Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

MANAGEMENT LETTER

on the

DUTY FREE PHILIPPINES CORPORATION

For the Year Ended December 31, 2018

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

June 7, 2019

Dear Mr. Angala

Management Letter on the Audit of the Duty Free Philippines Corporation For the period January 1 to December 31, 2018

I. INTRODUCTION

1. Pursuant to Section 2, Article IX-D of the Constitution of the Philippines and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we are mandated to audit the transactions pertaining to the operations of the Duty Free Philippines Corporation (DFPC) for the period January 1 to December 31, 2018.

2. The audit was conducted in accordance with applicable legal and regulatory requirements, and the International Standards of Supreme Audit Institutions (ISSAIs). Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions. Our audit was aimed to: (a) ascertain the propriety of the financial transactions and operations of the DFPC; (b) determine compliance with prescribed rules and regulations; (c) recommend agency improvement opportunities; and (d) evaluate the extent of implementation of prior year's audit recommendations.

3. We are issuing this Management Letter (ML) instead of the standard Annual Audit Report (AAR) in view of the non-submission by the DFPC of its calendar year (CY) 2018 financial statements, supporting schedules and reports, primarily due to the delay in the complete roll-out of the ERS-Ms Dynamics AX Solutions system, which includes the new accounting system, from its original completion date on December 31, 2017, because of the lack of qualified technical personnel; and the abandonment of the old accounting system which could have served as a back-up as well as to enable the Agency to conduct a parallel run until the new accounting system would be fully operational.

Mr. VICENTE PELAGIO A. ANGALA
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4. We bring to your attention the results of our audit including our observations and recommendations, which were earlier communicated through the Audit Observation Memoranda (AOMs) and formally discussed with Management during the Exit Conference held on May 17, 2019. Their comments on the audit observations and recommendations are incorporated in this ML, where appropriate.

II. BACKGROUND

Creation and Mandate

5. The Duty Free Philippines (DFP) was created by virtue of Executive Order (EO) No. 46 dated September 4, 1986 which granted then Ministry of Tourism, now Department of Tourism (DOT), through the Philippine Tourism Authority (PTA), the franchise to establish and operate a duty and tax free merchandising system in the Philippines, for the purpose of augmenting the service facilities for tourists, and to generate foreign exchange and revenue for the government.

6. Pursuant to EO No. 46, the DOT issued the implementing rules and regulations on the establishment, management and operation of the duty and tax free merchandising system in the Philippines through the issuance of Tourism Administrative Order (TAO) No. 89-04. Its provisions covered the establishment, importations, operations and sales of the merchandising system.

7. On May 12, 2009, Republic Act (RA) No. 9593, otherwise known as the Tourism Act of 2009, was enacted. Under Section 89 of the said law, the DFP was reorganized as Duty Free Philippines Corporation (DFPC) attached to the DOT, with the mandate to operate the duty and tax-free merchandising system in the Philippines to augment the service facilities for tourists and to generate foreign exchange and revenues for the government as established under EO No. 46.

8. Under Section 93 of RA No. 9593, the DFPC shall have an authorized capitalization of P500 million, to be fully subscribed by the national government. It also requires that a minimum of 50 per cent of the annual net profits of the DFPC shall be automatically remitted to the Office of the Secretary of the DOT to fund tourism programs and projects in lieu of the statutory remittance to the national government under RA No. 7656; 70 per cent of which shall be for the account of the Tourism Promotions Board (TPB).

9. On November 12, 2009, the Implementing Rules and Regulations (IRR) of the Tourism Act took effect upon its publication in newspapers of general circulation resulting in DFPC's transition from a sector of PTA to a government corporate entity.

Organizational Set-up

10. With the implementation of the Tourism Act, the DFPC is headed by a Chief Operating Officer (COO), and is governed by a Board of Directors (BOD), composed of the following:

    a. DOT Secretary, as Chairperson;
    b. DFPC COO, as Vice Chairperson;
    c. Department of Finance (DOF) Secretary;
    d. Department of Trade and Industry (DTI) Secretary; and
    e. Three (3) representative directors, to be appointed by the President upon the recommendation of the Tourism Congress from a list of at least six nominees coming from its members.

11. As of December 31, 2018, the DFPC is headed by COO Vicente Pelagio A. Angala. It had a total workforce of 1,157 personnel composed of one (1) appointee, three (3) coterminous, 856 regular and 297 job order status personnel.

12. The DFPC submitted its Reorganization Plan to the Governance Commission for Government Owned or Controlled Corporations (GCG) on March 23, 2016, for approval.

Store Locations

13. As of December 31, 2018, DFPC is operating the tax and duty free stores located at the following:

    a. Fiestamall, Parañaque City;
    b. Ninoy Aquino International Airport (NAIA) Terminal I – Arrival and Departure, Pasay City;
    c. NAIA Terminal II - Arrival and Departure, Pasay City;
    d. NAIA Terminal III - Arrival and Departure, Pasay City;
    e. Mactan International Airport – Arrival and Departure, Lapu-lapu City, Cebu;
    f. Davao International Airport – Arrival and Visitors Center, Davao City;
    g. Kalibo International Airport – Arrival and Departure, Kalibo, Aklan;
    h. Clark International Airport – Pre-Departure and Arrival Area, Clark Freeport Zone, Pampanga;
    i. Iloilo International Airport – Arrival Area, Cabatuan, Iloilo; and
    j. New Bacolod (Silay) International Airport – Arrival Area, Bacolod City.

III. AUDIT SCOPE AND METHODOLOGY

14. In view of the non-submission of the final and complete financial statements for CY 2018, as well as books of accounts, supporting documents/schedules and, the incomplete submission of disbursement vouchers (DVs) and Journal Entry Vouchers (JEVs), our audit was limited to verifying some of the accounts in the tentative trial balance, post audit of the submitted DVs and JEVs, determining DFPC's compliance with applicable laws, rules and regulations and evaluating the extent of implementation of prior year's audit recommendations.

IV. OVERALL RESULTS OF THE AUDIT

15. Our audit disclosed the following significant audit observations and recommendations that need immediate action:

15.1 The DFPC was unable to submit, for audit, its final and complete calendar year (CY) 2018 financial statements, books of accounts, supporting schedules and reports, contrary to Section 41(2) of Presidential Decree (PD) No. 1445, due to: (a) the delay in the complete roll-out of the ERS-Ms Dynamics AX Solutions system, which includes the new accounting system, from its original completion date on December 31, 2017, because of the lack of qualified technical personnel to perform the encoding and tagging of enormous/huge financial data that had piled-up; and (b) the abandonment of the old accounting system which could have served as a back-up as well as to enable the Agency to conduct a parallel run until the new accounting system would be fully operational.

We recommended that Management:

a. Exert all efforts to make the ERS-Ms Dynamics AX Solutions system fully operational by coordinating with the system provider to address the deficiencies encountered in the roll-out to be able to generate reliable financial data/reports;

b. Assign temporarily additional personnel at the Accounting Department to assist in the encoding and tagging of financial data that have piled-up and, coordinate with the Governance Commission for GOCCs (GCG) and the Civil Service Commission (CSC) for the approval of the DFPC's reorganization plan to be able to hire new qualified personnel to augment the manpower requirement of the Accounting Department;

c. Ensure that the concerned IT personnel and end-users are properly trained to maximize the use of the new system; and

d. Direct the Accounting Department to prepare and submit complete and final financial statements, for audit.

15.2 The acquisition of the ERS-Ms Dynamics AX Solutions system with original cost of P37.850 million, excluding additional cost on Supplemental Agreement and maintenance, to integrate and automate all of the DFPC's business process operations took more than a year to complete the procurement process, from two failed public biddings to a negotiated procurement which delayed the full operationalization of the system. Likewise, some of the provisions of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 were not strictly observed by DFPC in the procurement of the system.

We recommended that Management:

a. Determine the liability of the BAC for the delay in the procurement of the ERS-Ms Dynamics AX Solutions system, if any, and hold them accountable; and

b. Henceforth, strictly adhere to the provisions of the RA No. 9184 and its RIRR in the procurement of goods and consulting services.

15.3 The DFPC could have saved on pre-occupancy rent expenses amounting to P144.305 million and other related costs had it properly/judiciously planned its project of opening a Duty Free store outlets at the Ninoy Aquino International Airport (NAIA) Terminal 3 before entering into a Lease and Concession Contract with the Manila International Airport Authority (MIAA), as required under Rule II, Section 7.1 of the 2016 Revised IRR of RA No. 9184 or the Government Procurement Reform Act.

We recommended that Management:

a. Exercise prudence in the use of government resources. In future similar project, conduct a thorough feasibility study to determine its viability;

b. Plan meticulously and judiciously all procurements to avoid wastage of government funds. For infrastructure projects, consider the appropriate timing/phasing of the project activities in compliance with the pertinent provisions of RA No. 9184 and its Revised IRR;

c. Negotiate with MIAA Management for the latter to absorb the cost of the Electrical Power and HVAC System intended for Level 2 store outlet which was abandoned by DFPC, through negotiated sale or offsetting of the monthly rental in the Level 1 Store outlet. If not feasible, sell the fixture and equipment and charge the installation and other related costs incurred to the succeeding lessee that will occupy the Level 2 area;

d. Submit documents to the Audit Team relative to the approval of the 17 months rent holiday granted by MIAA, for evaluation purposes; and

e. Hold accountable the persons who entered the contract with MIAA which resulted in the incurrence of unnecessary pre-occupancy rental amounting to P144.305 million.

15.4 A total of 405 Disbursement Vouchers (DVs) for Peso Account amounting to P852.325 million and 1,135 DVs for USD Account totaling $62.162 million were not submitted to COA for post-audit, contrary to Item 6.05 of COA Circular No. 95-006 dated May 18, 1995 and, precluding the Audit Team in performing its mandated duty to examine, audit and settle all accounts pertaining to expenditures or uses of government funds.

We recommended and Management agreed to submit immediately to COA the 1,540 DVs for both Peso and USD Accounts, in compliance with Section 6.05 of COA Circular No. 95-006 dated May 18, 1995.

16. The above observations and recommendations together with the other observations noted in the course of audit are discussed in detail in Part V of this ML.

V. AUDIT OBSERVATIONS AND RECOMMENDATIONS

17. The detailed discussion of the observations noted in the course of our audit and corresponding recommendations to remedy the same are presented hereunder.

18. **The DFPC was unable to submit, for audit, its final and complete CY 2018 financial statements, books of accounts, supporting schedules and reports, contrary to Section 41(2) of Presidential Decree (PD) No. 1445, due to: (a) the delay in the complete roll-out of the ERS-Ms Dynamics AX Solutions system, which includes the new accounting system, from its original completion date on December 31, 2017, because of the lack of qualified technical personnel to perform the encoding and tagging of enormous/huge financial data that had piled-up; and (b) the abandonment of the old accounting system which could have served as a back-up as well as to enable the Agency to conduct a parallel run until the new accounting system would be fully operational.**

18.1. Section 41 (2) of PD No. 1445 provides that:

> *(2) To carry out the purpose of this section, the chief accountant or the official in charge of keeping the accounts of a government agency shall submit to the Commission year-end trial balances and such other supporting or subsidiary statements as may be required by the Commission* ***not later than the fourteenth day of February****. Trial balances returned by the Commission for revision due to non-compliance with accounting rules and regulations, shall be re-submitted within three days after the date of receipt by the official concerned.*

18.2. Likewise, COA Circular No. 2017 – 004 dated December 13, 2017, on the Guidelines on the preparation of financial statements and other financial reports and implementation of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises and Philippine Public Sector Accounting Standards by Non-Government Business Enterprises, enumerated the components of the general purpose Financial Statements and the deadline of their submission, *viz.*:

4.2 The components of the general purpose FS in accordance with Philippine Accounting Standard (PAS) 1 xxx are as follows:

a. For GBEs

1. *Statement of Financial Position xxx;*
2. *Statement of Comprehensive Income xxx;*
3. *Statement of Cash Flows xxx;*
4. *Statement of Changes in Equity xxx;*
5. *Statement of Financial Position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its FS, or when it reclassifies items in its FS, to be presented as a separate column after the previous years' amounts in xxx; and*
6. *Notes to FS comprising a summary of significant accounting policies and other explanatory notes.*

XXX

5.1. All GCs shall submit separately to the COA auditors and the GAS, COA, in printed and digital copies the FS in paragraph 4.2, together with the detailed FS xxx and TB xxx on or before February 14 of each year.

18.3. In a letter dated January 15, 2019, the Audit Team requested from Management the submission of the required financial records, reports and documents on or before February 14, 2019. However, DFPC requested to submit them on March 31, 2019, but still they were not able to comply.

18.4. Verification disclosed that the delay in the complete roll-out of the ERS-Ms Dynamics AX Solutions system, which includes the new accounting system, from its original completion date on December 31, 2017 and, the abandonment of the old accounting system which could have served as a back-up as well as to enable the Agency to conduct a parallel run until the new accounting system would be fully operational, have caused the non-submission to COA of the following CY 2018 financial reports, records, and documents:

a. Books of Accounts:
   a.1. General Journals;
   a.2. Cash Disbursement Journals;
   a.3. Check Disbursement Journals;
   a.4. General Ledgers; and
   a.5. Subsidiary Ledgers;

b. Documents, Reports and Other Source Documents:
   b.1. Reports of Cash Disbursements;
   b.2. Journal Entry Vouchers;
   b.3. Supplies Ledger Cards/Records;
   b.4. Aging Schedules of Accounts Receivable and Notes Receivable with the corresponding Schedules of Allowance for Doubtful Accounts;
   b.5. Aging Schedules of Accounts Payable and Trust Liabilities;
   b.6. Annual Inventory reports of Supplies and Materials together with the reconciliation statement with the Accounting Records;
   b.7. Reports of Supplies and Materials Issued; and
   b.8. Bank Reconciliation Statements.

c. Financial Statements
   c.1. Statement of Financial Position;
   c.2. Statement of Comprehensive Income;
   c.3. Statement of Cash Flows;
   c.4. Statement of Changes in Equity; and
   c.5. Notes to FS comprising a summary of significant accounting policies and other explanatory notes.

18.5. Inquiry revealed that the complete roll-out of the ERS-Ms Dynamics AX Solutions system was delayed due to lack of qualified technical personnel to perform the encoding and tagging of enormous/huge financial data that had piled-up. The DFPC could not readily hire new personnel in view of its reorganization plan needing approval by the GCG and the CSC.

18.6. Management was only able to submit tentative Trial Balance; however, final financial statements could not be derived therefrom as they still have to update in the new system the subsidiary ledgers to support the general ledger balances due to huge financial data that have piled-up.

18.7. In previous years, DFPC was using Epicor as their accounting system, which enabled them to submit their annual financial statements. However, the said system was abandoned in January 2018 during their migration to the new system. Had Management maintained the old system and made a parallel run until the new system would be fully operational, they could have submitted complete and final CY 2018 Financial Statements, for audit purposes.

18.8. The non-submission of the CY 2018 financial statements, reports and documents to the Audit Team hindered the proper audit of the financial transactions of the DFPC.

18.9. **We recommended that Management:**

a. Exert all efforts to make the ERS-Ms Dynamics AX Solutions system fully operational by coordinating with the system provider to address the deficiencies encountered in the roll-out to be able to generate reliable financial reports/data;

b. **Assign temporarily additional personnel at the Accounting Department to assist in the encoding and tagging of financial data that have piled-up and, coordinate with the GCG and CSC for the approval of the DFPC's reorganization plan to be able to hire new qualified personnel to augment the manpower requirement of the Accounting Department;**

c. **Ensure that the concerned IT personnel and end-users are properly trained to maximize the use of the new system; and**

d. **Direct the Accounting Department to prepare and submit complete and final financial statements, for audit.**

18.10. Management commented that:

a. Project implementation in any organization is painstaking, laborious task that requires patience and understanding from all participants especially with the implementation of an integrated ERS application that replaces the three (3) major systems of DFPC, namely, Finance, Supply Chain Management and Retail. It is a collaborative team effort of all key users, project managers and system provider which requires full cooperation from each member of the team.

b. With regard thereto, be assured that there is a continuity of support after the 30-day warranty period of the following support agreements with the developer covering the three components, namely:

   i. Software modifications and enhancements;
   ii. Helpdesk support from Hitachi (web, voice and near-site team-viewer); and
   iii. Training/Knowledge Transfer/Competency Enhancement.

c. Parallel run was not considered since the time, effort, and expense for dual systems are impractical. The scenario-based approach on implementation of AX was selected since the scenarios are representations of actual transactions and business activities. Moreover, the difference in structure between the Epicor and AX would not be an effective comparison.

d. With the complexity of the implementation and inexperience of the end-users to such end-to-end solution—the Steering Committee finds it impractical and very difficult to implement a parallel run. Comparing results of an end-to-end solution with that of the three (3) existing systems may result to an endless search for answers on the discrepancies. End-to-end solution works from one system to another, thus the clause end-to-end, unlike the old systems where work around/adjustments can be made to address several issues in the transfers of data from one system to another.

18.11. As a rejoinder, the Audit Team would like to emphasize that it is a standard practice for organizations under-going software/system transition/change to conduct a parallel run, although would need additional time, effort and expense. As the parallel run was not implemented, this resulted in the non-generation from the not fully operational new system of the CY 2018 financial statements together with the supporting schedules/reports.

18.12. It is worth mentioning, however, that in a meeting held on May 22, 2019 with the DFPC Chief Operating Officer, it was committed that the data tagging, catch-up and complete roll-out of the system are estimated to be completed by July 2019.

19. **The correctness of the Property, Plant and Equipment (PPE) account with total cost of P454.832 million reflected in the tentative Trial Balance was doubtful due to, among others: (a) discrepancy of P9.273 million between the general ledger and the Report on the Physical Count of PPE (RPCPPE); (b) non-provision of impairment loss on IT equipment and software/licenses that have been discarded due to technological change and system upgrade; and (c) inclusion of PPE items that were already unserviceable and approved for disposal, contrary to the provisions of Philippine Accounting Standard (PAS) 16 and pertinent provisions of Chapter 10 of the Government Accounting Manual (GAM), Volume I.**

19.1 As discussed in Paragraph 18 hereof, the DFPC was not able to prepare and submit the complete financial statements for CY 2018, as the new accounting system was not yet fully operational. However, it was able to submit a tentative Trial Balance.

19.2 Verification of the PPE account with total cost of P454.832 million reflected in the tentative Trial Balance disclosed the following deficiencies which cast doubt on the correctness of the account balance:

a. There was a discrepancy of P9.273 million between the balances indicated in the tentative Trial Balance of P454.832 million and the RPCPPE of P445.559 million only.

b. Non-provision for impairment loss on the following PPEs:

b.1 Twenty one (21) items of IT Equipment and Softwares/Licenses with total cost of P80.259 million that have been discarded due to technological change and system upgrade; and

b.2 Software/Licenses and other office furniture and equipment with total cost of P38.529 million, although serviceable, are not being used due to obsolescence brought about by technology upgrade and changes.

The non-provision of impairment loss on these PPE items is not in accordance with PAS 16, which states that a property is said to be impaired when its carrying amount exceeds its recoverable service amount due to fall of its market value.

c. 272 pieces of equipment with total cost of P11.342 million that were already approved for disposal are not yet dropped from the books and, 36 pieces of unserviceable equipment with total cost of P2.623 million were not yet derecognized from the PPE account, contrary to Section 39, Chapter 10 of Government Accounting Manual (GAM), Volume I, which provides that the carrying amount of an item of PPE shall be derecognized when no future economic benefits or service potential is expected from its use or disposal.

d. Two missing PPE items costing P63,000 already paid by the concerned accountable employees, but not yet dropped from the books.

19.3 **We recommended that Management:**

a. Require the Accounting Department and the Property Unit to determine the cause(s) of the discrepancy between the balance of the PPE account indicated in the tentative Trial Balance and the total amount in the RPCPPE and effect necessary adjustments/corrections accordingly;

b. Assess for any indication that an existing assets maybe impaired and require the Accounting Department to provide for impairment losses in accordance with PAS 16;

c. Instruct the Property Unit to conduct inventory of unserviceable properties and prepare the Inventory and Inspection Report of Unserviceable Property (IIRUP) to facilitate disposal;

d. Require the Disposal Committee to conduct proper disposal of the unserviceable PPE items as basis in dropping them from the books of accounts; and

e. Direct the Accounting Department to drop from the books the unserviceable properties upon disposal and the two missing items in the amount of P63,000 already paid by the concerned accountable officers.

19.4 Management commented that:

a. On the discrepancy on the PPE account between the amounts indicated in the tentative Trial Balance vs. physical count - all concerned employees were already issued the corresponding Notice of Missing Property Report for their proper action. Out of the P9.273 million reported as "unfound" or missing during the conduct of the fixed assets inventory, P1.858 million or 20 per cent were already accounted for by some of the concerned employees.

b. On the non-provision for impairment loss on the PPEs - intangible assets numbering 21 items such as the MMS and Epicor software amounting to P80.259 million have already reached their intended useful lives. The reason why these are still being used is pending the complete roll-out of the integrated ERS. Once completed, these will be removed outright in DFPC's books of accounts. The 10 per cent salvage value amounting to P8 million will be derecognized in the books.

c. On the inclusion of equipment already approved for disposal but not yet dropped from the books - these pieces of equipment amounting to P11.342 million are for tagging by the Administrative Department in the new system as "Disposal" in 2018. However, due to pending implementation of the Fixed Assets Module, tagging was delayed and the corresponding journal entry on disposal shall be posted in 2019.

d. On the 36 items of unserviceable equipment not yet derecognized from the PPE account - these assets are already for disposal. The IIRUP will be submitted to the Disposal Committee in 2019.

e. On the inclusion of missing PPE items totaling P63,000 - there is an on-going deduction from the salaries of the accountable employees concerned. To drop an asset from the books is through tagging of the property code and disposal will be made by the Administrative Department. This has automatic journal entry posted in the General Ledger Module.

19.5 As a rejoinder, the Audit Team acknowledged the initial actions taken by Management to comply with the audit recommendations; however, their full compliance will be monitored in the CY 2019 audit.

20. **The acquisition of the ERS-Ms Dynamics AX Solutions system with original cost of P37.850 million, excluding additional cost on Supplemental Agreement and maintenance, to integrate and automate all of the DFPC's business process operations took more than a year to complete the procurement process, from two failed public biddings to a negotiated procurement which delayed the full operationalization of the system. Likewise, some of the provisions of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 were not strictly observed by DFPC in the procurement of the system.**

20.1. The DFPC planned to fully automate all its business process by an end-to-end and integrated software solution that would address all important parts of its business, including but not limited to Finance, Inventory, Sales, Merchandising and Point of Sales (POS).

20.2. The initial posting and publication for the bidding on the procurement of ERS-Ms Dynamics AX Solutions system with approved budget for the Contract of P38.000 million was made on April 6, 2015.

20.3. The first bidding on June 22, 2015 was declared a failure due to the omission of the name of the bidder's authorized representative, Retail Software Associates Corporation (RSAC), in the Secretary's Certificate. Relative thereto, the Bids and Awards Committee (BAC), being a juridical body, could have had exercised its sound judicial discretion in the interest of expediency to obtain the most advantageous price for the Government, by exercising its right to waive any form of formality, relative to the non-discretionary pass-fail criteria, especially to just a minor eligibility document requirement. Moreover, there was no more competition as the eligible-shortlisted bidder ended up as lone bidder.

20.4. On the second bidding held on September 28, 2015, after the BAC's Resolution declaring RSAC as the lone eligible consultant, which was approved by the Head of the Procuring Entity (HOPE) on August 27, 2015 during the short-listing (1st-stage bidding), the same bidder was rated failed in the technical component Checklist no. 5. There was somewhat inconsistency on the evaluation made by the BAC since the same lone-shortlisted/eligible bidder, which passed the criteria checklist in the first bidding, was rated failed on the same criteria checklist in the second bidding for the said project.

20.5. Notice of Failure of the 2nd Bidding was issued on November 11, 2015, after which the bidder on November 13, 2015 submitted a clarificatory letter on the reason for the declaration by the BAC of failure of bidding. After the BAC's reply on December 4, 2015, the bidder filed a Motion for Reconsideration (MR) on December 14, 2015, which was beyond the three days allowed date of filing. While it is true that the filing of MR was late in accordance with Section 55 of RA No. 9184, the BAC, to some extent, might be equally remiss due to the 21-day inaction on the bidder's clarification letter submitted on November 13, 2015.

20.6. In view of the two failed biddings, the DFPC resorted to Negotiated Procurement with Ignify Corporation, now Hitachi Solutions, at contract cost of P37.850 million. The Notice of Award was served on June 1, 2016, eighty one (81) calendar days after the BAC's recommendation to the HOPE on March 11, 2016 to award the contract, contrary to the Item IV.L.1.a, Annex H, of the RIRR of RA No.9184, where the period of action to approve or disapprove said recommendation should not exceed 15 days upon receipt thereof, *viz.*:

> *IV. GENERAL GUIDELINES*
>
> *L. Notice of Award; Contact Approval; Notice to Proceed.*
>
> *1) Except in Shopping, and Negotiated Procurement through Emergency Cases, Agency-to-Agency and Small Value Procurement, the following procedures*

shall apply in the issuance of the Notice of Award (NOA), Contract/Purchase Order (PO) and Notice to Proceed (NTP) for the Alternative Methods of Procurement identified in this Guidelines, thus:

a. *The BAC shall recommend to the HOPE the award of contract. Within a period not exceeding fifteen (15) calendar days from receipt, the HOPE shall approve or disapprove the BAC's recommendation. In case of approval, the HOPE shall immediately issue the NOA to the Supplier, Contractor or Consultant. In the event the HOPE shall disapprove the recommendation, such disapproval shall be based only on valid, reasonable, and justifiable grounds to be expressed in writing, addressed to the BAC.*

20.7. Moreover, based on the documents, the DFPC executed Supplemental Agreement No. 2 for software modifications and enhancements of the Ms Dynamics AX for its business system at an additional cost of P6.802 million which is not in accordance with the following provisions:

a. Section 55.6 of the General Conditions of the Contract (GCC) which states that unless otherwise provided in the Special Conditions of the Contract (no provisions), no additional payment for variation order, if any, shall be allowed for this Contract; and

b. Section 2 – Cost of Consulting Services, Annex F - Contract Implementation Guidelines for the Procurement of Consulting Services, 2016 RIRR of RA No. 9184, which provides that, "*All Consultancy contracts shall be fixed prices contracts. Any Extension of contract time shall not involve any additional cost.*"

20.8. Further, based on Supplemental Agreement No. 4, in the course of the implementation of the ERS, the DFPC and Hitachi Solutions Philippines Corporation (formerly Ignify Corporation) have encountered set-backs and unforeseen events that lead to the re-scheduling of major activities. Hence, the parties have agreed to amend the contract term from its original of 18 months (until December 15, 2017) to 30 months (until December 15, 2018).

20.9. As of this writing the ERS-Ms Dynamics AX Solutions system is not yet fully operational, as discussed in Paragraph 18 hereof.

20.10. **We recommended that Management:**

a. Determine the liability of the BAC for the delay in the procurement of the ERS-Ms Dynamics AX Solutions system, if any, and hold them accountable; and

b. **Henceforth, strictly adhere to the provisions of the RA No. 9184 and its RIRR in the procurement of goods and consulting services.**

20.11. Management commented that:

a. The BAC cannot exercise sound judicial discretion because the submitted Bidder's Secretary's Certificate without the name of the authorized representative/agent was considered incomplete or patently insufficient document.

b. There was no partiality in the decision by the BAC because said Checklist no. 5 for the description of methodology and work plan for performing the project – proof of concept has to undergo presentation and rating by the ERS Steering Committee, where it achieved a rating of 64.77, short of the minimum required score of 70.

c. The BAC did not reply to RSAC because what was submitted was a motion for clarification letter instead of a motion for reconsideration and, in accordance with Bid Instruction 4.4, the procuring entity shall not assume any responsibility for any erroneous interpretations by the bidders of the data furnished by the procuring entity.

d. The delays in the award of the contract were beyond the control of the BAC because the process requires the approval of the DFPC Chairman which is the Secretary of the DOT. In our letter to the DOT Secretary dated March 29, 2016 for the Chairman's approval of the award of the contract, we were told that a new procedure for contract awards is being implemented and, that the Secretary's Certificate per Board Resolution No. R6-04-2016 issued on May 28, 2016 was furnished to us only on June 1, 2016.

e. Under Section 14 (Operation of the Contract) of the General Conditions of the Contract, it is expressly provided as follows:

> *The Parties recognize that it is impractical for this Contract to provide for every contingency which may arise during the life of this Contract, and the Parties hereby agree that it is their intention that this Contract shall operate fairly as between them, and without detriment to the interest of either of them; and that, if during the term of this Contract either Party believes that this Contract is operating unfairly, the Parties shall use their best efforts to agree such action as may be necessary to remove the cause or causes of such unfairness, xxx.*

As such, the above said scope of work was processed through Direct Contacting as an alternative mode of procurement per recommendation of the DFPC BAC and approval of the DFPC BOD.

20.12. As a rejoinder, in order to resolve the differing views of the DFPC Management and the Audit Team on the procurement of the ERS-Ms Dynamics AX Solutions system, the Contract will be submitted to the COA Information Technology Audit Office (ITAO), for review and technical evaluation. **We further recommend that Management furnish the Audit Team with a copy of the final Qualitative Based Evaluation (QBE) score rating of Ignify Corporation and RSAC, for audit purposes.**

21. **The DFPC could have saved on pre-occupancy rent expenses amounting to P144.305 million and other related costs had it properly/judiciously planned its project of opening a Duty Free store outlets at the Ninoy Aquino International Airport (NAIA) Terminal 3 before entering into a Lease and Concession Contract with the Manila International Airport Authority (MIAA), as required under Rule II, Section 7.1 of the 2016 Revised IRR of RA No. 9184 or the Government Procurement Reform Act.**

21.1. Rule II, Section 7.1 of the 2016 Revised IRR of RA No. 9184 or the Government Procurement Reform Act provides that:

> *All procurement xxx should be meticulously and judiciously planned by the Procuring Entity. Consistent with government fiscal measures, only those considered crucial to the efficient discharge of governmental functions shall be included in the Annual Procurement Plan (APP) xxx. In the case of Infrastructure Projects, the APP shall consider the appropriate timing/phasing of related project activities, such as, engineering design and acquisition of right-of-way site or location, to reduce/lower project costs.*

21.2. Likewise, Section 2 of PD No. 1445 provides that:

> *It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage xxx with a view to ensuring efficiency, economy and effectiveness in the operations of the government. Xxx.*

21.3. Records showed that on June 9, 2014, the DFPC entered into a Lease and Concession Contract with MIAA to lease the mall area of the NAIA Terminal 3, consisting of 5,696.49 and 5,828.69 square meters (sq. m.) for the operation of Level 1 and Level 2 stores, respectively, with the following terms and conditions, among others:

a. Monthly rental rate of P800 per sq. m. or P4,557,192 (Level 1) and P4,662,952 (Level 2), for a 5-year period inclusive of six (6) months grace period for the fitting works to commence upon receipt of the Notice to Proceed on November 15, 2014.

b. Yearly escalation of the rental at the rate of two (2) per cent after three years from the start of the lease period and every five years thereafter in case or renewals.

21.4. The construction and refitting works in the leased areas encountered so many delays and setbacks until the middle of 2018, which according to Management were attributed to redesigning of the store plans, unavailable power house facilities and chilled water supply to be supplied by MIAA and partly the decision in 2016 of the then outgoing DFPC Management to put on hold the construction of the said stores and procurement of necessary equipment and materials in deference to the incoming Management.

21.5. The DFPC formally opened the Level 1 store on June 19, 2018 or more than three (3) years from its target opening in May 2015. However, it decided to abandon the Level 2 store project in June 2018 only, despite incurring huge rental expenses. As of December 31, 2017, DFPC paid to MIAA total rental of P252.986 million for Levels 1 and 2 leased areas. Upon DFPC's request, the MIAA granted rent holiday of seventeen (17) months or equivalent to P170.329 million, which to date have not yet been applied/effected. Net of the rental holiday, DFPC still incurred a total of P144.305 million pre-occupancy expenses covering the period May 15, 2015 to June 30, 2018, as shown in Table 1.

Table 1 – Breakdown of Pre-Occupancy Rent Expense

	Level 1 (5,696.49 sq. m.)	Level 2 (5,828.69 sq. m.)	Total (11,525.18 sq. m.)
Rent Expense from 11/01/15-12/31/17 (@ P800.00/sq. m)	P 125,042,118	P 127,944,005	P 252,986,123
Less: Rent Holiday of 17 months given by MIAA upon DFPC's request	84,187,635	86,141,401	170,329,036
Net Rent Expense incurred as of 12/31/17	**40,854,483**	**41,802,604**	**82,657,087**
Add: Rent Expense from 01/01/18 - 6/30/18	30,470,298	31,177,430	61,647,728
Total Pre-Occupancy Rent Expense incurred from 11/16/15-6/30/18	**P 71,324,781**	**P 72,980,034**	**P 144,304,815**

21.6. The DFPC's very late decision to abandon the NAIA Level 2 store project and the delayed formal opening of its Level 1 store on June 19, 2018 or three years and one month behind the target opening date on May 15, 2015 indicates poor planning that resulted in the incurrence of pre-occupancy rental expenses. The pre-occupancy expenses incurred could be considered unnecessary as defined under Item 4.1 of COA Circular No. 2012-003 dated October 29, 2012, *viz.*:

4.0 UNNECESSARY EXPENDITURES

4.1 Definition:

The term pertains to expenditures which could not pass the test of prudence or the diligence of a good father of a family thereby denoting non-responsiveness to the exigencies of the service. Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation. This would include incurrence of expenditure not dictated by the demands of good government, and those the utility of which cannot be ascertained at a specific time. An expenditure that is not essential or that which can be dispensed without loss or damage to property is considered unnecessary xxx.

21.7. Further, the DFPC had already completed the power and ventilating utility/system amounting to P206.553 million which were intended for both Level 1 Store area and the abandoned Level 2 Store Project, as presented in Table 2.

Table 2 – Total Cost of Generator Set and HVAC System

Particulars	Amount
Acquisition of Gen. Set - for Levels 1 & 2 stores	P 15,848,245
Construction of Power House Building - for Levels 1 & 2 stores	22,528,028
Installation of Electrical Power System - for Levels 1 & 2 stores	52,049,028
Acquisition of Heating, Ventilating and A/C (HVAC) - for Levels 1 & 2 stores	58,128,000
Installation costs of HVAC and Gen. set for Levels 1 & 2 stores	58,000,000
	P 206,553,301

21.8. The installation of Generator Set and HVAC System intended for two store outlets, but only one outlet has been operational could be considered excessive expenditure as defined under Item 5.1 of COA Circular No. 2012-003, which states:

The term "excessive expenditures" signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual or proper, as well as expenses which are unreasonably high and beyond just measure or amount. They also include expenses in excess of unreasonable limits.

21.9. Annex D of the said Circular enumerates the sample cases that are considered "Excessive" Expenditures of Government Funds, one of which is as follows:

9. *Installation of materials/items in excess of the requirements prescribed under existing regulations and/or places without the need for the same or with already existing installations, xxx.*

21.10. **We recommended that Management:**

a. **Exercise prudence in the use of government resources. In future similar project, conduct a thorough feasibility study to determine its viability;**

b. **Plan meticulously and judiciously all procurements to avoid wastage of government funds. For infrastructure projects, consider the appropriate timing/phasing of the project activities in compliance with the pertinent provisions of RA No. 9184 and its Revised IRR;**

c. **Negotiate with MIAA Management for the latter to absorb the cost of the Electrical Power and HVAC System intended for Level 2 store outlet which was abandoned by DFPC, through negotiated sale or offsetting of the monthly rental in the Level 1 Store outlet. If not feasible, sell the fixture and equipment and charge the installation and other related costs incurred to the succeeding lessee that will occupy the Level 2 area;**

d. **Submit documents to the Audit Team relative to the approval of the 17 months rent holiday granted by MIAA, for evaluation purposes; and**

e. **Hold accountable the persons who entered the contract with MIAA which resulted in the incurrence of pre-occupancy rental amounting to P144.305 million.**

21.11. Management commented the following:

a. The actual rent incurred started only on November 1, 2015 after DFPC requested MIAA for an additional 6 months grace period for refitting works which was confirmed by DFPC Accounting Department; hence, the total lag period (pre-occupancy rent incurred) is only 32 months (November 1, 2015 to June 30, 2018), and with the 17 months rental holiday, the remaining lag period should only be 15 months. During these 15 months period, DFPC generated sales from its temporary stores thereat in the amounts of P1,348.199 million and P9.275 million in concessioner's privilege fees and rent income at the food court leased area.

b. The decision to forego the Level 2 project was brought about by events that did not materialize from discussions made with MIAA way back in 2014, where all international flights will be transferred from Terminal 1 to Terminal 3, where the Terminal 1 will be converted then into a cargo terminal, that justified our prospect for a large store project at Terminal 3. As it turned out, only five international airlines are in Terminal 3, and majority of the flights are dominated by domestic budget airlines. Terminal 1 still remains now as the majority hub of international airlines.

c. As for the delay in the refitting works, as indicated in the guidelines/manuals, MIAA will provide the required Chilled Water Stub-outs (CWS) for both areas and DFPC will tap its own Fan Coil Unit (FCUs) where the design and construction of DFPC's airside boutique outlets were based thereon. This did not materialize as MIAA was unable to install the required chilled water stub-outs on the leased areas and it hinders the prompt construction and refitting works. Admittedly, it took a while for DFPC to produce the concept design because it had to engage the services of an international design team specializing in travel retail and airport design to ensure world-class quality outlets.

d. DFPC is currently in discussion with MIAA to acquire the air handling units (AHUs) at NAIA Terminal 3, Level 2 Landside. Letters were sent to MIAA Assistant General Manager for Engineering, for the proposed offsetting of the costs, including installation, operational and maintenance of the said equipment amounting to P9.400 million to DFPC landside store's space rental of P3.750 million per month, exclusive of Value Added Tax (VAT).

e. Separately, Air Asia Philippines in its letter dated February 12, 2019 has expressed its intention to rent or purchase the said equipment. However, they plan to get only the two (2) units each of the AHUs and Primary Handling Units (PHUs), leaving DFPC with two (2) units in its inventory.

21.12. As a rejoinder, the Audit Team would like to point out that:

a. Management's admission that "*it took a while for DFPC to produce the concept design because it had to engage the services of an international design team specializing in travel retail and airport design to ensure world-class quality store*" indicates lack of proper planning as this activity should have been included in the feasibility study before Management entered into a Lease and Concession Contract with MIAA.

b. Although Management justified that it had generated a pre-opening revenues from concessioners' privilege fees and rental income on the sub-lease of the Level 1 area to its food court concessioners in the total amount of P8.826 million (per Accounting Records) and from gross sales generated by its concessioners on temporary booth provided by MIAA near the passengers' arrival and parking areas, these, however, were not commensurate to the P144.305 million pre-occupancy expenses incurred not including the total costs incurred in the installation of Generator Set and HVAC System in the leased premises.

22. **Non-submission by the DFPC General Services Division to the COA Auditor of the Purchase Orders (POs) within five (5) working days from issuance thereof, Notices of Deliveries as well as the Requests for Inspection, contrary to COA Circular Nos. 95-006, 81-131-A and 2009-001, hindered the review of the POs and inspection and confirmation of the deliveries whether in accordance with the terms and conditions of the contract.**

22.1 Section 6.6 of COA Circular No. 95-006 dated May 18, 1995 provides that:

> *Section 6.6 – The official responsible for or in charge of accepting deliveries of procured items shall, within twenty-four (24) hours from such acceptance, shall notify the auditor of the time and date of the scheduled deliveries.*

22.2 Likewise, COA Circular No. 81-131-A dated January 29, 1981, states that:

> *The acceptance of deliveries and services is the primary responsibility of the requisitioning agency. The COA conducts inspection only of deliveries/services which are acceptable to management. Xxxx*
>
> *In view of the foregoing, it is hereby directed:*
>
> 1. *That the agency must first accept the delivery before inspection is requested and that, only those items which have been accepted by the requisitioning agency should be inspected by the COA Property Inspectors.*
>
> 2. *That all equipment, vehicles, etc. for repair should be subjected to pre-inspection by the COA Designated Property Inspector xxx, or by the COA Technical Property Inspector xxx. Failure to do so will be a ground for non-conduct of the post-repair inspection and/or disallowing in audit the payment for the services rendered.*

22.3 Moreover, Item 3.2.1 of COA Circular No. 2009-001 dated February 12, 2009, requires that:

> *A copy of any purchase order respective of amount, and each and every supporting document, shall, within five (5) working days from issuance thereof, be submitted to the Auditor concerned. Within the same period, the Auditor shall review and point out to management defects and/or deficiencies, if any, in the same manner as in the conduct of a contract review.*

22.4 Notwithstanding the above provisions, verification disclosed that the DFPC does not religiously notify the auditor of the time and date of the scheduled deliveries within twenty-four (24) hours from such acceptance, thus inspection as to completeness of the deliveries and whether in accordance with the terms and conditions of the POs/contracts could not be timely conducted.

22.5 Also, POs issued by the DFPC to various suppliers and service providers, including their supporting documents, were not furnished to COA within five (5) working days from issuance thereof. In view of the non-submission of the POs to the COA, the Audit Team could not conduct timely verification whether the terms and conditions indicated thereon were in accordance with the applicable rules and regulations and determine if the procurements were advantageous to the Government.

22.6 **We recommended and Management agreed to:**

a. **Constitute an Inspection and Acceptance Committee that will oversee the inspection and acceptance of all deliveries, and notify COA of all deliveries within 24 hours upon delivery and acceptance of all procured items whether Trade or Non-Trade including those by store Concessionaires; and**

b. **Furnish COA with all issued POs and all their supporting documents within five (5) days from issuance thereof, whether Trade or Non-Trade including those by store Concessionaires.**

23. **A total of 405 Disbursement Vouchers (DVs) for Peso Account amounting to P852.325 million and 1,135 DVs for USD Account totaling $62.162 million were not submitted to COA for post-audit, contrary to Item 6.05 of COA Circular No. 95-006 dated May 18, 1995 and, precluding the Audit Team in performing its mandated duty to examine, audit and settle all accounts pertaining to expenditures or uses of government funds.**

23.1 Item 6.05 of COA Circular No. 95-006 dated May 18, 1995, provides *viz.*:

> *6.0 DUTIES AND RESPONSIBILITIES OF AGENCY OFFICIALS*
>
> *6.05 The official involved in the daily recording of transactions in the books of accounts shall turn over the receipts and the disbursement records* ***with all paid vouchers and documents*** *evidencing the transaction to the Auditor within ten (10) days from date of receipt of said documents.* [Emphasis supplied]

23.2 Verification of the DFPC's Reports of Check Issued (RCI) showed that a total of 4,525 DVs for Peso Account and 2,433 DVs for USD Account amounting to P3.399 billion and $150.287 million, respectively, were processed and paid in the year 2018.

23.3 However, inventory of the vouchers submitted to COA revealed that 405 DVs or 9 per cent for Peso Account and 1,135 DVs or 47 per cent for USD Account amounting to P852.325 million and $62.162 million, respectively, were not submitted to the Office of the Auditor as of December 31, 2018, which constrained the Audit Team to perform its mandated "*duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations, xxx*", as provided in Section 2(1), Article IX-D of the 1987 Philippine Constitution.

23.4 **We recommended and Management agreed to submit immediately to COA the 1,540 DVs for both Peso and USD Accounts, in compliance with Section 6.05 of COA Circular No. 95-006 dated May 18, 1995.**

24. **The claim of DFPC for insurance from the Fidelity Fund with the Bureau of the Treasury (BTr) arising from embezzlement of funds committed by erring accountable officers assigned in Iloilo and Bacolod Store Outlets amounting to P1.293 million and US$14,220 has not yet materialized due to non-compliance with the requirements under Treasury Circular No. 02-2009 dated August 6, 2009, on the Revised Omnibus Regulations Governing the Fidelity Bonding of Accountable Public Officers pursuant to the Public Bonding Law (PBL) .**

24.1 Item 4.8 of Treasury Circular No. 02-2009 dated August 6, 2009, provides, *viz.*:

> *4.8 Xxx. The Fidelity Fund shall be available for the purpose of replacing defalcations, shortages, unrelieved losses in the accounts of bonded public officers, for the payment of fees and costs incident to civil proceedings brought against them to recover sums paid on their account from said Fund (Sec. 326 PBL).*

24.2 Likewise, Item 8 of the same Treasury Circular states that:

> *8.4 Claims – Any and all claims against the Fidelity Fund shall be filed as a money claim with COA, with copy to BTr together with the evidence relating thereto. Claims approved by the COA shall constitute a legal claim against the Fidelity Fund.*

8.5 *Requirements for Payment of Adjudicated Claim – The agency shall file a claim for payment from the Fidelity Fund with the BTr, attaching therewith the favorable findings of COA. The BTr shall process the claim in accordance with existing budgeting, accounting & auditing rules and regulations.*

8.5.1 *In case of defalcation, shortages and unrelieved losses in the account of bonded public officer, the claim shall be supported by the following documents:*

8.5.1.1 *Agency and COA findings and recommendation on the defalcation, shortages and unrelieved accountability;*

8.5.1.2 *Latest Statement of Assets and Liabilities of the bonded official/employee;*

8.5.1.3 *Proof of current and subsisting bond and payment of bond premium; and,*

8.5.1.4 *Other document/s which may be required by the BTr.*

Xxxx

8.5.3 *Only approved claims shall be paid from the Fidelity Fund.*

24.3 Records showed that there were two incidents of embezzlement of funds committed by two erring accountable officers assigned in Iloilo and Bacolod Store Outlets amounting to P1.293 million and US$14,220, as summarized in Table 3.

Table 3 – Cases of Embezzlement of Funds

Accountable Officer/ Designation	Date Discovered	Nature of Shortage	Amount of Shortage	Amount of Bond/ Effectivity
MLTT – Collecting Officer	2-20-18	Undeposited sales collections	P979,362	P3,501,200 (Expired 9-29-18)
ETC – Collecting Officer	5-28-18	Undeposited sales collections	P313,302/ US$14,220	P225,000/ (Expired 9-29-18)

24.4 The DFPC filed a notice of claim with the BTr for the two cases of embezzlement of funds, however, the latter replied that a Relief of Accountability be first secured from Commission on Audit (COA).

24.5 Considering that the nature of the losses was embezzlement of funds, instead of filing a Relief from Money Accountability, the DFPC could file a Money Claim with COA pursuant to Item 8.4 of Treasury Circular No. 02-2009 dated August 6, 2009, which states that, "*[A]ny and all claims against the Fidelity Fund shall be filed <u>as a money claim with COA</u>, with copy to BTr together with the evidence relating thereto. Claims approved by the COA shall constitute a legal claim against the Fidelity Fund.*"

24.6 **We recommended that Management:**

a. **File Adjudication and Payment of Claim against the Fidelity Fund in accordance with the pertinent provisions of Treasury Circular No. 02-2009 dated August 6, 2009; and**

b. **Submit to the Audit Team the status of administrative, civil and criminal complaints filed against the erring accountable officers.**

24.7 Management responded that:

a. DFPC has already submitted a notice of claim with the Bureau of the Treasury (BTr) for the two cases of losses, but the BTr replied that a Relief of Accountability be secured from COA.

b. To date, they are also waiting for the results of evaluation of their claims filed with the Government Service Insurance System (GSIS) thru Destruction Disappearance Dishonesty (DDD) Insurance Policy.

c. Both accountable officers have been administratively dismissed from the service and were required to restitute the amount they failed to deposit with the LBP with actual shortage in the amount of P979,362 for the Cashiering Operation Department (COD) Supervisor of Iloilo Branch and P313,302.05 and $14,220.22 for COD Supervisor of Bacolod Branch. The Legal Investigation Department has drafted the respected complaints for the institution of criminal charge for malversation under Article 217 of the Revised Penal Code.

24.8 As a rejoinder, instead of filing a Relief from Money Accountability from COA for losses arising from the commission of malversation. However, those arising from defalcation, shortages and unrelieved losses sustained by DFPC can be filed for reimbursement in accordance with the aforementioned provisions.

GENDER AND DEVELOPMENT (GAD)

25. **The DFPC was not able to allocate at least five (5) per cent of its CY 2018 Corporate Operating Budget for GAD and submit its GAD Plan and Budget (GPB) amounting to P54.188 million to the Philippine Commission on Women (PCW) for review and endorsement, contrary to PCW - National Economic and Development Authority (NEDA) - Department of Budget and Management (DBM) Joint Circular No. 2012-01. Likewise, the GAD Focal Point System (GFPS) is not yet in place, contrary to Section 36 of RA No. 9710 and, the DFPC was not able to update its sex-disaggregated database.**

25.1. The PCW-NEDA-DBM issued Joint Circular No. 2012-01 to provide the guidelines for the preparation of the annual GAD Plan and Budget and Accomplishment Reports to implement the Magna Carta of Women. Section 2.3 thereof states that:

> *Pursuant to the MCW and the General Appropriations Act (GAA), all government departments, including their attached agencies, offices, bureaus, state universities and colleges (SUCs), government-owned and controlled corporations (GOCCs), local government units (LGUs) and other government instrumentalities shall formulate their annual GAD Plans and Budgets within the context of their mandates to mainstream gender perspectives in their policies, programs and projects. GAD Planning shall be integrated in the regular activities of the agencies, the cost of the implementation of which shall be at least five percent (5%) of their total budgets. The computation and utilization shall be implemented in accordance with the specific guidelines provided therein.*

25.2. Review of the CY 2018 annual GPB of DFPC and the corresponding Accomplishment Report (AR) disclosed the following:

a. The DFPC identified various projects, activities and programs (PAPs) in its GPB. However, the Audit Team could not assess whether the identified GAD PAPs really addressed the gender issues (client-and/or organization-focused) of the Corporation and were aligned with its mandate since the GPB was not submitted to the PCW for review and endorsement.

b. Verification of the GPB and AR disclosed that the DFPC only allocated the amount of P54.188 million or 1.796 per cent of its CY 2018 approved COB of P3,016.398 million for GAD PAPs, contrary to above-stated Section 2.3 of PCW-NEDA-DBM Joint Circular No. 2012-01.

c. The GAD Focal Point System (GFPS) of DFPC is not yet in place contrary to Section 36 of RA No. 9710, An Act Providing for the Magna Carta for Women, dated August 14, 2009, which provides *viz.*:

> (b) *Creation and/or strengthening of the GAD Focal Points (GPS). All departments including their attached agencies, offices, bureaus, state universities and colleges, government-owned and controlled corporations, local government units, and other government instrumentalities shall establish or strengthen their GAD Focal Point System or similar GAD mechanism to catalyze and accelerate gender mainstreaming within the agency or local unit.*

d. The DFPC was not able to update its sex-disaggregated database, as inputs or bases for planning, budgeting, programming and policy formulation. Section 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01, states that:

> *4.4 Institutionalizing GAD Database/Sex-disaggregated Data. The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming and policy formulation.*

25.3. It is worth mentioning that despite no PCW-endorsed CY 2018 GPB, the DFPC was able to implement GAD PAPs as follows:

a. National Women's Day Celebration;
b. Free spa and skin care for its employees and clients;
c. Cooking Contest;
d. Gender Sensitivity and Mainstreaming Seminar;
e. Search for Mrs. Duty Free;
f. Flores de Mayo;
g. Day Care Center – Halloween Party; and
h. Day Care Center – Christmas Party.

25.4. Considering, however, that the CY 2018 GPB was not reviewed and endorsed by the PCW, there was no assurance that the implemented GAD PAPs really addressed the gender issues of the DFPC.

25.5. **We recommended that Management:**

a. Allocate at least five per cent of the COB to GAD related PAPs in compliance with the provisions of PCW-NEDA-DBM Joint Circular No. 2012-01;

b. Strictly observe the timeline in the submission of the GPB to PCW as provided in the PCW-NEDA-DBM Joint Circular No. 2012-01 and other issuances on GAD to be able to obtain a PCW-endorsed GPB;

c. **Ensure the creation of the GAD Focal Point System composed of personnel who are adequately trained on GAD matters;**

d. **Update the DFPC's sex-disaggregated database, as one of the inputs or bases for GAD planning, budgeting, programming and policy formulation, pursuant to Section 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01; and**

e. **Implement all GAD PAPs indicated in the Annual GPB to ensure that allotted funds are fully utilized and objectives and targets are satisfactorily achieved.**

COMPLIANCE WITH TAX LAWS AND MANDATORY CONTRIBUTIONS AND REMITTANCES TO GSIS, PHILHEALTH AND PAG-IBIG

26. The DFPC is consistently withholding taxes on salaries and other benefits paid to its officers and employees as well as on procurement of goods and services and remitted the withheld amounts to the Bureau of Internal Revenue (BIR) in compliance with Revenue Regulations Nos. 1-2013 and 4-2002. The balance of the Due to BIR as of December 31, 2018 was remitted to the Bureau, as presented in Table 4.

Table 4 - Due to BIR as of December 31, 2018

Taxes Withheld	Amount	Date Remitted
Corporate Tax	P 4,770,544.37	01/15/19
Contractors' Tax	35,403.14	01/10/19
Individual Tax	28,119.40	01/10/19
VAT on Purchases	1,590,747.71	01/10/19
VAT on Services	4,823,591.67	01/10/19
Employees Withholding Tax	211,748.74	01/10/19
	P11,460,155.03	

27. DFPC also complied with the GSIS guidelines on collections and remittances of contributions pursuant to RA No. 8201, otherwise known as the GSIS Act of 1997. It is also consistently withholding and remitting contributions to the Philippine Health Insurance Corporation (PhilHealth) and Home Development Mutual Fund (Pag-IBIG) Fund. Contributions for the month of December 2018 were remitted in January 2019, as presented in Table 5.

Table 5 - Remittances to the GSIS, PhilHealth and Pag-IBIG

Agency	Balance As of 12-31-18	Date Remitted
GSIS	2,410,758.89	01/10/19
PhilHealth	327,937.56	01/09/19
Pag-IBIG	252,805.15	01/10/19

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

28. As of December 31, 2018, there were no unsettled audit charges and suspensions, while the details of the unsettled audit disallowances totalling P28.651 million are presented in Table 6.

Table 6 - Details of Unsettled Audit Disallowances

Date	Notice of Disallowance No.	Particulars	Amount	Status
01/09/18	2018-001 (16)	Disallowance on the travel expenses under Liquidation Report (LR) No. LI0000002376 dated April 20, 2016 which were considered as irregular expenditure under Section 3.1 of COA Circular No. 2012-003 dated October 29, 2012	P 18,723.47	Disallowance was affirmed under CGS-6 Decision No. 2019-002 dated January 21, 2019. Settled the amount of P15,884.06 out of the total amount disallowed of P34,607.53.
010/9/18	2018-002 (15)	Disallowance on the travel expenses under LR No. L10000002140 dated August 12, 2015 which were considered as irregular expenditure under Section 3.1 of COA Circular No. 2012-003 dated October 29, 2012	16,854.00	Disallowance was affirmed under CGS-6 Decision No. 2019-002 dated January 21, 2019
010/9/18	2018-003 (17)	Disallowance on the excess claims for inland transportation and per diem on LR Nos. L10000002685, L10000002710 and L10000002757.	4,000.00	Disallowance was affirmed under CGS-6 Decision No. 2019-002 dated January 21, 2019
02/19/18	2018-004-(13/16) to 2018-045-(13/16)	Disallowance on the Car Plan Benefits of DFPC Executives and Managers due to non-submission within the reglementary period of required documents stated in the Notices of Suspension	28,611,515.57	With Pending Appeal
			P28,651,093.04	

VI. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

29. Out of fourteen (14) audit recommendations embodied in the prior year's Annual Audit Report (AAR), nine (9) were fully implemented, three (3) were partially implemented and two (2) were not implemented. Details are presented in Annex A of this ML.

VII. ACKNOWLEDGEMENT

30. We wish to express our appreciation to the Management and staff of the DFPC for the cooperation and assistance extended to the Audit Team, thus facilitating the completion of this ML.

31. We request a status report (in hard and soft copy) of the actions taken on the audit observations and recommendations within (60) days from the date of receipt of this ML.

Very truly yours,

For the Commission on Audit

By:

REBECCA Y. RAGSAG
Supervising Auditor–Audit Group E
Cluster 6, Corporate Government Sector

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of fourteen (14) audit recommendations embodied in the prior year's Annual Audit Report (AAR), nine (9) were fully implemented, three (3) were partially implemented and two (2) were not implemented. Details as follows:

Reference	Observation	Recommendation	Status of Implementation
2017 AAR			
Audit Observation (AO) No. 1 Page 33	Cost of merchandise totaling P0.346 million withdrawn by the Department of Tourism (DOT) from the DFPC store during CY 2017 were not recorded in the books resulting in the understatement of receivables from the DOT and overstatement of the Merchandise Inventory account.	We recommended that Management require the Accounting Department to record in the DFPC books of accounts the withdrawn items costing US$6,938.35 equivalent to P346,446.80 by debiting receivables from DOT and crediting merchandise inventory and thereafter bill the DOT for the withdrawn merchandise.	Fully Implemented.
AO No. 2 Page 33	Reimbursement made by the concessionaires for the cost of utilities, maintenance, security, and investment on leasehold improvements in the total amount of P285.221 million for CY 2017 were credited to the accounts Rent Expense-Building, Rent Expense-CPF, Electricity, Telephone, Security Services and Salaries without policies/guidelines on the proper apportionment of the reimbursements, hence, the correctness and validity of the amounts deducted from/credited to said expenses accounts could not be ascertained.	We reiterate previous year's recommendations that Management establish the guidelines/policies for the proper allocation of the fixed considerations being charged to the concessionaires, as to rent, utilities, maintenance, security and/or investment on leasehold improvement that will serve as guide for a systematic and reasonable bases for the computation on the proper shares of the concessionaires.	Partially Implemented. A committee was tasked to come up with a sound bases for charging of fixed consideration.

Reference	Observation	Recommendation	Status of Implementation
AO No. 3 Page 35	Withdrawals of merchandise by the DFPC and its concessionaires using the Gate Pass Slip (GPS) which in CY 2017 amounted to US$0.125 million or P6.254 million and US$0.267 million or P13.360 million, respectively, were considered not compliant with the requirements of COA Circular No. 2012-003 dated October 29, 2012. DFPC averred that the withdrawn merchandise/items were used as corporate giveaways/gifts, although the prices of the items ranged from US$11 to US$4,150.	We recommended that Management:	
		a. Set guidelines and limits for the withdrawal by concessionaires of merchandise for purposes of corporate gifts such as establishing a percentage based on the goods brought into/sold from the DFPC outlets;	Fully Implemented. Last GPS transaction was in May 2018 as per instruction by DOT Secretary.
		b. Impose the applicable customs duties and taxes on the merchandise withdrawn from the stores especially those with commercial value; and	Not Implemented.
		c. Submit list/s of company/promotional activities for the merchandise given by DFPC as corporate gifts/giveaways to deter issuance of a Notice of Disallowance.	Fully Implemented.
AO No. 4 Page 37	Department of Tourism (DOT) expenditures for: (a) cost of merchandise withdrawn from the DFPC Stores; (b) consultancy fees; and (c) expenses for shipment of DOT donations amounting to P2.174 million, P1.600 million; and P22,893, respectively, or a total of P3.797 million were deducted from DOT's share in DFPC's net	We recommended and Management agreed to bill the DOT for the subject expenditures charged to the DOT-Trust Liability Account (TLA) and record the same as receivables from the DOT under the account Due from Other NGAs-DOT. Henceforth, stop the practice of directly charging from DOT's share in DFPC's net	Fully Implemented.

Reference	Observation	Recommendation	Status of Implementation
	profits by debiting the amount to account Due to Other NGAs (Trust Liabilities)–DOT contrary to the pertinent provisions of Republic Act (R.A.) No. 9593 (Tourism Act of 2009).	profits for the cost of items withdrawn by DOT from the DFPC stores and other payments made by DFPC for and in behalf of the DOT pursuant to the pertinent provisions of Republic Act (R.A.) No. 9593 (Tourism Act of 2009).	
AO No. 5 Page 38	The over-remittances of DFPC to DOT during the years 1987 to 2009 in the total amount of P697.114 million were not yet fully recouped despite issuance of DFPC Board Resolution No. 01-4-25-12, leaving a balance of P344.192 million as of end of CY 2017.	We recommended that Management revisit Board Resolution No. 01-4-25-12 and set a fixed recoupment annual amount to enable DFPC to fully recover the remaining balance of the over remittances to the DOT.	Partially Implemented. Continuous application of over remittance; Of the total P697 million (1987-2009), P527.5 million or 76% were already applied as of 12/31/2018.
AO No. 6 Page 40	DFPC could have earned an additional P810.423 million from the NAIA Terminal 3 Landside Stores instead of being deprived the opportunity to earn income therefrom in view of the delay in the opening and operationalization of said store/outlet.	We recommended that Management fast-track the construction of the fit-in-works as well as the acquisition of equipment needed for the Terminal 3 Landside Project and cause the immediate operationalization of the said outlet.	Fully Implemented. DFPC Terminal 3 Landside Store (Level 1) opened last June 19, 2018.
AO No. 7 Page 42	Peso sales totaling P0.979 million generated by the Iloilo store for eight (8) months were not deposited intact daily with the authorized government depository bank (AGDB) contrary to Section 21 of the Manual on the New Government Accounting System	We recommended that Management: a. Require the Collecting Officers to strictly adhere to the provisions of Section 21 of MNGAS, and Chapter II, Par. 32 of the Revised Cash Examination Manual,	 Partially Implemented. Starting March 4, 2019, three outlets (Kalibo, Iloilo and Bacolod)

Reference	Observation	Recommendation	Status of Implementation
	(MNGAS), resulting in the absconding of the funds by the Cashiering Operations Department (COD) Supervisor of said store/ outlet.	on the proper handling of cash particularly on deposit of collections; for outlets that cannot comply due to the distance of the nearest AGDB, submit to the Commission on Audit a request for exemption, stating the reasons for their inability to comply with the regulations on the daily deposit thereof;	practice daily pick-up of deposits (except Saturdays and Sundays), while Clark is picked-up thrice a week. Daily pick-up will be made as soon as the bank request for additional armored car is granted.
		b. Issue demand letter to the Iloilo COD Supervisor and file appropriate charges/ institute measures to recover the missing funds; and	Fully Implemented.
		c. Institute measures to safeguard collections such as the preparation of the monthly bank reconciliation statement, the regular monitoring and confirmation of sales deposits, conduct of periodic cash examinations by internal auditors, among others.	Fully Implemented.
AO No. 8 Page 43	Bank Reconciliation Statements (BRSs) were not prepared monthly by the Accounting Department, contrary to the requirements of Sections 5 and 7, Chapter 21 of the Government Accounting Manual (GAM), which contributed to the late discovery of the	We recommended that Management require the Accounting Division to strictly adhere with Sections 5 and 7, Chapter 21 of the GAM on the preparation of the BRSs.	Fully Implemented.

Reference	Observation	Recommendation	Status of Implementation
	accumulated un-deposited collections that were absconded by the Iloilo COD Supervisor.		
AO No. 9 Page 44	Increase in sales during the last six years was outpaced by the increase in operating costs resulting in the continuous decline in net income from P545 million in CY 2012 down to P180 million in CY 2017; and the sales generated by nine (9) of the 14 stores/outlets were below their targeted sales.	We recommended that Management undertake aggressive measures to arrest the decline in net profit such as: (a) ensuring that increases in operating costs are matched by an equitable increase in the net sales; and (b) performance of stores/outlets are regularly evaluated to determine their profitability.	Fully Implemented.
AO No. 10 Page 46	The GAD Plan and Budget (GPB) for FY 2017 was neither reviewed nor approved by the Department of Tourism (DOT), accordingly not submitted to the Philippine Commission on Women (PCW) for review.	We recommended that Management strictly adhere to the provisions of Section 2.3 of PCW, NEDA and DBM Joint Circular No. 2012-01.	Not Implemented. Updated in Paragraph 25, Part V of the ML.