro Manila Air Quality Improvement Sector Development Program (MMAQISDP) funded by ADB.

2. We wish to bring to your attention the audit observations and recommendations which were discussed with the officials and staff concerned, whose comments were incorporated in this report where appropriate.

II. Audit Objectives

3. The objective of this audit are as follows:

- To evaluate the efficiency of the implementing agency in the availment/withdrawal of the ODA loan;
- To evaluate the efficiency of the agency in implementing the ODA-funded project;

- To determine the compliance of the implementing agency with the provisions of the Loan Agreement (LA), RRP and applicable rules and regulations; and

- To determine whether project goals and objectives were attained; and

- To determine the completeness and correctness of the recording of project transactions in the books of accounts as well as the reporting thereof.

III. Audit Scope and Methodology

4. Our audit covered transactions of the project from 1 January to 31 December 2005. The audit focused on the efficiency of availment and project implementation and compliance with Loan Agreement/contracts, applicable rules and regulations for.

5. The audit included the review, examination, verification, and evaluation of pertinent loan program documents. Interview of project officials and concerned staff was conducted to clarify issues relative to the project implementation. Ocular inspection of selected project components in the project site was undertaken to ascertain the veracity of the data presented in the progress reports.

IV. Background

A. Description of the Program

6. The Department of Environment and Natural Resources (DENR) is currently implementing foreign assisted projects funded by different funding institutions. One of the projects implemented is the Metro Manila Air Quality Improvement Sector Development Program (MMAQISDP) - Investment Component funded by Asian Development Bank (ADB Loan 1665 PHI). The DENR is the Executing Agency for air quality monitoring and evaluation, the public awareness program, capacity building and institutional strengthening, and overall coordination. The Department of Public Works and Highways (DPWH) for design and construction of the road rehabilitation program; the Metro Manila Development Authority (MMDA) for traffic engineering, management and enforcement, and the antismoke belching program, the Department of health (DOH) for the public health monitoring program; and the Department of Transportation and Communications (DOTC) through the Land Transportation Office, for implementing the motor vehicle inspection system program. The Project consist of the following parts:

a. rehabilitate about 55 kilometers of agreed upon roads in Metro Manila by undertaking detailed engineering, supervision of construction and civil works;
b. implement traffic management and policy programs, including improved traffic signs and road markings, communication systems, traffic enforcement equipment, geometric improvements, capacity building and public transport

studies; plus improve the Borrower's Anti-smoke Belching campaign by installing database and enforcement equipment and through capacity building, including training;

c. improve Ambient Air Quality Monitoring by installing and rehabilitating equipment and through capacity building; reducing point source air emissions by outsourcing stack monitoring and through capacity building including training ; and improving quality management by establishing a Technical Secretariat, supporting public awareness campaigns and by capacity building;
d. improve the MVIS physical facilities and regulatory functions; and
e. improve public health monitoring by installing monitoring equipment and purchasing supplies.

7. The investment component of the Program will be implemented over four years which is expected to be completed by 30 June 2003. However, said project has been extended up to 30 December 2006.

8. The objective of the Program is to promote policy reforms to improve air quality through the abatement of the main mobile and stationary sources of air pollution. The main focus is on Metro Manila and the surrounding provinces in its air shed [1] as this is the location of the highest concentrations of air pollution.

B. Sources of Funds

9. On December 21, 1998, the Philippine government thru the Department of Finance signed a loan agreement with ADB for the Metro Manila Air Quality Improvement Sector Development Program (MMAQISDP) through the combination of a policy loan , investment loans and a technical assistance (TA) grant of US$1.5 Million to develop air emission policies and enhance public awareness to support the abatement of air pollution. The program has a total funding of US$630.845 million (inclusive of US$27.355 million government counterpart) from various donor institutions. Table below shows the total loan for MMAQISD.

MMAQISDP Sources of Fund		
Loan Acct. No.	**Purpose**	**Amount Committed**
ADB 1663 PHI	Policy Loan -Budgetary support under the DOF	US$200 M
ADB 1664 PHI	Investment loan for the establishment of an air pollution control facility that will assist industries, commercial	JPY3,057.375M or US$25 M

[1] The air shed covers the National Capital Region and parts of regional administrative districts of Region III and IVA. The provinces in the air shed include Bataan, Batangas, Bulacan, Cavite, Laguna, Pampanga, Rizal, and part of Quezon.

	establishments and the transport sector to make investment. Implemented by Land Bank of the Phil.	
ADB 1665 PHI	Investment loan to finance part of the necessary public sector investments. Implementing agencies are DPWH, DOTC, MMDA, DENR & DOH.	US$ 71 M
JBIC CL20	Program loan for (RP) Budgetary support	JPY36.3 B or US$ 300.0 M
SIDA	Investment loan	US 4.50 M
	TA Grant	US$1.50 M
GOP		US$ 27.355M
Total		**US$ 630.845**

10. Under the Investment loan , ADB agreed to provide US$ 71 Million to the Philippine government to achieve the objectives of the project. As at 31 December 2005 total availments of the Investment Loan per ADB records amounted to US$20,640,000.00 inclusive of interest and commitment charges of US$2,095,317.58 and US$2,272,312.53, respectively or a total of US$4,367,650.17. Repayments totaling 1,239,216.76, hence outstanding balance as at 31 December 2005 amounted to US$19,401,559.16.

V. Detailed Observations and Recommendations

Utilization of Motor Vehicles acquired under the Metro Manila Air Quality Improvement Sector Development Program

Most of the vehicles procured under the vehicle procurement program of the MMAQISDP were not utilized for the purpose these were intended due to absence of clear-cut guidelines on how to utilize them in the enforcement and monitoring activities towards the attainment of the objectives of the program.

11. The DOTC acquired nine (9) units of Toyota Revo motor vehicles at ₱649,500.00 per unit or a total of ₱5,845,500.00 under the MMAQISDP for utilization in connection with its Clean Air Act initiatives, such as, monitoring of Private Emission Testing Centers (PETCs) and anti-smoke belching enforcement activities. The ₱5.8 million funding for the vehicle procurement under the MMAQISDP was obtained through a loan facility granted by the Asian Development Bank (ADB) to the Philippine Government.

12. The vehicles were delivered on October 4 and 15, 2004. The five (5) vehicles went to the DOTC Proper, while the other four (4) were delivered at the Land Transportation Office (LTO) Central Office.

13. Confirmation and evaluation on the utilization of the vehicles acquired were performed to determine whether the same were used for the purpose they were intended.

14. Records obtained from the Property Utilization and Disposal Division (PUDD) disclosed that the Secretary of the DOTC issued a Memorandum dated May 30, 2005 relative to the assignments of five (5) units Toyota Revo to the Private Emission Testing Center (PETC)/Anti-Smoke Belching Unit (ASBU) carpooled vehicles under the control and supervision of the Undersecretary for Land Transportation, and that the subject vehicles were to be exclusively used in monitoring the PETC by the DOTC PETC Monitoring Committee and ASBU enforcement activities of the DOTC Action center in accordance with pertinent provisions on carpool use as provided under DOTC Office Order No. 2000-09 dated March 14, 2005.

15. Interview with concerned employees disclosed that there was no record available pertaining to the distribution/assignment of these vehicles from the time they were delivered in October 2004 until the issuance of the above Memorandum on May 30, 2005. Thus, from the period they were delivered until they were distributed/assigned (about seven months), these vehicles could have been idle or unused.

16. Out of the five (5) vehicles that went to the DOTC Proper, four (4) were issued/assigned to officials directly involved in the activities of the air pollution control projects, while the remaining one (1) was assigned to the Office of the Secretary.

17. We noted, however, that it was not within the authority of the Undersecretary to assign vehicles to those concerned officials even if this fleet of vehicles was under his control and supervision. It is only the Secretary, through the recommendation of the Executive Committee, who shall assign below the rank of Undersecretaries one (1) transport vehicle as provided for under the same Office order.

18. Further, it was noted that the vehicle assigned to the Office of the Secretary with Plate Number XSY 185 was issued to the Assistant Secretary for Finance and Comptrollership Services, who is not involved in the monitoring and enforcement activities of the PETC Monitoring Committee and DOTC Action Center. Based on the reports of fuel consumption charged to the Special Vehicle Pollution Control Fund, said vehicle has not withdrawn fuel as of December 31, 2005, an indication that the vehicle was not used for monitoring and enforcement activity.

19. On the other hand, confirmation of the receipt and utilization of four (4) Toyota Revo issued to LTO Central Office disclosed that two (2) motor vehicles were subsequently issued to the director of Law Enforcement Service, Sectoral Head Office (LES-SHO) and one each to Region III and IV-A as evidenced by the Acknowledgment Receipts for Equipment.

20. In line with the confirmation made, the Audit Team Leader of the LTO Region IV-A reported that the vehicle issued to the regional office was utilized for activities in connection with the Clean Air Act initiatives. However, the Audit team Leader of LTO Region III provided the team a copy of the reply of the Assistant Regional Director of LTO Region III pertaining to the utilization of the motor vehicle issued him, which is quoted in parts below:

> *"It is informed that practically there was no enforcement made in so far as the implementation of the Clean Air Act is concerned and this is attributable to the failure to provide our personnel the required training to equip them with sufficient knowledge of operating the Opacimeter (smoke tester, x x x. Thus, the use of such vehicle was diverted to the implementation of R..A.. 4136 and other related laws. x x x, after an exhaustive training conducted on our personnel x x x we shall now be able to fully implement the Clean Air Act. Issuance of deputation orders is on its way."*

21. Based on the above conditions, we concluded that the vehicles purchased and distributed by DOTC were not utilized by the recipients for the implementation of the activities under the program which may result in the non-attainment of the program's objectives.

22. We recommended, and management, assured the Team that the Undersecretary for Transportation implement the following:

a. To cause the transfer of ownership of the vehicle to their rightful beneficiaries/end-user since the program was already concluded. Require also the PSPMS to use the Acknowledgment Receipt for Equipment (ARE) forms in lieu of MRs as required under the Manual on the New Government Accounting System (NGAS), Volume II. In the conduct of similar programs or project in the future, coordinate with the Secretary regarding the assignment and distribution of the program/project resources to proper officials and channeling of the use of these assets for the activities that will promote the intentions of the program;

b. Instruct the Director PUDD, to recall the vehicles issued to the DOTC official not involved in the monitoring and enforcement activities and the Assistant Secretary, LTO to retrieve the vehicle from the former Director who is no longer in the government service and utilize the same in the monitoring and enforcement activities of the DOTC PETC Monitoring Team and DOTC Action Center; and

c. Cause the investigation of the non-return of the vehicles issued to officials who are no longer connected with the LTO.

The significant delay in the project implementation on the part of MMDA and the loan proceeds for Part A –DPWH portion was not fully utilized thus causing loss to the government in terms of project benefits and commitment charges.

23. The MMAQISDP is now on its 6^{th} year and the loan closing is December 31, 2006 but the implementation is way behind the targeted schedule. Report submitted by the Project

Management Office of MMDA showed that its accomplishment during the year is 5.16% of the work target to be accomplished, bringing a cumulative total of only 18.36% from 1999 to 2005.

24. The significant delay in the project implementation is a loss on the government as it defers benefits to project beneficiaries. This is not to mention the incurrence of commitment charges for the availment of the loan proceeds.

25. Likewise, out of the seventy-one million dollars (US$71,000.00) loan, the amount of Nineteen Million Five Hundred Twenty thousand dollars (US$19,520,000.00) was allocated to DPWH to finance Part A of Schedule I of the loan Agreement. Said amount should have been utilized to the fullest until June 30, 2003 in accordance with the loan agreement and the Report and Recommendation of the President to the Board of directors (RRP).

26. However, our audit disclosed that the Investment Component of the MMAQISDP loan proceeds for Part A of the project was not fully utilized due to the delayed implementation of the project.

27. Pursuant to the Loan Agreement, the closing date for this loan was December 31, 2003, however, this was extended up to December 31, 2006. Despite the extension, Part A of the project is still not being implemented as of to date, except for the detailed engineering which has also undergone some changes, to wit;

Particulars	**Amount**	
	US$	**PhP**
Original Contract Cost	1,203,541.50	64,835,137.50
Revised Contract cost	1,495,226.50	72,842,711.92
Difference	**291,685.00**	**8,007,574.42**
Contract Time	50.0 months	
Revised Contract Time	65.5 months	

28. Verification of the records and withdrawals from the Loan account, revealed that only a total of US$1,311,235.28 or 6.72% of the total allocation was withdrawn/utilized, in payment of the consultancy contract of Renardet S.A from CY 200-2003 using the direct payment mode of disbursement.

29. Perusal of documents and interview with concerned project officials and staff disclosed that the following factors contributed to the delayed implementation of the road rehabilitation component of the project.

a. Inquiry on the alleged overpricing of the proposed EDSA rehabilitation project ensued in Congress (in aid of legislation), thus, pre-construction activities were suspended pending the outcome of the inquiry. It was only on the third hearing by the Committee on Good Government (CGG), on or about December 2002 that the inquiry was closed.

b. Acting Secretary Bayani Fernando wrote ADB on 27 February 2003 requesting for consideration of the revised design for the road rehabilitation. Revised design was submitted to ADB for approval on 13 May 2003 but was denied on 22 September 2003.

c. Non-issuance of clearance from MDA-RDC for the project.

d. ADB required justification Traffic Impact assessment, Technical Justification and updated Economic Internal Rate on Return (EIRR) on 28 May 2003. DPWH submitted request for extension on the submission of the required justification on 30 May 2003. Justification was submitted only on 04 July 2003.

30. The delayed project implementation resulted to a low rate of utilization of ODA loans causing the government to incur unnecessary expenditures in the form of commitment fees for the undrawn amount. Section 2.03a of the Loan Agreement provides that "the borrower shall pay a commitment charge at the rate of three-fourths of one percent (0.75%) per annum. Such charge shall accrue on amounts of loan (less amounts withdrawn from time to time) during successive periods commencing 60 days after the date of the Loan Agreement.

31. As of December 31, 2005, commitment fees totaling US$ 2,272,312.53 was incurred, to wit:

Year	Amount In USD
1999	35,939.29
2000	144,027.08
2001	314,787.10
2002	452,386.06
2003	479,022.43
2004	437,781.06
2005	408,369.51
Total	**2,272,312.53**

32. Aside from paying the commitment fees, the government will be facing difficulty in funding the project after the loan closing date considering that the costs to be incurred in the completion thereof would be sourced out from the GOP funds.

33. We recommended that the Project Management Office and other Officials concerned of MMDA to identify issues and problems causing the delay and adopt measures to fast track project completion.

34. Management commented that a Resolution is now being processed for approval of DENR Secretary endorsing the cancellation of the DPWH and MMDA components of the loan.

35. We also recommended and management concurred that the road rehabilitation component of the project be cancelled in order to avoid the incurrence of additional commitment fees.

36. For future loans/projects, we further recommended that DPWH should maximize the utilization of the loan proceeds for the intended purpose within the implementation period and resolve immediately all issues to avoid delay in project implementation. Management should also keep track with the implementation schedule of the project, which is aligned with the disbursement schedule embodied in the loan agreement /appraisal report, to avoid the incurrence of additional commitment fees.

Delay in payment to the contractor resulted to the delay in the conduct of training on the transfer of technology of the equipment installed to assure proper operation of the ambient network, may result in the failure of achieving the program's objective.

37. The overall objective of the Program is to improve air quality management in the Metro Manila air shed in order to achieve improvements in air quality over the medium term. One of the components of the program is to improve Ambient Air Quality Monitoring through the installation and rehabilitation of equipment with an allocation of US$6.190 million.

38. The DENR conducted public bidding and after thorough review and evaluation of the tendered bids, contract was awarded to ETI/IMACH amounting to US$6,163,015.00 for the rehabilitation/upgrading of nine (9) conventional and one (1) mobile van ambient air quality monitoring stations and operations and maintenance for four (4) years.

39. Aside from operation and maintenance of the stations, trainings shall be conducted to transfer the technology to EMB-DENR. However, inquiry from EMB-DENR officials disclosed that there were no trainings conducted yet for technical personnel involved in the monitoring of ambient network to assure proper operation of the network upon take over.

40. Training schedules to be provided by the Managing Partner of ETI is dependent upon payment of all due invoices owed to ETI by the EMB-DENR. Any delay beyond the scheduled payment date or failure to pay the total amount due on the scheduled payment date, shall subsequently delay the training schedule.

41. It was also noted that ETI invoices from November 2004 to December 2005 amounting to US$ 898,772.98 (US$64,198.07 X 14 months) has not been paid. In addition, a completion fee of US$123,260.30 for the period November 2003 to October 2004 is still an outstanding obligation of the program to the contractor.

42. It is also worthy to mention, that the project completion date of the contract is January 2006 while the program will end on December 31, 2006. Any delay in the conduct of training or non-transfer of technology to the agency may result in the failure in achieving the program's objective and a loss on the part of the government.

43. Had the contracting parties complied strictly with their duties and responsibilities, conflicts could have been avoided. Likewise, scheduled payments and training schedules could have been made.

44. Management stated that there are technical issues and contractual obligations that are still to be resolved such as non-installation of strip chart recorded, a very significant instrument that will be able to determine reliability of data. Hence, operation and maintenance payment for the months of November 2004 up to February 2006 was suspended pending resolution of said issues.

45. Management also mentioned that based on the submitted credentials of ETI personnel, the capability of the contractor to provide trainings is inadequate. Training will be undertaken as soon as issues are resolved.

46. We recommended that Management should require the contractor to adhere strictly to the provisions of the contract and trainings be conducted to assure proper operation of the network upon take over by EMB-DENR to achieve the project's objective.

Disbursements thru direct payment amounting to US$3.189 million and ₱59.867 million for MMDA and DPWH, respectively, have not been recorded in the books of the MMAQISDP, thereby rendering the asset and expense accounts unreliable.

47. Section 112 of PD1445 states that "The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government."

48. Verification of subsidiary ledgers of MMDA disclosed that the disbursement from the loan proceeds thru direct payment for year 1999 to 2005 totaling US$ 3.189 million or ₱171.177 million have not been recorded in the books of accounts of the MMAQISDP. It was also noted that the Accounting Services did not maintain a complete set of records nor keep complete documents for direct payment transactions.

49. Also, examination and verification of records and documents pertinent to the loan, such as Withdrawal Applications, consultancy contracts, bills and financial statements disclosed that loan proceeds and/or disbursements directly paid by ADB to the consultant for MMAQISDP for CY 2000-2003 amounting to ₱59,867,312.32 were not taken up in the books of accounts (Fund 102) of the DPWH.

50. Interview conducted revealed that the non-recording in the books of accounts of DPWH is due to the failure of the Accounting Division to request/secure Non-Cash Availment Authority (NCAA) from the Department of Budget and Management (DBM) based on the Journal Vouchers/Journal Entry Vouchers of the Bureau of the Treasury (BTr).

51. The non-recording of disbursements thru direct payment renders the asset and expense accounts unreliable. They further informed us that follow-up letters were sent to the DBM for the issuance of NCAA.

52. We recommended that Management continue following-up the release of NCAA to effect the necessary adjustments in the books.

53. We also recommended that management should see to it that NCAAs are regularly requested from the DBM for all direct payments made by the foreign lending institutions (FLIs) to ensure that all disbursements from the loan proceeds are recorded in the books of accounts.

Construction in Progress-Agency Asset account (264) amounting to ₱13.705 million has been outstanding in the books due to non-issuance of the acceptance certificate by the end user resulting in the understatement of the Property Plant & Equipment -Building and the corresponding Depreciation thereof in the agency books. Likewise, the 50% retention fee amounting to ₱275,655.84 was released to the contractor without final acceptance of the works in violation of RA 9184.

54. Review of the General Ledger Balances showed that the Construction-in-Progress – Agency Asset Account (264) amounting to ₱13,705,536.52 has been outstanding in the books due to non-issuance of the acceptance certificate by the end user, resulting in the understatement of the Property Plant & Equipment -Building and the corresponding Accumulated Depreciation thereof in the agency books.

55. The construction of the Air quality Management training Center (AQMTC) building of the ADB-assisted Metro Manila Air Quality Improvement Sector Development Program (MMAQISDP) was awarded to R.R. Encabo Construction and Traders under contract No. DENR-FAPS-04-10-W-LCB-2000 with a total project cost of ₱11,999,000.00 and with a duration of 120 days from November 6, 2001 to March 10, 2002. However, request for extension was granted to the contractor due to various problems encountered during construction.

56. On February 10, 2005, certificate of completion of the building was issued. Hence, the final progress billing amounting to ₱452,480.58. The said amount was paid through direct payment by ADB. However, upon request of the contractor, DENR agreed to pay 50% of the retention fee amounting to ₱275,655.84 simultaneous with the said final billing. The remaining 50% of the retention fee shall be paid only upon issuance of Defects Liability Period (DLP) Certificate and Certificate of Final Payment.

57. Inquiry from concerned officials also disclosed that the acceptance certificate has not been issued by the agency to the contractor. However, the 50% retention fee has been released to the contractor without the final acceptance of the works in violation of RA 9184.

58. Pursuant to Annex E 6.2 of the IRR of RA 9184 "the total "retention money" shall be due for release upon final acceptance of the works. The contractor may however request for the substitution of the retention money for each progress billing with irrevocable standby letters of credit from a commercial bank, bank guarantees or surety bonds callable on demand, of amounts equivalent to the retention money ..xxx. Said irrevocable standby letters of credits, bank guarantees and /or surety bonds, to be posted in favor of the Government shall be valid for a duration to be determined by the concerned implementing office/ agency and will answer for the purpose for which the 10% retention is intended, i.e. to cover uncorrected discovered defects and third party liabilities."

59. In view of the foregoing the non-acceptance of the Building by the end-user makes the account Construction-in-Progress open in the books and the understatement of the Property Plant and Equipment (PPE) -Building account and the corresponding Depreciation expense thereof.

60. Management mentioned that the Defects Liability Period (DLP) of 60 days was given in the September 2004 letter of the former CMT chairman and MMAQISDP Project Director. It took more than 60 days for the contractor to correct the remaining and defective works stated in the punch lists including some defects that occurred after the DLP. They have only accomplished all punch lists and defects just recently (11 February 2006). Hence the certificate of acceptance can now be issued.

61. We recommended, and Management should require the contractor to rectify the defects (if any) and settle the issue. Issuance of Acceptance Certificate should be made as basis in recording the PPE-Building and Accumulated Accounts in the books of the agency. Likewise, release of retention fee should be made only upon final acceptance of the works as required under RA 9184.

Balances of accounts Due from Other Funds account (144) amounting to ₱7.995 million remained unliquidated as at 31 December 2005, resulting in the understatement of expenses and overstatement of assets.

62. Section 89 of PD 1445 requires the liquidation of cash advances as soon as the purpose for which it was given has been served. It was further stated that no additional cash advance shall be allowed to any official or employee unless the previous cash advance is first settled or proper accounting thereof is made. However, the provisions to the foregoing regulation was not strictly adhered to.

63. Due from Other Funds account (144) of the MMAQISDP amounting to ₱7,995,076.18 remained unliquidated at the end of the year contrary to the provisions of Sec. 89 of PD 1445. Of the total amount ₱5.0 million or 63% pertains to the transfer of funds to

Trust Fund 101 at the end of the year, while the remaining ₱2,995,076.18 or 37% pertains to unliquidated fund transfer/receivable as at December 31, 2005 accounted for as follows:

Date	Reference	Purpose	Amount
Dec. 29,2004	Ch # 202735 JEV # 05-01-008	Balance on the P4.0 M transferred amount	₱1,598,453.48
8/18/05	Ch # 202961	Receivable for the repair of FASPO bldg.	1,396,622.70
Total			**₱ 2,995,076.18**

64. On the other hand, the amount of ₱1,598,453.48 which was transferred to Trust Fund 101 remained unliquidated in the books for a year as at December 31, 2005, contrary to the above cited provision. It is also observed that another transfer was made amounting to ₱5.0 million at the end of the year despite of the said situation.

65. Moreover, the transferred fund amounting to ₱5.0 million at the end of the year states that it is for payment of various creditors. However, review of said transaction revealed that no supporting documents were attached.

66. The accumulation of Due from Other Funds (144) account resulted in the overstatement of the said account and understatement of expenses, since expenditures are not promptly recorded. Also, the transfer of cash from one fund to another at the end of the year circumvented the provisions of EO 338 and COA-DBM Joint Circular 1-97 regarding the transfer of all cash balances to the National Treasury.

67. Management mentioned that the ₱2.995 million was already settled per approved request dated June 22, 2006 for transfer to Bureau of Treasury amounting to ₱1,598,453.48 while the remaining balance of ₱1,396,622.70 was corrected per ALOBS No. 05-12-6250 DATED 12/23/05. The transferred fund of P5.0 million will be used in the current year and whatever balance at the end of the year will be transferred to Bureau of Treasury.

68. We recommended that the accountant should see to it that long outstanding Due from Other Funds be liquidated at the end of the year in order to update recording of all expenses incurred in the appropriate account and to report accurately the balance of said account. Also, comply with the provisions of EO 338 and COA-DBM Joint Circular 1-97 regarding the transfer of all cash balances to the National Treasury.

Two vehicles amounting to ₱1.420 million turned-over by Pennoni International Philippines, Inc. (consultant) to the DENR remained registered in the name of the former and insured to a private insurance company in violation of Section 5 of RA 656.

69. Review of the Motor Vehicles account (124) in the General Ledger for CY 2005 revealed that two vehicles amounting to ₱775,000 and ₱645,000.00 with plate Nos. WEF 549 and WRZ 644, respectively, were recorded in the books per JEV No. 05-09-113 dated September 2005.

70. Further verification of documents disclosed that said vehicles were turned-over by Pennoni International Philippines, Inc. (consultant) on February 24, 2003. Inquiry from The said vehicles were taken up only in the books in September 2005 due to non-submission of the supporting documents to Accounting Division (i.e. Deed of Assignment/Transfer, Acceptance, etc.).

71. Moreover, the said vehicles were registered at the Land Transportation Office (LTO) still in the name of Pennoni International Phils. Inc.. in September 22, 2005. The Toyota van was insured with Security Pacific Assurance Corporation while the Mitsubishi Lancer was insured with Acropolis Central Corporation a private insurance company instead of insuring them to the Government Service Insurance System (GSIS). Despite of the complete documentations and recordings made in the books as government property the same remained in the name of the consultant.

72. The foregoing is in violation of Section 489 of the Government Accounting and Auditing Manual (GAAM) Volume I and Section 5 RA No. 656 which states that " Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which however, shall not exceed the premiums charged by private insurance companies: Provided, however, That the System reserves the right to disapprove the whole or a portion of the amount of insurance applied for: …xxx"

73. Management mentioned that all original pertinent documents of the two (2) vehicles with plate numbers WEF-549 and WRZ 644 transferred by Pennoni International Philippines, Inc. had been turned-over to Mr. Bibiano Miranda on March 7, 2003, then Supply Officer of the General Services Division (GSD) and the same set of documents were furnished to Mr. Lamberto Ramos (replacement of Mr. Miranda) on September 9, 2005.

74. We recommended, and Management agreed, to strictly adhere to the provisions of Section 489 of the GAAM.

Balance of Property, Plant and Equipment (PPE) per books did not reconcile with the Inventory Report, showing a difference of ₱59,066,455.20.

75. Section 53 of the Government Accounting and Auditing Manual Vol. III on asset accountability states that "*Accountability for the custody and use of an asset is to be*

assigned and maintained and periodic comparison shall be made of the existing asset with the recorded accountability and appropriate action taken on the difference."

76. As of December 31, 2005, the PPE has a balance of ₱7,782480.00 To check the correctness and reliability of amount, a comparison of the Inventory Report on Property with the accounting records was made and the result showed a difference of ₱59,066,455.20, the details of which are as follows:

Metro Manila Development Authority Comparison of PPE per Books vs. Inventory As of December 31, 2005			
Items	**Per Books PhP**	**Per Inventory Report**	**Difference PhP**
Communications Equipment	3,372,480.00	10,815,770.20	7,443,290.20
Motor Vehicles	4,410,000.00	56,033,165.00	51,623,165.00
Total	**7,782,480.00**	**66,848,935.20**	**59,066,455.20**

77. The above difference was due to the failure of the Accounting Services to record the handheld radios, motorcycles and KIA vehicles procured in 2003 and paid directly by ADB. These procurements were part of the disbursements mentioned in the related finding above. Moreover, opacimeters procured at ₱7,875,000.00 in January 2002 and paid thru direct payment were neither recorded in the books nor included in the inventory report.

78. The unreconciled balances between the accounting records and Inventory Report on Property rendered the PPE account balance unreliable.

79. Management explained that these property and equipment were not yet recorded in the books because of the absence of the required NCAA.

80. We recommend that the Accounting Services immediately record the said property and equipment in the books of MMAQISDP upon receipt of the NCAA from DBM.

ACKNOWLEDGMENT

We wish to extend our appreciation for the valued support and cooperation extended to us by the officials and staff of the agency for the duration of the audit.

Very truly yours,

ROBERTO Z. RABULAN
Supervising Auditor