

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. Various deficiencies noted in the computation and the recognition of the PPEs with a total carrying amount of ₱850,319,768.24 cast doubt on the accuracy and reliability of the Property, Plant and Equipment accounts.

1.1 International Public Sector Accounting Standards IPSAS 1 on Presentation of Financial Statements provides that:

Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires faithful representations of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.

1.2 IPSAS 17 defines property, plant, and equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used for more than one period.

1.3 The monitoring and recording of the Authority's Property, Plant and Equipment (PPE) rested upon the Property and Supply Unit and the Accounting Unit. The Property and Supply Unit is responsible for the custody, safekeeping, maintenance, and updating of inventory records of all PPEs. At the same time, the Accounting Unit is responsible, among others, for maintaining and updating the financial records pertaining to PPE, such as acquisition, capitalization, depreciation, impairment, and disposal.

1.4 Based on the accounting reports submitted by the Authority, the balance of the PPE account as of December 31, 2023, showed a carrying value of ₱850,319,768.24, broken down as follows:

Account Name	Carrying Amount as of December 31, 2023
Land	₱ 217,147,630.96
Power Supply Systems	4,249,273.24
Road Networks	128,417,413.03
Water Supply Systems	221,238.48
Flood Control Systems	17,786,250.00
Other Infrastructure Assets	67,296,813.92
Buildings	107,124,539.46
Leased Assets, Buildings and Other Structures	2,376,140.34
Office Equipment	153,531.10
Information and Communications Technology Equipment	1,359,361.22
Machinery	114,298.08
Agricultural and Forestry Equipment	129,950.00

Account Name	Carrying Amount as of December 31, 2023
Military, Police and Security Equipment	26,000.00
Furniture and Fixtures	430,586.71
Communications Networks	303,687.55
Sports Equipment	59,838.50
Other Machinery and Equipment	60,155.94
Motor Vehicles	2,124,706.42
Watercrafts	216,390.00
Other Transportation Equipment	48,000.00
Other Property, Plant and Equipment	1,218,126.41
Construction in Progress-Infrastructure Assets	299,455,836.88
Total	₱ 850,319,768.24

- 1.5 Examination and review of the documents and transactions pertaining to property, plant and equipment disclosed the following inconsistencies:

Information and Communications Technology Equipment amounting to ₱500,000.000 was erroneously reclassified to Semi-expandable property, resulting in an understatement of PPE account balances.

- 1.6 Section 4.1 of COA Circular 2022-004 dated May 31, 2022, or Guidelines on the Implementation of Section 23 of General Provisions of Republic Act No. 11639 relative to the increase in the capitalization threshold from ₱15,000.00 to ₱50,000.00, states that:

*Tangible items which meet the definition and recognition criteria of PPE but **cost below ₱50,000.00** shall be accounted for in the books of accounts of the agencies as semi-expendable property. Xxx (emphasis supplied)*

- 1.7 Following last year's audit recommendation, the Accounting Unit identified and reclassified the PPE items with costs below ₱50,000.00 to semi-expendable property accounts.
- 1.8 Consequently, review of the PPE Ledger for Information and Communications Technology Equipment account disclosed that assets amounting to ₱500,000.00 were reclassified to semi-expandable account. These assets, having a unit cost of ₱50,000.00, must be retained to Property, plant, and equipment. Details of the assets are as follows:

Date	DV No.	Description	Unit Price	Quantity	Total
October 18, 2022	2022-10-2396	Acer Aspire TC-1750 Desktop i5	₱ 50,000.00	10	₱500,000.00

- 1.9 The Circular is explicit in the criterion that assets with costs below ₱50,000.00 shall be accounted in the books of accounts as semi-expendable property. A new capitalization of ₱50,000.00 and above shall be applied for all tangible items purchased in CY 2022 onwards and in prior years.

- 1.10 This misclassification resulted in the overstatement of the semi-expendable property account and the understatement of the PPE account balance, depreciation expense, and accumulated depreciation, affecting the Authority's financial position and performance.
- 1.11 **We recommended and the President agreed that the Accountant make the necessary adjusting entry for the reclassification of the ten units of Acer Aspire TC-1750 Desktop i5, totaling ₱500,000.00, to the Property, Plant, and Equipment account.**

Accounting error in the computation of depreciation expense resulted in a net understatement totaling ₱ 82,187.27 of the PPE account balance.

- 1.12 Audit of the PPE schedules disclosed misstatements in the computation of depreciation expense for the newly acquired assets in CY 2023 totaling ₱ 82,187.27, as summarized below:

PPE Account	Amount of misstatements over(under)
Other Property, Plant and Equipment	₱ 10,175.23
Information and Communications Technology Equipment	(90,000.00)
Other Infrastructure Assets	(2,362.50)
Total Misstatement	(₱ 82,187.27)

- 1.13 The total misstatement was due to (1) laxity in monitoring the computation of the carrying value of PPE, (2) lack of basis in using a lesser number of months in computation for annual depreciation for CY 2023, and (2) failure to establish depreciation expense resulting to its understatement.
- 1.14 The total net understatement, amounting to ₱82,187.27, could have been prevented if PPE schedules and ledgers had been reviewed and monitored. Although minimal in amount, these misstatements still indicate weak internal control.
- 1.15 Moreover, this misstatement, if not corrected, will prospectively affect the Authority's assets and operating income.
- 1.16 **We recommended and the President agreed that the Accountant:**
- a. **Review the computation of the net carrying amount of the PPE.**
 - b. **Make the necessary adjusting entry for the misstatement in depreciation expenses totaling ₱ 82,187.27.**

Variance amounting to ₱6,992,095.12 between the PPE General Ledger and the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) remained unreconciled in the books of accounts as of December 31, 2023.

- 1.17 In prior years' audits, it was noted that the Authority had an unresolved discrepancy between the Accounting and Property and Supply Records for the PPE account. It has been recommended that the Accounting and Property and Supply have close coordination in account reconciliation and in the conduct of periodic inventory as required in Section 38, Chapter 10 of GAM, Volume I, which states that:

Sec. 38. Physical Count of PPE. *The entity shall have a periodic physical count of PPE, which shall be done annually and presented on the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) (Appendix 71) as at December 31 of each year. This shall be submitted to the Auditor concerned not later than January 31 of the following year. Equipment found at station and losses discovered during the physical count shall be reported to the Accounting Division/Unit for proper accounting/recording.*

- 1.18 The Authority conducted a physical count of PPE on September 6, 2023, in their Satellite Office in Manila and on December 19, 2023, in the Casiguran Office.
- 1.19 The Report on the Physical Count of Property, Plant and Equipment (RPCPPE) submitted by the Property and Supply Unit was updated only up to October 31, 2023. Accordingly, the RPCPPE was being put aside due to the workload assigned to them, leading to an oversight in updating the report at year-end.
- 1.20 Review and comparison of the accounting and property records of the Authority disclosed a variance of ₱6,992,095.12 as presented below:

Account Name	Per Accounting Unit	Per Property and Supply Unit	Difference
Land	₱ 217,147,630.96	₱ 217,147,630.96	₱ 0.00
Power Supply Systems	16,842,864.25	16,257,139.24	585,725.01
Road Networks	230,269,897.86	230,225,039.86	44,858.00
Water Supply Systems	315,142.00	315,142.00	0.00
Flood Control Systems	27,000,000.00	27,000,000.00	0.00
Other Infrastructure Assets	82,817,830.72	83,762,830.72	0.00
Sewer Systems	0.00	111,440.00	(111,440.00)
Buildings	175,867,970.46	175,867,970.46	0.00
Leased Assets, Buildings and Other Structures	15,226,377.18	15,226,377.18	0.00
Office Equipment	1,093,186.00	64,000.00	1,029,186.00
Information and Communications Technology Equipment	3,733,235.10	241,635.71	3,491,599.39
Machinery	1,142,980.80	1,142,980.80	0.00
Agricultural and Forestry Equipment	1,299,500.00	1,299,500.00	0.00
Military, Police and Security Equipment	260,000.00	260,000.00	0.00
Furniture and Fixtures	1,277,614.60	485,914.60	791,700.00
Communications Networks	1,704,219.99	1,308,200.00	396,019.99
Sports Equipment	598,385.00	0.00	598,385.00
Other Machinery and	601,559.34	601,559.34	0.00

Account Name	Per Accounting Unit	Per Property and Supply Unit	Difference
Equipment			
Motor Vehicles	16,946,296.24	16,946,296.24	0.00
Watercrafts	2,163,900.00	2,163,900.00	0.00
Other Transportation Equipment	480,000.00	480,000.00	0.00
Other Property, Plant and Equipment	1,013,000.00	846,938.27	166,061.73
Construction in Progress-Infrastructure Assets	299,455,836.88	299,455,836.88	0.00
Total	₱1,097,257,427.38	₱1,087,586,766.29	₱6,992,095.12

1.21 According to the Property and Supply Officer and Accounting Staff, they are still working on the reconciliation of balances.

1.22 Also, the audit revealed that the Authority still failed to:

- update their Property, Plant, and Equipment Ledger Card (PPELC),
- renew the Property Acknowledgement Receipts (PAR), and
- provide Property Cards (PC).

1.23 These documents are significant in reconciling the PPE account balances per Property against Accounting Records.

1.24 It is worth mentioning that unsatisfactory conformance with the provisions of the abovementioned documents may compromise the safety and security of the Authority's assets. Since accountability is not established and documented, the assets will be more susceptible to unnecessary acts of misuse, abuse, or even theft, considering that they now cover more valuable items due to the increase in the threshold.

1.25 Also, the foregoing deviations were inconsistent with Section 42, Chapter 10 of GAM Volume 1, which provides that:

Sec. 42. Accounting and Property Records to be maintained for PPE.
The Chief Accountant shall maintain the PPELC for each category of PPE including work and other animals, livestock etc. The PPELC shall be kept to record promptly the acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal and other information about the asset. For check and balance, the Property and Supply Office/Unit shall likewise maintain PC for PPE in their custody to account for the receipt and disposition of the same. The balance per PC shall be reconciled with PPELC maintained by the Accounting Division/Unit. They shall also be reconciled with other property records like PAR. (underscoring supplied)

1.26 Furthermore, it was noted that the Authority has no duly constituted Inventory Committee. The Inventory Committee is responsible for the actual count to ascertain the existence, completeness, and condition of all government-owned PPEs.

- 1.27 Currently, the team spearheading the inventory count is only composed of the Property and Supply Officer, a representative from the Accounting Unit, and Engineers. However, since they are not appointed as chairpersons and members of the Inventory Committee, their adherence and commitment to completing the count and providing necessary reports are uncertain.
- 1.28 According to the Accounting Unit the Authority plans to adopt the One-Time Cleansing of PPE Account Balances this CY 2024 under COA Circular No. 2020-006 dated January 31, 2020, or the Guidelines and Procedures in the Conduct of Physical Count of PPE, Recognition of PPE Items Found at Station, and Disposition for Non-existing/ Missing PPE Items to facilitate the efficient conduct of inventory of PPEs.
- 1.29 It is timely to constitute an Inventory Committee since one of the guidelines includes the creation of an Inventory Committee. Section 5.2 of COA Circular No. 2020-006, dated January 31, 2020, states that:

The Head of the Agency shall create an Inventory Committee composed of adequate number of members to be able to complete the physical inventory in three months or less. The Inventory Committee shall have at least one member each from the Accounting and Property Divisions/Units of the agency.

- 1.30 Nevertheless, in Paragraph 10.0 of COA Circular No. 2020-006, it was stated that *this circular is issued for the one-time cleansing of PPE account balances; thus, in no case shall the herein procedures be used to further derecognize non-existing/missing PPEs and/or cleanse subsequent discrepancies or unreconciled balance in PPE accounts.* When appropriately implemented, this is an effective way to address the unreconciled balances in the PPE account.
- 1.31 The unreconciled balances of the RPCPPE and the accounting records cast doubt on the existence of the assets and the correctness of the recorded PPE account balances. This deprives management and users of accurate and reliable information from the Authority's books, which is imperative in decision-making.
- 1.32 **We recommended and the President agreed to instruct and direct the following officials:**
- a. Property and Supply Officer and Accountant to:**
 - i. have close coordination and scrutinize the documents, reports, and records to resolve the issue concerning the unreconciled balances between the PPELC and the RPCPPE; and**
 - ii. maintain and update the accounting and property records such as PPELC, PAR, and PC in consonance with Section 42, Chapter 10 of GAM Volume 1.**
 - b. Supply Officer to submit an updated Report on the Physical Count of Property, Plant, and Equipment (RPCPPE).**

c. Management to:

i. constitute an Inventory Committee; and

ii. implement the conduct of One-Time Cleansing of PPE Account Balances pursuant to COA Circular No. 2020-006.

Non-preparation of Inspection and Inventory Report on Unserviceable Property (IIRUP) showed lapses in control in identifying the obsolete/unserviceable properties.

- 1.33 To strengthen the control over the Authority's unserviceable properties, which are subject to disposal, the Property and Supply Unit shall prepare an Inspection and Inventory Report on Unserviceable Property (IIRUP), which will be submitted to the Audit Team for review.
- 1.34 For CY 2023, the Property and Supply Department failed to prepare and submit an IIRUP as stated in the Instructions of Appendix No. 74 of GAM, Volume II. Preparation of IIRUP is one of the helpful groundworks for the Authority to pursue its plan for one-time cleansing of PPE as guided by COA Circular No. 2020-006.
- 1.35 Further, the Property and Supply Officer only provided a summary of unserviceable items pertaining to Motor Vehicles amounting to ₱3,623,565.97. However, during the actual inspection of PPE in Manila Satellite Office and Casiguran Office, the Audit Team noted other PPE items aside from Motor Vehicles, which were either non-operating or obsolete/unserviceable. According to the Property and Supply Officer, these items were subject to disposal, and they are in the process of drafting the policy or guidelines for asset disposal.
- 1.36 The Authority's failure to dispose the obsolete/unserviceable during CY 2023, citing an ongoing review of disposal procedures, poses a risk of further deterioration and potential loss of value. This delay contradicts Section 79 of the Presidential Decree (P.D.) No. 1445, which permits disposal through a public auction, viz:

When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.

1.37 The foregoing deficiencies have compromised the reliability of the recorded PPE account balances, consequently affecting the fair presentation of the account in the year-end financial statements. This inconsistency with the provisions of IPSAS 1 undermines the fair presentation of the account.

1.38 **We recommended and the President agreed to do the following courses of action:**

a. **Instruct the Property and Supply Officer to prepare an Inspection and Inventory Report on Unserviceable Property (IIRUP) in conformance with the Instructions of Appendix No. 74 of GAM, Volume II; and**

b. **Establish guidelines for the disposal of obsolete/ unserviceable PPEs to minimize the risk of loss through further deterioration, depriving the government of additional income had they been disposed of immediately.**

Lack of certificate of transfer as evidence of ownership for 42 acquired lots amounting to ₱39,395,277.53 exposes both the land and associated improvements to potential counterclaims of ownership from third parties.

1.39 For the past years, it has been observed that the Authority failed to secure Transfer Certificates of Title (TCT) in its name for the 42 lots acquired by the Authority. The Audit Team recommended expediting the transfer of title of land to its name; however, the discrepancy remained unresolved as of this writing.

1.40 The Authority acquired 46 pieces of land from 2009 to 2012 for ₱49,520,477.53, but only four lots valued at ₱10,125,200.00 were covered by TCT.

1.41 The unresolved issues on the transfer of title of 19 lots valued at ₱14,120,820.82 were due to the unremitted capital gains tax withheld since the time the Authority acquired the lots. Eventually, the BIR imposed surcharges and penalties at approximately ₱788,117.75 based on its previous computations. Accordingly, they are willing to settle all the BIR dues, but they are concerned about the possibility of audit disallowances if this is the option. Another alternative is to go after the negligent officer responsible for the incurrence of such penalties and charges. However, Management opted to wait for the BIR's response to their request in CY 2014 for the waiver of the penalties and surcharges.

1.42 For the remaining 24 land acquisitions valued at ₱25,274,456.71, Management disclosed that there is an ongoing BIR proceeding on obtaining an electronic Certificate Authorizing Registration (eCAR) for the transfer of real properties. The basic requirements for application thereof are provided under BIR Revenue Regulations No. 3-2019 issued on March 28, 2019; viz:

- Tax Identification Number of the buyer, seller, and issuing corporation;
- Original transfer documents as duly notarized/ consularized;
- Applicable Capital Gains Tax (CGT), Documentary Stamp Tax (DST) and Donor's Tax returns;
- Official receipts of CGT, DST, and Donor's Tax payments, if any, plus penalties; compromise and surcharge, if applicable;

- Stock certificate/s, if any;
- Certification fee of Php100;
- Documentary Stamp and fee estimated at Php15;
- Audited financial statements of the issuing corporation closest to the year of transaction;
- Proof of acquisition of shares by the transferor; and
- If the application for e-CAR shall be done by a representative, a notarized/ consularized Special Power of Attorney identifying the specific name of the individual representative.

1.43 The non-transfer of title in the agency's name could be attributed to the delay in processing the transfer and failure to follow up on its request for condonation of the surcharges and penalties. Consequently, the Authority's rights and ownership over the 42 untitled properties were at risk.

1.44 The Management should have exerted efforts to settle the foregoing issues; otherwise, the Agency Head is deemed responsible thereto pursuant to Section 102(1) of Presidential Decree (P.D.) No. 1445, which provides that *The head of any agency of the government is immediately and primary responsible for all government funds and property pertaining to his agency.*

1.45 **We recommended and the President agreed to exert effort to expedite the processing of titles to ensure ownership and/or to go after the negligent officer responsible for the incurrence of such penalties and charges on unremitted Capital Gains Tax.**

Weak internal control system over the implementation of property management, recording, and reporting resulted in accounting errors and recurring basic internal control issues that will materially affect the financial position if not corrected.

1.46 The Audit Team further observed several lapses in property management as follows:

- i. Registration of ownership with the Register of Deeds (RD) for the lots previously purchased by APEZFA was not facilitated up to this date to establish ownership;
- ii. Non-facilitation of proper disposal for unserviceable properties reported in the Inventory and Inspection Report of Unserviceable Property (IIRUP); and
- iii. Non-preparation of Report on Supplies and Materials Issued (RSMI) and non-submission of RSMI and Requisition and Issuance Slips (RIS) by the Property and Supply Unit to the Accounting Unit as the basis for recording the issuances of supplies and materials.

1.47 Management commented that the Appraisal and Disposal Committee is still in the process of identifying properties to be disposed of in coordination with the Property and Accounting Unit.

1.48 Overall, we observed that the Authority had shown laxity in exercising its internal control function over property management, recording, and reporting over the years. As such, similar accounting errors and basic internal control issues recurred, which, if not corrected, will result in material breakdowns affecting the financial position in the future.

1.49 **We recommended and the President agreed to instruct the following:**

a. Accounting Unit to ensure strict compliance with the existing accounting policies and procedures in the recognition of PPE.

b. Management to:

i. Assess and enhance the effectiveness of the internal control system over PPE to protect the Authority from financial loss and to help maintain reliable financial reporting; and

ii. Reprimand in writing the erring official/s who repeatedly ignored/neglected their duties.

1.50 During the exit conference, Management also committed to establish databases to facilitate the tracking of records for property management.

2. The accuracy and completeness of the income from passport, visa, and application fees, with a total reported balance of ₱27,315,000.00, cannot be ascertained due to insufficient source documents and restricted information during the auditing process. Furthermore, Management's failure to periodically reconcile their records with those of the Bureau of Immigration reflects a notable deficiency in internal control measures.

2.1 During our audit, we examined the financial records pertaining to income generated from permit fees, passport fees, visa fees, and application fees for CY 2023. The total income recorded from these sources amounted to ₱27,315,000.00. However, our audit procedures revealed significant challenges in ascertaining the accuracy and completeness of this reported income due to the lack of source documents and limited information available for review.

2.2 The sample process for the passport, visa, and application fees includes the following:

CLIENT STEPS	AGENCY ACTION	FEES TO BE PAID	PROCESSING TIME	PERSON RESPONSIBLE
1. Submission of complete documents.	1. Evaluation of documents submitted	None	10 minutes per applicant.	APECO registered enterprise representative or the foreign applicant.

CLIENT STEPS	AGENCY ACTION	FEES TO BE PAID	PROCESSING TIME	PERSON RESPONSIBLE
2. Payment of fees	2. Collecting the amount need for APECO Visa Processing.	Principal ₱25,000+₱5,000 APECO Card	10 minutes per applicant.	APECO Cashier
3. Must attend Interview/Hearing	3. Interview/ Hearing of the foreign applicant	None	30 minutes per applicant.	AIU Hearing Officer
4. Wait for the evaluation and recommendation of appropriate action to APECO President	4. Evaluation and recommendatio n of appropriate action to APECO President.	None	7 days per client.	AIU Hearing Officer
5. Wait for the data and documentation to be process.	5. Data processing and documentation	None	10 days per client.	President/CEO
6. Wait for the approval and issuance of APECO SPECIAL RESIDENT VISA (ASRV)	6. Approval and Issuance of APECO SPECIAL RESIDENT VISA (ASRV)			

- 2.3 Considering the involvement of visa and passport applications in the process, it is essential to recognize the importance of the Bureau of Immigration (BI) as the primary enforcement body of the Department of Justice and the President of the Philippines. BI is mandated to be accountable for alien admission and registration laws in accordance with the provisions of the Philippine Immigration Act of 1940. Their role is crucial in ensuring compliance with existing laws by all foreign nationals within the country's territorial jurisdiction.
- 2.4 Given that the Bureau operates independently, the audit team faced difficulties in obtaining documents or information to cross-refer with the records maintained by APEZFA. In the previous year/s, the audit team attempted to confirm visa and passport application data with the Bureau, but no response was received.
- 2.5 The audit team also sought data from APEZFA's Legal Office from the previous Management. However, they indicated that accessing the records would violate Data Privacy Act.

- 2.6 We have requested a range of documents, including completed application forms or, if not possible, the aggregate count of visa, permit, and registration applications. The objective is to correlate this information with the records maintained by the Legal, Cashier, Accounting, and Bureau of Immigration.
- 2.7 Nevertheless, the Audit Team could only acquire reports detailing collections and deposits, and official receipts from the Cashier, accounting journals, and orders of payment from the BI, which solely confirmed the existence and accuracy of the transactions' computations.
- 2.8 Due to lack of source documents and limited information, our ability to perform detailed substantive testing and analytical procedures to validate the accuracy of the balance and completeness of the reported income was significantly impeded.
- 2.9 The reported total of income from permit fees, passport fees, visa fees, and application fees amount to ₱27,315,000.00 could not be ascertained with reasonable assurance due to the lack of source documents and limited information during the audit process. The absence of adequate documentation and supporting records undermines the reliability, accuracy, and transparency of the reported income, posing significant risks to the integrity of the financial reporting process and potentially affecting the overall credibility of APEZFA's finance.
- 2.10 Meanwhile, it is noteworthy to highlight that management's practices do not include periodic reconciliation with the records maintained by the Bureau of Immigration to verify the completeness of their transaction records. This absence of regular reconciliation processes represents a significant gap in internal control mechanisms and oversight procedures.
- 2.11 Periodic reconciliation with external entities, such as the BI, is essential for ensuring the accuracy, completeness, and reliability of financial records and transactions. By reconciling their own records with those of the BI on a regular basis, management can detect and address discrepancies, identify potential errors or irregularities, and enhance the integrity of their financial reporting process.
- 2.12 Moreover, regular reconciliation with the BI can help management identify any missing or unrecorded transactions related to permit fees, passport fees, visa fees, and application fees. This proactive approach to reconciliation enables management to promptly address any discrepancies or discrepancies, thereby minimizing the risk of misstatement or fraud in financial reporting.
- 2.13 **We recommended and the President agreed to implement the following courses of action:**
- a. **Strengthen collaboration with external partners, particularly the Bureau of Immigration, to facilitate the exchange of information and documentation necessary for verifying visa and passport application data. Establish formal communication channels and agreements with the BI to streamline data-sharing processes and improve the reliability of external data sources.**

b. Implement a formal process for periodic reconciliation with the Bureau of Immigration records. This process should include regular reviews of transactional data, comparison of records, investigation of discrepancies, and resolution of outstanding issues.

2.14 In the exit conference, it was mentioned that transactions related to passport issuance, visa processing, and application fees had already been halted due to Management concerns arising from the visa issuances of APEZFA. The situation implies potential complications or irregularities in the visa issuance process, which may have broader implications for individuals seeking visas or the Authority. Further investigation, review, or corrective action is needed to address the underlying issues and resume normal operations.

3. Non-adherence to the rental fees as stipulated in the lease contracts and the agency's inefficient cash management system adversely affected the accounts receivable turnover into cash.

3.1 During our review of 12 Lease Contracts of APEZFA, we noted that its Rental clause provides that the lessee is obligated to issue 12 post-dated checks to cover monthly rentals for the leased premises over one year. Before the conclusion of the initial year, the Lessee is further required to issue an additional 12 post-dated checks to cover rentals for the subsequent year, repeating this process until the contract's expiration.

3.2 However, the entries presented in the Accounts Receivable (AR) account schedules indicate lapses in management oversight regarding the enforcement of rental obligations on the lessees. As of October 31, 2023, the AR account revealed a cumulative total of ₱620,500.00 under lease contracts. Our analysis suggests that these receivables should not have appeared in the AR account, as post-dated checks could have been promptly converted into cash upon maturity.

3.3 The failure of Management to impose the rental requirement for post-dated checks to secure monthly payments can have significant implications for cash management. With the specified checks, APEZFA may avoid difficulties in maintaining a predictable and steady cash inflow, which could lead to potential disruptions in its financial planning and operational stability. This non-compliance could result in increased administrative efforts to track and collect payments, delayed revenue recognition, and heightened financial uncertainty for APEZFA. Additionally, it may necessitate the implementation of alternative measures to ensure the timely and consistent receipt of rental payments, thereby impacting overall cash flow management.

3.4 **We recommended and the President agreed to promptly implement the following measures:**

a. Ensure strict adherence to the stipulations outlined in lease agreements, particularly lessees' submission of post-dated checks. Establish a robust system for monitoring and enforcing these requirements to prevent discrepancies in the Accounts Receivable (AR) account.

- b. **Communicate to all lessees the importance of complying with the post-dated check requirement. Provide detailed instructions and timelines to facilitate their understanding and prompt fulfillment of their financial obligations.**
 - c. **Conduct a comprehensive review of internal procedures for managing lease contracts and accounts receivable. Identify any gaps or weaknesses in the current processes and implement necessary revisions to ensure timely and accurate recording of receivables.**
 - d. **Explore alternative methods of securing monthly payments, such as bank guarantees or other financial instruments, to ensure a more secure and consistent cash inflow. Evaluate these alternatives' feasibility and effectiveness in mitigating non-compliance risks.**
- 3.5 In response to the AOM, the President stated that he has instructed an evaluation of the grace periods across various APEZFA lease contracts to ensure consistent management decisions in the future. Additionally, the procedures concerning the management of lease contracts and receivables will be thoroughly reviewed. Furthermore, there is a directive to explore alternative methods for securing monthly payments from lessees.
4. **Non-compliance with Rule VII, Section 25 of the 2017 Omnibus Rules on Appointments and Other Human Resource Actions resulted in the disapproval of six candidates' appointments and irregular disbursement of funds totaling ₱279,479.08.**
- 4.1 Adherence to established guidelines and regulations is crucial in public service. Failure to comply with these rules can have significant consequences, especially in the hiring and promotion process. This observation pertains to an incident in APEZFA, where non-compliance with the Civil Service Commission (CSC) Rule VII, Section 25 of the 2017 Omnibus Rules on Appointments and Other Human Resource Actions (ORA-OHRA) led to the disapproval of candidates' appointments.
- 4.2 Civil Service Omnibus Rules serve as fundamental documents that outline the rules, procedures, and expectations governing any movement or progress of human resources in civil service. These rules are meticulously crafted to ensure fairness, transparency, and meritocracy in the process of promotion, transfer, re-appointment, reinstatement, demotion, and separation, among others. They are designed to safeguard the principles of accountability and public service.
- 4.3 In this case, it was discovered that the hiring process or issuing appointments for specific positions within the Authority had deviated from the guidelines outlined in ORA-OHRA. The rules provided explicit instructions:
- Sec. 25. All agencies shall submit a list of their vacant positions authorized to be filled and their corresponding qualification standards and plantilla item numbers (CS Form No. 9, Revised 2018) in **electronic AND printed copies** to the CSC FO concerned. The printed copy shall be posted by the CSC FO in its bulletin board. **The electronic copy shall be forwarded to the CSC RO concerned which shall publish the same in***

the CSC Bulletin of Vacant Positions in the Government in the CSC website.

- 4.4 According to CSC's evaluation, the candidates met the qualifications necessary for the positions they applied for. The review of appointment papers indicated that the positions were published, and records showed that the printed copies of the request for publication were received. However, the electronic copy was missing, which resulted in the disapproval of the appointments. This decision was made to preserve the fairness and transparency of the hiring process. Although this outcome may have been disappointing for the candidates, it emphasizes the necessity of adhering to established rules and regulations.
- 4.5 This incident highlights the importance of following established rules and regulations in government. It emphasizes the need for careful attention to detail in the appointment process and the potential consequences of non-compliance.
- 4.6 Additionally, upon post-audit examination of disbursement vouchers, it was discovered that the six candidates whose appointments were disapproved were compensated with the salary corresponding to the permanent positions they had applied for, thus resulting in the Authority incurring a total expenditure of ₱279,479.08.
- 4.7 **We recommended and the President agreed to strictly adhere to the CSC rules and regulations to prevent any future cases of appointment disapproval. This includes ensuring that all aspects of the CSC Omnibus Rules, such as qualification criteria, selection procedures, and documentation requirements, are meticulously followed in the hiring process.**
- 4.8 During the exit conference, Management revealed that in this particular incident, the postings and publications were managed by a non-HR practitioner instead of the Administrative Department. Moving forward, the current management will implement a practice of issuing written directives to designate specific personnel with instructions based on the guidelines outlined in ORA-OHRA.

B. OTHERS

5. **Financial reports and other supporting documents were not submitted on time, contrary to the existing rules and regulations, thus preventing the Audit Team from conducting timely review and evaluation of transactions and conducting appropriate procedures as necessary to establish the propriety and validity of transactions.**
- 5.1 Item C, Section 60, Chapter 19, Volume 1 of the Government Accounting Manual (GAM) for National Government Agencies provides the deadlines for the submission of financial reports and supporting schedules, as follows:

-Monthly Trial Balance (TB) and supporting schedules must be submitted ten days after the end of the month to COA Auditor.

-Quarterly TB, Financial Statements (FSs) and supporting schedules must be submitted ten days after the end of the month to COA Auditor.

-Year-end TBs, FSs and SSs must be submitted on or before February 14 of the following year to the COA Auditor and COA-Government Accountancy Sector (GAS).

5.2 Likewise, Section 7.1.1a of COA Circular No. 2009-006 dated September 15, 2009, provides that *the head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that: a) the required financial and other reports and statements are submitted by the concerned agency officials in such form and within the period prescribed by the Commission, xxx.*

5.3 Sections 41 (2) and 122 (2) of Presidential Decree (PD) 1445, the Government Auditing Code of the Philippines provides,

Section 41 (2)

(2) To carry out the purposes 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 resubmitted within three days after the date of receipt by the official concerned.

Section 122 (2)

(2) Failure on the part of the officials concerned to submit the documents and reports mentioned herein shall automatically cause the suspension of payment of their salaries until they shall have complied with the requirement of the Commission.

5.4 Moreover, Section 111 of PD 1445 provides that:

Keeping of accounts

1. 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. Xxxxx

5.5 It further provides that it shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control. Internal control is the plan of the organization and all the coordinated methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.

5.6 During our audit, the Authority was unable to submit the required accounting and financial reports within the prescribed timelines. The delays deterred the Audit Team

from conducting a timely and thorough auditorial review and evaluation of the correctness of these reports.

- 5.7 The table below clearly shows the delays by which the Authority submits the financial reports and supporting schedules which range from 13 to 164 days:

Month Covered	Date Due for Submission	Date Submitted	No. of Days Delay
January 31, 2023	February 10, 2023	July 24, 2023	164
February 28, 2023	March 10, 2023	July 24, 2023	136
March 31, 2023	April 10, 2023	July 24, 2023	105
April 30, 2023	May 10, 2023	July 24, 2023	75
May 31, 2023	June 10, 2023	July 24, 2023	44
June 30, 2023	July 10, 2023	July 24, 2023	14
July 31, 2023	August 10, 2023	October 23, 2023	74
August 31, 2023	September 10, 2023	October 23, 2023	43
September 30, 2023	October 10, 2023	October 23, 2023	13
October 31, 2023	November 10, 2023	February 6, 2024	88
November 30, 2023	December 10, 2023	February 6, 2024	58
December 31, 2023	January 10, 2024	Unsubmitted	

- 5.8 As indicated in the table, at the time of this report, the Authority has not yet submitted the financial statement and reports for December, as well as the year-end financial statement, which is required to be submitted to the COA Auditor and COA-GAS by February 14, 2024. Furthermore, during the interviews, it was revealed that the President is currently reviewing the financial statements and reports.

- 5.9 It bears stressing that this issue has been a recurring observation of the Audit Team from prior years. The Audit Team has continuously reminded the Management to submit the financial reports. However, despite the commitment of the Administrative and Finance Department to meet the deadline, they have still failed to submit the documents within the specified timeline.

- 5.10 Failure to submit a complete set of financial statements could not only negatively affect regulatory compliance but also result in inadequate accounting processes and financial statement preparation.

- 5.11 Moreover, scrutiny of the Reports on Checks issued revealed that 379 disbursement vouchers amounting to ₱19,485,690.03 are unsubmitted as of to date. The summary of data is shown below:

Period Covered	DV	Date submitted	Expected per RCI		Received DVs		Unsubmitted DVs	
			DV	Amount	DV	Amount	DV	Amount
CY 2014			58	₱15,568,596.87	13	₱13,204,196.38	45	₱2,364,400.49
CY 2015			57	2,949,385.07	27	964,087.25	30	1,985,297.82
CY 2016			40	1,696,411.32	26	1,292,265.21	14	404,146.11
CY 2017			82	7,252,220.74	34	5,230,844.73	48	2,021,376.01
CY 2018			86	23,369,844.88	82	21,781,456.11	4	1,588,388.77
CY 2019			30	6,437,806.49	28	6,407,806.49	2	30,000.00
CY 2020			0	-	-	-	-	-

Period Covered	DV	Date submitted	Expected per RCI		Received DVs		Unsubmitted DVs	
			DV	Amount	DV	Amount	DV	Amount
CY 2021			0	-	-	-	-	
CY 2022			18	1,281,378.81	11	1017242.48	7	264,136.33
CY 2023								
January	2023-01-0001 to 2023-01-0122	February 9, 2023	113	3,871,825.57	113	3,871,825.57	0	0.00
February	2023-02-0123 to 2023-02-0207	March 24, 2023	77	2,757,054.33	77	2,757,054.33	0	0.00
March	2023-03-0208 to 2023-03-0336	April 17, 2023	119	5,127,330.42	118	5,107,330.42	1	20,000.00
April	2023-04-0337 to 2023-04-0422	May 17, 2023	74	2,958,150.00	73	2,938,150.00	1	20,000.00
May	2023-05-0423 to 2023-05-0523	July 6, 2023	87	3,258,862.44	86	3,239,748.69	1	19,113.75
June	2023-06-0524 to 2023-05-0628	September 7, 2023	94	3,973,442.54	93	3,953,442.54	1	20,000.00
July	2023-07-0629 to 2023-07-0755	October 11, 2023	115	3,714,347.47	112	3,634,347.47	3	80,000.00
August	2023-08-0756 to 2023-08-0895	October 23, 2023	128	6,938,638.55	127	6,918,638.55	1	20,000.00
September	2023-09-0896 to 2023-09-1008	November 16, 2023	101	3,483,249.67	99	3,433,249.67	2	50,000.00
October	2023-10-1009 to 2023-10-1098	November 28, 2023	79	2,618,901.91	75	2,520,356.46	4	98,545.45
November	2023-11-1099 to 2023-11-1243	February 13, 2024	131	4,208,708.94	115	3,651,078.77	16	557,630.17
December	Unsubmitted		199	10,206,791.46	0	0.00	199	10,206,791.46
Sub-total			1,317	₱53,117,303.30	1,088	₱42,025,222.47	229	₱11,092,080.83
GRAND-TOTAL			1,670	₱110,391,568.67	1,298	₱90,905,878.64	379	₱19,485,690.03

5.12 Statistics of unsubmitted vouchers from prior years up to the present are summarized in the next table:

Year	Number of DV	Amounts
CYs 2014 to 2022	150	₱ 8,393,609.20
CY 2023	229	11,092,080.83
TOTAL	379	₱ 19,485,690.03

5.13 Further, based on the report submitted to the Audit Team last January 2024, the Authority procured various infrastructure projects, supplies, and equipment that amounted to ₱5,243,590.89, which comprised 13 DVs. Post-audit revealed that four out of the 13 DVs were not submitted as of this writing. The seven submitted DVs were not compliant with the timeline of submission noted in Item C, Section 60, Chapter 19, Volume 1 of GAM.

- 5.14 Also, bidding documents, contracts, and other supporting documents were not submitted on the prescribed timeline as stated in Section 3.1.1 of COA Circular 2009-001 dated February 12, 2009, which states that:

Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned.

- 5.15 Consequently, these infrastructure projects and supplies with no supporting documents remained unaudited, viz:

Name of Projects	DV No.	Date	Amount	Check	Date Submitted to COA
Repair of Water System	2023-06-0549	June 6, 2023	₱ 10,500.00	672387	September 7, 2023
	2023-11-1223	November 29, 2023	162,722.00	672830	February 13, 2024
APECO Casiguran Office	2023-01-082	January 18, 2023	559,000.00	672183	February 9, 2023
	2023-02-167	February 13, 2023	110,000.00	672213	March 24, 2023
	2023-12-1307	December 12, 2023	685,110.00	672884	Unsubmitted
	2023-12-1316	December 13, 2023	450,000.00	672890	Unsubmitted
	2023-12-1336	December 13, 2023	945,000.00	672895	Unsubmitted
Replacement of Railings (Staff House and Executive Cottages)	2023-12-1308	December 12, 2023	851,900.00	672885	Unsubmitted
Office and IT Equipment & Furniture & Fixtures	2023-03-0321	March 28, 2023	58,000.00	672286	April 17, 2023
	2023-03-0322	March 28, 2023	828,463.00	672287	April 17, 2023
	2023-05-0485	May 23, 2023	434,775.89	672354	July 6, 2023
	2023-06-0602	June 20, 2023	56,920.00	672417	September 7, 2023
	2023-06-0622	June 22, 2023	91,200.00	672427	September 7, 2023
Total Disbursement			₱ 5,243,590.89		
Disbursement with submitted DVs (44%)			₱ 2,311,580.89		
Disbursement with unsubmitted DVs (56%)			₱ 2,932,010.00		

- 5.16 This practice of the Authority regarding recurring delays of submission and inadequacy of documentation to support a specific transaction is contrary to Section 4 of PD 1445. Additionally, COA Circular 2009, dated September 15, 2009, was issued to prescribe the use of Rules and Regulations on the Settlement of Accounts. The Circular provides that a Notice of Suspension (NS) may be issued by the Auditor pending compliance with various requirements for transactions which may result in pecuniary loss to the government.

- 5.17 Accordingly, the Management implemented the use of routing slips last December 2023 to enhance the recording and tracking of documents. This tool conveys information on the sequence of processing and approval of documents. Nevertheless, since this tool was only implemented during the last month of the year, it still did not resolve the backlogs regarding the review, approval, and submission of documents.
- 5.18 Furthermore, it was noted in the 2023 Annual Procurement Plan that the Authority is scheduled to procure a Document Management System. The main objective of this system is to track and monitor the processing and recording of documents. This could be a helpful tool to prevent delays in the processing of documents and would also bring attention to an individual from whom an action or response is needed. Interview with the BAC Secretariat confirmed that this did not materialize in 2023 due to the following:
- Absence of provision of specifications for the project
 - Change of Management where they focused mainly on transition and understanding of the agency transactions
- 5.19 The BAC Secretariat reiterated that they are committed to expedite the procurement of the Document Management System in 2024.
- 5.20 **We recommended and the President agreed to take the following courses of action:**
- a. Instruct the OIC-Finance and Administrative Department to immediately submit the disbursement vouchers, financial statements, and supporting schedules that were due for submission to the Audit Team.**
 - b. Direct the BAC Secretariat to submit the original or certified true copies of the bidding documents, contracts, and other pertinent supporting documents to the Audit Team for review in accordance with COA Circular No. 2009-001.**
 - c. Ensure compliance with the timely submission of the financial reports in accordance with COA Circular 2009-006.**
 - d. Revisit its existing internal control system in monitoring and custody of all records and establish additional compensating controls, if necessary, for the timely submission of financial reports and its supporting documents.**
- 5.21 During the exit conference, Management revealed their efforts to implement a system aligned with the National Archive of the Philippines (NAP) guidelines, records disposition schedule, and appropriate data storage protocols. They are also taking measures such as conducting record inventories and implementing a Network-Attached Storage (NAS) connected to the storage system to address issues concerning the records management system.
- 6. The reasonableness of the rental rates on the lease contracts executed by APEZFA could not be ascertained due to the absence of documents as**

required under the Uniform Standards/ Reasonableness of the Terms and Rental Rates of Lease Contracts for Private or Government Buildings/Spaces and non-compliance with COA Circular 2019-005 dated August 07, 2019, directing the Submission of Contracts Involving Government Building and/or Land Leased to Private Entities/ Individuals, for review by the Technical Services Office (TSO), Systems and Technical Services Sector (STSS).

- 6.1 During our audit, we observed persistent issues concerning the reasonableness of rental rates on lease contracts executed by APEZFA. The recurring observations, such as the absence of necessary documents and non-compliance with COA Circular 2019-005, emphasize the ongoing nature of these issues.
- 6.2 The previous audit report outlines concerns related to APEZFA's lease contracts for government-owned buildings and spaces for private use. According to Executive Order No. 301, the Head of the Agency has the authority to determine lease terms and rates, subject to compliance with DPWH standards and COA audit jurisdiction. COA Circular Nos. 88-882A and 2019-005 provide guidelines for determining the reasonableness of lease terms and rates.
- 6.3 The audit revealed that eight lease contracts submitted by APEZFA to the Auditor's office have incomplete documents as required in COA Circular 2019-005, causing the delay in the auditorial review by the audit team. The unsubmitted documents include building or land valuation details, property descriptions, photographs, and supporting certificates.
- 6.4 Furthermore, two lease agreements and supporting documents executed in CY 2020 remained unsubmitted to COA, causing delays to the team in performing auditorial reviews, such as determining the lease terms and rates. Moreover, Management informed us during an interview that six lease contracts had been terminated. However, the said transactions remained unverified because the related contracts and their supporting documents had not yet been submitted to the audit team.
- 6.5 Furthermore, during the exit conference for CY 2021, APEZFA claimed that no contracts were terminated since the locators did not extend their lease contracts. The report underscores the imperative for comprehensive documentation and adherence to guidelines for accurate assessment and transparency in lease agreements.
- 6.6 Despite the Management submission of new lease contracts of APEZFA for review in this year's audit, a similar observation was noted.
- 6.7 Reviewing lease rental rates is crucial for APEZFA for several reasons, each contributing to APEZFA's overall financial health, operational efficiency, and sustainability. Scrutiny of lease rental rates is deemed essential for the following reasons:
 1. Lease rental rates directly impact APEZFA's revenue. A thorough review ensures that rates are set at a level that allows the Authority to generate sufficient income to cover its operational expenses, maintenance costs, and investments in infrastructure improvements.

2. Compliance with audit standards, as well as relevant laws and regulations, is critical. Ensuring that lease rates adhere to guidelines and are reasonable helps APEZFA avoid consequences associated with non-compliance.
3. Reasonable rental rates contribute to APEZFA's long-term viability. Sustainable rates ensure a steady and predictable income stream, reducing the risk of financial instability and facilitating better long-term financial planning.
4. The review allows APEZFA to strategically plan for growth, expansion, or adaptation to changing circumstances. A well-managed lease rate structure supports the Authority's strategic goals and objectives.
5. Transparent and accountable lease rate determinations enhance the public perception of APEZFA. Demonstrating a commitment to fairness and adherence to established guidelines builds trust among stakeholders, including the public and regulatory bodies.

6.8 We recommended and the President agreed to take the following courses of action:

- a. Implement measures to ensure full compliance with COA Circular 2019-005, emphasizing the submission of all necessary documents to review lease contracts. This includes building or land valuation details, property descriptions, photographs, and supporting certificates.**
- b. Review and update procedures related to lease agreements, incorporating lessons learned from previous audits. Ensure that these procedures align with COA Circulars and other relevant regulations.**
- c. Develop a clear protocol for the submission of termination documents. This will ensure accurate verification of reported terminations and facilitate a comprehensive assessment of the current status of lease agreements.**
- d. Continuously benchmark lease rates against industry standards and comparable entities, ensuring rates remain competitive, reasonable, and aligned with APEZFA's financial objectives.**

6.9 Management commented that the President had directed the Administrative and General Services department to reevaluate the lease rates for APEZFA's land and buildings. They conducted a review of similar properties within the locality using market-based methods. As a result, a new set of lease rates has been formulated and is slated to be presented to the Board of Directors. These updated rates will be implemented in upcoming lease agreements entered into by APEZFA.

7. Inadequate contractual controls and oversight in enforcing rental and construction clauses in the leasing agreement carry potential implications for financial stability, legal compliance, and operational efficiency.

7.1 Upon reviewing the lease contracts, we noted that out of the 16 contracts, in a significant portion, six contracts, incorporate a grace period for building constructions. To elucidate:

Lessee	Lease Term	Construction Period	Monthly Rental
T&D Asia Pacific Entertainment Group Inc., (T&D)	April 1, 2020 to March 31, 2045 (2,000 sqm)	April 1, 2020 up to September 30, 2020	20,000.00
TGV Development Corporation (TGV)	25 years upon issuance of occupancy permit	September 1, 2022 to May 31, 2023	35,000.00
Yong Cheng Group OPC	25 years upon issuance of occupancy permit	January 2022 to June 2023	234,832.00
Yong Cheng Group OPC	25 years upon issuance of occupancy permit	July 2023 to December 2024	272,432.00
Peak Green Power and Construction Development Corporation	25 years upon issuance of occupancy permit	December 2022 to December 2023	30,000.00
Central Sierra Hotels and Resorts Inc	25 years upon issuance of occupancy permit	December 2023 to December 2024	147,235.20

- 7.2 As shown in the above table, one lease contract has already commenced its term, and the grace period allotted for constructing a building on the leased premises has already expired. According to the interview, the T&D's building construction on the 2,000 sqm. lot has been completed. Nonetheless, upon verification of the financial records, we found out that Management did not recognize lease collectability.
- 7.3 The absence of recognition of lease collectability despite the lease term commencement will result a potential loss of revenue for APEZFA. If the lessees are not fulfilling their financial obligations, it directly impacts the Authority's ability to generate income from the leased property.
- 7.4 Subsequently, regarding five contracts set to commence upon the issuance of an occupancy permit, it has been observed that the stipulated grace period for construction has elapsed. However, interviews have disclosed that construction for these structures has yet to start. When queried about the cause for the absence of construction activities, the interviewee refrained from providing a response, indicating that these matters are presently under review by the new management.
- 7.5 Meanwhile, information obtained during the interview also revealed that, in a separate lease agreement involving T&D, encompassing a land parcel spanning 14,000 square meters and lacking a grace period for construction, the building construction had been finalized. However, the issuance of an occupancy permit is currently on hold due to inadequate documentation from the lessee.

- 7.6 These observations resulted from discrepancies in the management and oversight of the leasing arrangements. Despite these contracts being active, the absence of enforcement raises concerns about compliance, potentially leading to various consequences, including financial implications, contractual uncertainties, and broader operational issues within APEZFA.
- 7.7 The failure to enforce contractual provisions related to construction timelines represents a breach of the agreement between the lessor and lessees. This non-compliance may have legal implications and can strain the relationship between the involved parties.
- 7.8 Furthermore, the delayed implementation of construction projects can disrupt the operational plans of both the lessees and the overall functioning of the leased premises. This may impact APEZFA's ability to attract and support businesses effectively.
- 7.9 Inadequate controls within the contractual framework contribute to the delay. This could result from a lack of monitoring mechanisms, unclear contractual terms, or insufficient enforcement protocols.
- 7.10 **We recommended and the President agreed to mitigate future non-compliance and recover lost income by:**
- a. **Enhancing oversight mechanisms to ensure adherence to construction timelines. This involves implementing robust monitoring systems, conducting regular inspections, and addressing issues promptly.**
 - b. **Revisiting and refining lease agreements to ensure that construction-related clauses are clear, specific, and enforceable is essential. This clarity helps avoid ambiguity and sets expectations for all parties involved.**
 - c. **Improving communication channels between lessors and lessees fosters collaboration. Regular updates and consultations can help identify challenges early on and facilitate joint problem-solving.**
 - d. **Periodic assessments of grace periods within lease agreements can ensure that they align with realistic construction timelines.**
- 7.11 Management commented that APEZFA's lease agreement template is currently being reviewed and revised to integrate the audit recommendations, as well as to include a revenue-sharing scheme, termination provisions, and arbitrary clauses, among other improvements. The updated template will also be applied to future lease contracts of APEZFA, starting with the Lease Contract Agreement with the Philippine Aerospace Development Corporation, which will be provided after its execution.
8. **The delays of APEZFA Investors in the fulfillment of developmental commitments, encompassing financial investments, infrastructure development, and job creation, were attributed to operational inefficiencies**

resulting from insufficient management oversight, impacting the seamless integration of various projects in the Authority.

- 8.1 This audit aims to assess the impact of APEZFA Investors' delayed performance in fulfilling their developmental commitments to the Authority. These commitments are outlined in their project proposals and lease contract agreements, encompassing financial investments, infrastructure development, and job creation.
- 8.2 Our Audit Team conducted a thorough examination of financial records, contractual agreements, and interviews with relevant stakeholders. We aimed to evaluate the extent to which investors adhered to the agreed-upon commitments and identify any factors contributing to delays.
- 8.3 To ensure the attainment of the audit's objectives, the Audit Team requested information from Management on September 25, 2023. A follow-up letter was sent on November 28, 2023, seeking the provision of the following information:
1. Investors' investment commitments and development obligations;
 2. Status of compliance with investment commitments and development obligations; and
 3. Accomplished Project Evaluation Form
- 8.4 On September 25, 2023, the Management sent inquiry letters to the investors, requesting details including:
1. Actual Investment Capital;
 2. Committed Investment Capital;
 3. Start of Commercial Operation
 4. Projected Start of Commercial Operation;
 5. Total number of works generated (categorized as foreign/ local/national, skilled/ laborer/ highly technical, etc.); and
 6. Projected number of workers to be employed.
- 8.5 However, as of this writing, APEZFA has only received responses from two investors.
- 8.6 The Audit Team has examined documents comprising lease contract agreements and financial records. These documents disclosed the following information:

Investor	Nature of Business	Investment Commitments or Capital Expenditures	Job Creation
A	Real Estate/ Hotel Services	Initial investment of ₱50 Million	Not less than 10 local residents living within APEZFA
B	IT Support through live video streaming and other related online gaming support services	Minimum capital and investments of should be ₱10 Million	Not less than 20 local residents living within APEZFA
C	Software and IT platform	No clause for the amount of	Not stated in the

Investor	Nature of Business	Investment Commitments or Capital Expenditures	Job Creation
	programming and development	investment, but construction on the leased premises from April 1, 2020, to September 2020	contract
D	Online Gaming Technical Information Technology support	Minimum capital and investments should be ₱10 Million	Not less than 5 local residents living within APEZFA
E	Aquaculture and Processing	No clause for the amount of investment, but the construction period is not later than September 1, 2022 and shall finished not later than May 31, 2023.	Not stated in the contract
F	Tourism residential units for foreigners	Initial investment of ₱50 Million	Not less than 10 local residents living within APEZFA
G	Development of Technology Hub for technology startup companies	No data	No data
H	Real estate/ residential with full service in accommodation	Initial investment of ₱50 Million	Not less than 10 local residents living within APEZFA
I	Leisure resort hotel and casino	No clause for the amount of investment, but the construction period for phase 2 shall commence no later than July 2023 and shall be finished not later than December 2024. Phase 2 is composed of 34,054 sqm situated within APEZFA.	Not stated in the contract
J	Aviation support, repair and maintenance	No clause for the amount of investment	Not stated in the contract
K	Electronics assembly	No clause for the amount of investment	Not stated in the contract
L	Hotel and Resort	No clause for the amount of investment, but the construction period shall commence not later than December 2023 and shall be	Not stated in the contract

Investor	Nature of Business	Investment Commitments or Capital Expenditures	Job Creation
		finished not later than December 2024	
M	Renewable energy resources	No clause for investment, but the construction period shall commence not later than December 2022 and shall be finished no later than December 2023	Not stated in the contract

- 8.7 With reference to the details outlined in the table, three constructions were expected to be completed by the end of 2023, while two were scheduled to commence no later than December of the same year. However, during an on-site inspection and interviews with APEZFA Engineers, it was revealed that the investors did not fulfill the commitments for these constructions.
- 8.8 Based on the data, it becomes evident that the slow progress of construction projects, particularly those expected to be completed by 2023, has impeded the overall development of APEZFA. Investors have fallen behind in creating a specified number of jobs, which impacts employment opportunities and hinders the Authority's capacity to attract additional businesses.
- 8.9 The Audit Team has identified lapses in the Operations Department's oversight of investors' adherence to their development commitments with the Authority. As observed, there has been a lack of monitoring to assess the extent to which investors have fulfilled their commitments. This was confirmed in an interview where it was revealed that the Operations Department does not have a mechanism for monitoring the locators' actual investment, raising concerns about operational inefficiencies. The situation further escalated when the Operations Manager overseeing the department was suspended during the last quarter of the year without a designated fallback individual, making it more difficult to maintain operational continuity.
- 8.10 The lack of oversight can lead to unmonitored and unfulfilled commitments, impacting the seamless integration of various projects in APEZFA. Furthermore, the potential consequences extend beyond operational challenges. Although APEZFA managed to send queries to investors on September 25, 2023, regarding the fulfillment of locators' investment commitments and development obligations, only two investors responded to the inquiries. This lack of engagement not only exacerbates operational inefficiencies but also poses a risk to the Authority's reputation. If investors perceive a lack of diligence in overseeing development commitments, it can adversely affect the Authority's standing in the business community, diminishing its attractiveness to potential investors.
- 8.11 Meanwhile, the two investors who submitted their responses to the queries disclosed the following information:

Investor	Responses	
E	Letter Response Date: Actual Investment Cost: Committed Investment Capital: Start of Commercial Operation: Total No .of Workers:	October 4, 2023 \$1,000,000 \$250,0000 2 nd Quarter 2024, depending on the competitiveness of electricity 100% Local 20 food handlers 1 Quality assurance officer 1 production supervisor 1 mechanical engineer 2 admin 1 driver
F	Letter Response Date: Actual Capital Investment: Committed Invested Capital : Start of Commercial Operations: Employment/ Projected Number of Workers:	October 10, 2023 ₱100 Million as of September 25, 2023 ₱50 Million The company has not started its commercial operations yet due to the on-going land development and construction of its facilities which commenced in mid 2023. The projected commencement of projected operation is within the first quarter of 2024 Since the company has not yet started its commercial operation, the employees are yet to be hired. The hiring of employees is planned to start before the end of 2023

- 8.12 However, Management did not verify these responses due to the absence of a mechanism to confirm the reported actual investment
- 8.13 Additionally, it has been observed that the contracts lack provisions for penalties in cases of significant delays beyond the agreed-upon timelines. As a result, the lack of penalties may reduce investor accountability, as there are no consequences for failing to meet specified deadlines. This could lead to a lax approach to fulfilling commitments, affecting the Authority's overall progress.
- 8.14 **We recommended and the President agreed to implement the following measures:**
- a. **Establish a comprehensive monitoring system to track the progress of financial investments, infrastructure development, and job creation. This**

will enable timely intervention in case of deviations from the agreed timelines.

- b. Consider revising contractual agreements to incorporate penalties for substantial delays, which would provide a stronger incentive for investors to adhere to agreed-upon timelines.**

8.15 During the exit conference, Management expressed its commitment to establish and implement a comprehensive evaluation framework for investors' commitments. This involves integrating it with the Program Expenditure Classification (PREXC) structure and examining DBM forms relating to output and outcome indicators, along with reviewing program profiles. The aim is to provide Management with a transparent view of the commitments made by prospective investors.

9. The inconsistent implementation of policies concerning late arrivals and undertimes of APEZFA employees has led to irregular salary deductions, which is unfair to the employees.

9.1 The 2019 Employee Handbook outlines APEZFA's attendance policies. According to the handbook, employees are allowed a grace period of 15 minutes. If an employee arrives at work later than 16 minutes after the official start time of 8:00, they will be considered late for the full 16 minutes.

9.2 During an interview, it was disclosed that every unit/department maintains a matrix to keep track of their employees' absences, late arrivals, and undertimes. Any late arrivals or undertimes that exceed 16 minutes are recorded in the matrix. If an employee accumulates 60 minutes or more of late arrivals and undertimes during a cut-off period, the Administrative Assistant will compute the corresponding salary deductions for that employee. Note that the 60-minute threshold is an unwritten internal policy.

9.3 The Audit Team conducted a review of the Daily Time Records (DTRs) for a test period from January 1 to October 31, 2023, to ensure compliance with the policies and procedures outlined in the interview and the handbook. During the review process, we discovered inconsistencies in the application of deductions to employee salaries, specifically related to accumulated late arrivals and undertimes. We observed that some employees who exceeded the threshold were not charged with deductions, while others were, and conversely, some employees who did not exceed the threshold but still faced deductions.

9.4 We brought this observation to the attention of the management. However, it was disclosed that the verbal instruction had been conveyed directly to the Administrative Assistant by the Office of the President, all without the awareness of the Department and Division Heads of Administration and Finance. Nevertheless, they have acknowledged this oversight and committed to adhere to the guidelines outlined in the handbook.

9.5 Implementing such an unwritten policy can pose several challenges and may lead to various audit findings such as lack of documentation, inconsistency in application, increased bias or favoritism, and compliance violations, among others.

- 9.6 The primary issue with such an unwritten policy is the lack of formal documentation. Without written procedures, guidelines, or expectations, it becomes challenging to ensure consistency and adherence to the policy throughout the organization. This can lead to discrepancies in the application of rules or standards across different departments or individuals within the Authority. As the Audit Team has identified, there are instances where similar instances are handled differently. Additionally, informal policies communicated between individuals outside of official channels can blur lines of authority, creating uncertainty about decision-making accountability.
- 9.7 Inconsistent application of deductions for accumulated late arrivals and undertimes can have negative effects on both employees and management. If the deduction is applied unevenly, employees may perceive it as unfair treatment, which could lead to decreased motivation, poor job satisfaction, and low morale. Moreover, this inconsistency can erode trust in management, resulting in increased employee inquiries and complaints.
- 9.8 Nevertheless, these lapses could have been prevented had the Accounting Unit monitored these transactions more vigorously to ensure accuracy and compliance with government regulations and policies.
- 9.9 **We recommended and the President agreed to:**
- a. **Ensure fair and consistent enforcement of the tardiness policy for all employees.**
 - b. **Implement standardized processes and workflows to ensure consistency in the application of policies across different departments and individuals within the organization.**
 - c. **Instruct the Accounting Unit to verify tardiness, undertimes, and absences against each Unit’s matrix for accurate computation.**
- 9.10 During the exit conference, Management highlighted the evident unfair treatment of certain employees due to the application of an undocumented policy. To ensure fairness and consistency, Management is now formalizing all policies. Recently, Management issued Memoranda to clarify attendance policies and updated forms for travel orders, certificates of appearance, and other related documents.
10. **Key positions in APEZFA’s plantilla remained vacant, and the lack of succession planning contributed to inordinate delays and uncertainty in completing major projects and achieving corporate objectives.**
- 10.1 As of December 31, 2023, APEZFA has a total of 53 plantilla positions in its Organizational Chart. However, only 23 of these positions, or 44% of the total, have been occupied by employees. The remaining 30 positions, or 56% of the total, are still vacant and awaiting appointments. These are as follows:

<ul style="list-style-type: none"> • Department Manager A- Administrative & Finance • Executive 	<ul style="list-style-type: none"> • Forester I (3items) • Division Manager A- Corporate Planning • Senior Corporate 	<ul style="list-style-type: none"> • Secretary B • Division Manager A Business Development & Marketing • Business Development 	<ul style="list-style-type: none"> • Business Development Marketing Analyst A • Environmental
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Assistant IV • Secretary A • Driver-Mechanic B • Attorney IV • Attorney III (2 items) • Administration Services Assistant C	Planning Specialist • Architect III • Management Info. System Analyst • Senior Cashier • Records Officer C • Officer B • Senior Corporate Accountant A	Marketing Chief A • Public Relations Chief • Business Development Marketing Specialist • Civil Security Assistant B • Civil Security	Specialist B (2 items) • Supervising Administrative Office • Senior Property / Supply Officer
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10.2 In previous interviews, the Management identified the reasons for the unfilled plantilla position as follows:

- i. there are no qualified applicants for the vacant plantilla position;
- ii. qualified people are not interested in the position because of the agency's location;
- iii. plantilla positions are reserved for applicants residing in Casiguran, Aurora, and
- iv. budget constraints

10.3 Owing to the abovementioned reasons, Management has chosen to collaborate with service contractors to address the authority's staffing requirements.

10.4 However, during the examination of COS documents, we learned that some service contractors were performing similar duties outlined in the plantilla positions while receiving salaries comparable to those with the plantilla positions. The key distinction lies in the absence of an employee-employer relationship, which prevents service contractors from enjoying the benefits associated with permanent positions.

10.5 Meanwhile, in the dynamic landscape of economic zones, the significance of hiring key positions cannot be overstated. Failure to fill essential roles may have far-reaching consequences that impact the overall environment of APEZFA. The following table provides an overview of crucial vacant positions in APEZFA, their key functions, and the consequential impacts on the Authority resulting from the absence of these roles.

Vacant Core Positions	Duties and Responsibilities	Impact to APEZFA
Administrative and Finance Department Manager A (SG 26) <i>Note: The position remains unfilled, but there is an</i>	<ul style="list-style-type: none"> • Plan, direct, or coordinate supportive services of an organization, such as recordkeeping, mail distribution, telephone operator/receptionist, and other office support services. • May oversee facilities planning and maintenance and custodial operations. • Supervise and coordinate activities of workers involved in providing 	Without someone to plan, direct, or coordinate supportive services like recordkeeping and office support services, there may be disorganization and inefficiency in these areas. This could lead to delays in communication, misplaced documents, and overall decreased productivity. There may be a lack of direction

Vacant Core Positions	Duties and Responsibilities	Impact to APEZFA
<i>interim officer overseeing its responsibilities.</i>	administrative support. <ul style="list-style-type: none"> • Performs other related functions. 	and accountability among staff members. This could result in tasks being overlooked, duplicated efforts, and inconsistency in service delivery. Failure to perform essential administrative functions, such as recordkeeping and coordination of supportive services, could increase risk of non-compliance with regulatory requirements and internal policies. This could lead to legal issues, financial penalties, and damage to the Authority's reputation.
Business Development and Marketing Division Manager (SG 24)	<ul style="list-style-type: none"> • Responsible for the management of Business Development and Information, Community Services, Engineering and Maintenance, and Industrial And Environmental Safety; • Supervises the development and implementation of policies and programs of the department; • Plans, organizes, directs and controls various activities relating to: <ul style="list-style-type: none"> • Business Development and Information • Industrial and Environmental Safety; and • Plan, direct, or coordinate activities in such fields as life sciences, physical sciences, mathematics, statistics, and research and development in these fields. • Performs other related functions. 	It can negatively impact strategic planning, investor relations, market research, promotion, project coordination, revenue generation, and the overall competitive position of APEZFA in the market.
Corporate Planning Division Manager (SG 24)	<ul style="list-style-type: none"> • Initiating and coordinating the development of policies, plans and programs for the Authority; • Undertaking research on the 	It can affect strategic planning, policy formulation, performance monitoring, risk management, coordination of planning activities, resource allocation,

Vacant Core Positions	Duties and Responsibilities	Impact to APEZFA
	<p>Authority's development issues;</p> <ul style="list-style-type: none"> • Providing technical and research support to the Deputy Administrator; • Managing external cooperation agreements and programs; and • Perform other related functions. 	<p>adaptability to change, and stakeholder communication. This absence may hinder the APEZFA's ability to navigate challenges, capitalize on opportunities, and achieve its long-term objectives.</p>
<p>Attorney IV (SG 23)</p>	<ul style="list-style-type: none"> • Interviews and advises law enforcement officers and the public in regard to the issuance of criminal complaints; may act as a senior deputy for cases in branch Municipal Courts. • Performs legal research in specialized areas of prosecution; studies, interprets, and applies statutes, ordinances, court decisions, and legal opinions. • Negotiates with defense counsel regarding the disposition of cases or modification of charges; performs specialized legal research and litigation in unique and complex areas of law; trains and consults with other attorneys on points of law, evidence, and legal procedures. • May prepare and present evidence and arguments for the prosecution of difficult felony cases involving multiple defendants and multiple charges, and having serious consequences of error, or a high degree of public interest. • May assign, review, and evaluate the work of journey level deputies in the litigation of civil, misdemeanor, and felony cases of average difficulty and complexity. • May assist in the training and supervision of other deputies. • May coordinate the work of support personnel. 	<p>It can impact legal compliance, contract review, dispute resolution, risk management, employee relations, government relations, intellectual property protection, policy development, handling contractual disputes, and crisis management. It is essential to recognize the potential risks and consider the appointment of a qualified Legal Officer to ensure legal soundness in APEZFA's operations.</p>

Vacant Core Positions	Duties and Responsibilities	Impact to APEZFA
	<ul style="list-style-type: none"> •Performs other related functions. 	
Architect III (SG 19)	<ul style="list-style-type: none"> •Supervises, controls and coordinates various professional architectural works; •Evaluates/reviews technical plans and reports; •Monitors recommended actions in conformance with established policies, procedures and regulations of the government; •Prepares technical report; and •Performs other related functions. 	It can impact architectural design, construction oversight, code compliance, space utilization, environmental sustainability, project coordination, aesthetic appeal, quality control, innovation, and adaptability. To ensure the success of development projects within APEZFA, it is crucial to consider the expertise of an architect in the planning and execution phases.
Senior Property Officer (SG 16) <i>Note: The position remains unfilled, but there is Service Contractor overseeing its responsibilities</i>	<ul style="list-style-type: none"> •Takes charge of insurance and registration of fixed assets, equipment and vehicles; •Performs custodianship of all office equipment supplies and materials; •Responsible for the disposal and keeping of complete records and the issuance of Memorandum Receipts (MR) and keeping of copies of the same; •Assists the Bids and Awards Committee (BAC) on the conduct of public bidding for the procurement of goods, services and public construction. •Performs other related functions. 	The government may face challenges in ensuring accountability for the management of properties and supplies. Service contractors may not be as committed to transparency and adherence to government regulations as permanent government employees since there is no employee-employer relationship

10.6 Addressing these vacancies is imperative to ensure that APEZFA functions efficiently and continuously. It not only ensures the seamless execution of projects but also safeguards against potential legal risks, enhances strategic planning, and contributes to APEZFA's overall competitiveness. Given these factors, it is essential to take measures to fill these critical positions to ensure the continued success and growth of APEZFA.

- 10.7 Furthermore, we acknowledge the significance of instituting succession planning in any organization. The existing circumstances at APEZFA underscore a gap in this area. We have observed occasions where key officers were suspended, resigned, or retired without any alternative individuals identified to assume these critical roles. Consequently, this led to disruptions in the operations of the affected department or unit.
- 10.8 The absence of an alternative individual to replace a suspended, resigned, or retired officer in a critical position could have significant impacts on APEZFA. This may lead to disruptions in decision-making, operational inefficiencies, and potential delays in important projects. APEZFA may experience challenges in maintaining continuity, implementing necessary policies, and addressing emerging issues promptly. This situation could hinder overall productivity and effectiveness within APEZFA, affecting its ability to meet objectives and uphold operational stability.
- 10.9 **We recommended and the President agreed to undertake the following courses of action:**
- a. **Develop a recruitment strategy to attract qualified applicants for the vacant plantilla positions.**
 - b. **Review organizational needs, especially key positions, to adapt to changing circumstances.**
 - c. **Invest in talent development and training programs for potential successors.**
 - d. **Develop an emergency succession plan to address leadership gaps in unforeseen circumstances.**
- 10.10 Management disclosed during the exit conference that their previous practice included the President as a member of the Personnel Selection Board, contrary to Section 88 of CSC ORA-OHRA. According to this section, the Chairperson for executive and managerial positions should be the undersecretary/vice-president or their equivalent.
- 10.11 Currently, Management is engaged in strategic planning activities to prepare for the proposed reorganization, aiming to rectify existing gaps and establish new positions, among other objectives.
11. **In Calendar Year 2023, APEZFA hired 105 Contract of Service personnel, which was 457% more than their regular employees. However, incomplete documentation, lack of policy guidelines, and absence of performance assessment raised concerns about the quality of services provided.**
- 11.1 As stated in CSC-COA-DBM Joint Circular (JC) No. 1, s. 2017 dated June 5, 2017, government agencies have been authorized in previous executive issuances and general appropriations acts to enter into service contracts with other government agencies, private firms, non-government agencies, or individuals for services related

or incidental to their respective functions and operations, whether on a part-time or full-time basis.

11.2 Agencies have used this provision to directly hire individuals on contracts of service to perform specific jobs or supplement their current human resources. However, we have observed the increasing number of Contract of Service (COS) personnel in the government and their involvement even in performing regular agency functions.

11.3 Under CSC-COA-DBM JC No. 1, s. 2018 dated November 9, 2018, it is prescribed that:

11.3 The existing qualified COS and JO workers shall be considered for appointment by the government agencies to their vacant positions subject to existing Civil Service Laws and rules and agency CSC approved Merit Selection Plan. xxx.

11.4 Government agencies shall review their functions, systems and procedures, organizational structure and staffing to determine the appropriate human resource complement for their programs/activities/projects. The creation of permanent positions may be considered for regular functions, while the hiring of casual or contractual personnel may be considered for projects and activities that are temporary in nature, xxx.

11.4 The subsequent discussions reiterate our commitment to addressing areas of improvement identified in prior audits.

11.5 In CY 2023, APEZFA had a total of 128 work force during the year, composed of the following:

Status of Appointment	No. of Personnel	%
Regular (Permanent, elective, co-terminus, temporary casual)	23	18%
Contract of Service (include resigned, terminated, or transferred personnel)	105	82%
Total	128	100%

11.6 The COS personnel, referred to as Service Providers in the individual contracts, have the following positions and designations:

IP Consultant	Planning Assistant	Property Assistant Staff
Legal Researcher	BI Assistant	Laundry Staff
Legal Adviser	Ground Maintenance	Gas Tender
COA Technical	Electrician	Records
Sanitary Engineer	Community Relations Staff	Administrative Assistant
Agri-Aqua Consultant	Building Maintenance	Property and Supply
Adviser	Environmental Assistant	Accountant
Marketing Consultant	Garbage Collector	Finance Assistant
OP Staff	Mechanical Engineer	Security Guard
Security	Parcel 2 Monitoring	Bantay Kalikasan
Liaison	Engineering Assistant	Driver

- 11.7 It was noted that the 105 COS personnel accounted for 82 percent of the total workforce of the APEZFA, with the Office of the Engineering & Environmental Safety Division having the most number of 32 service contractors as of December 31, 2023. Also, the total number of service contractors was 457 percent more than that of APEZFA's regular employees.
- 11.8 The following information was gathered from the previous year/s report and remains current and factual within the Authority up to the present day.
- APEZFA has no written policy guidelines on hiring personnel, particularly under COS.

It was pointed out that it is not necessary to adopt a written policy for the recruitment of COS personnel since the nature of the business already dictates the job/position innate in APEZFA. However, we would like to highlight the importance of a well-defined policy guideline in the recruitment process. For instance, it aids Management in ensuring a consistent approach to hiring decisions and protects APEZFA from potential issues such as favored candidates and discrimination claims.
 - Majority of COS personnel have already been shortlisted. These contractors have been hired by APEZFA for a long time. However, for the recently opened job/position, the identification of individuals to be hired solely depends on the request of the department heads and other agency officials, as well as the availability of qualified applicants for the requested position.
 - The request was not supported by a justification for hiring COS personnel and the statement of functions to perform.
- 11.9 We also noted that some of the service contractors performed functions that were already part of the job description of APEZFA's existing regular employees.
- 11.10 Additionally, the payrolls were not supported with a certification by the Administrative Officer in charge of Personnel Services that such services cannot be provided by the regular and permanent personnel of the Agency to establish the necessity of hiring service contractors. This is contrary to Section 3(a) of the CSC Resolution No. 020790 dated June 5, 2022, which states that the COS workers shall not perform the works or a regular function necessary and essential to the Agency concerned or work that is performed by the regular personnel of the hiring agency.
- 11.11 The Audit Team recognizes the need to augment APEZFA's workforce by outsourcing personnel services in the exigency of the service. However, it is important to establish a clear definition of the circumstances under which such service contractors may be utilized. This is crucial to properly understand the practice of hiring individuals under COS.
- 11.12 It is important to note that although the COS personnel possess the skills and technical expertise required by APEZFA, their job security is not guaranteed. As service contractors do not have an employer-employee relationship with APEZFA, their accountability to the agency may not be guaranteed. Thus, they cannot enjoy the same benefits as government employees who perform similar roles. Additionally,

since performance ratings are optional for their job, it becomes difficult to objectively measure their capability and ability to perform their work effectively. Moreover, the duties and responsibilities of each person are not explicitly defined, which can lead to a lack of commitment and loyalty to public service and the tendency to pass on the blame when critical tasks requiring specialized knowledge arise.

- 11.13 Those qualified COS personnel should have been considered to fill the vacant regular positions. Moreover, redundant or unnecessary services, such as those that duplicate the work of regular employees, should be curbed.
- 11.14 Meanwhile, contract review of COS documents disclosed deficiencies, including non-submission of 38 Personal Data Sheets (PDSs) and 105 service contract agreements. These precluded the Audit Team from further evaluating the qualifications of said contractors relative to the respective functions and operations of APEZFA. It also affected the audit team's evaluation of the reasonableness of the rates since most of the unsubmitted PDSs were considered "high-profile," as each one had a substantial pay rate.
- 11.15 Post-audit from January 1 to October 31, 2023, vouchers also revealed that the COS payments totaling ₱591,950.01 were not sufficiently documented with accomplishment reports.
- 11.16 The lack or absence of sufficient documents to attest to the services rendered by the COS personnel is contrary to Section 4 (6) of P.D. No. 1445, which states that *Claims against government funds shall be supported with complete documentation*. COA Circular No. 2012-001 dated June 14, 2012, also prescribes the required documentation for payroll payments, including Approved DTRs and Accomplishment Reports. As such, failure to comply with the audit requirements may warrant the suspension of the transactions in the audit.
- 11.17 **We recommended and the President agreed to undertake the following courses of action:**
 - a. **Submit justification for the hiring of 105 COS personnel.**
 - b. **Assess the Agency's organizational structure to determine the ideal number of plantilla items/positions, thereby avoiding hiring excessive COS personnel.**
 - c. **Develop clear policy guidelines for hiring service contractors.**
 - d. **Evaluate the necessity of service contractors before hiring them.**
 - e. **Refrain from hiring service contractors whose functions are redundant to existing regular agency employees.**
 - f. **Consider those qualified COS personnel for appointment to the vacant regular plantilla positions in APEZFA.**

- 11.18 As noted during the exit conference, addressing the observation will be incorporated into strategic planning efforts in preparation for the proposed reorganization.
- 12. APEZFA's decision to assign one personnel to the Senior Cashier and Finance Services Chief roles has raised significant concerns regarding the lack of segregation of duties, potential conflicts of interest, and increased risks of errors and financial mismanagement.**
- 12.1 During our audit, a notable conflict arose concerning the assignment of dual roles to a single personnel, that of the Senior Cashier and Finance Services Chief.
- 12.2 APEZFA had, for lack of staffing reasons, designated one individual to serve as the Cashier and Finance Services Chief concurrently. While the intention was to streamline financial processes, this dual responsibility raised concerns about potential conflicts of interest and the compromise of internal controls.
- 12.3 The main issue is the inadequate separation of duties. The same person who handles daily cash operations and transactions also oversees broader financial management responsibilities. This lack of segregation poses significant risks, as it undermines the principle of checks and balances in financial operations.
- 12.4 The Finance Services Chief, responsible for managing all accounting, budgeting, and treasury services of APEZFA, is also directly involved in executing daily cash transactions. This dual role creates a potential conflict of interest, raising questions about impartiality and accountability.
- 12.5 The combination of roles increases the risk of errors, whether intentional or not. The absence of independent verification in critical financial functions heightens the risk of oversight lapses, misappropriation, or even fraudulent activities.
- 12.6 Due to the lack of a clear separation between financial transaction executors and those overseeing broader financial strategies, there is no check and balance and possible risk in financial management.
- 12.7 **We recommended that the Management undertake the following courses of action:**
- a. **Separate the roles of the Senior Cashier and Finance Services Chief to establish a clear segregation of duties, ensuring that no single individual oversees and executes critical financial functions.**
- b. **Fill the Senior Cashier position responsible for day-to-day cash transactions, reconciliations, and related activities, reporting to the Finance Services Chief.**
- 12.8 It was pointed out during the exit conference that integrating the observation's resolution into strategic planning endeavors is crucial as part of the preparations for the proposed reorganization.
- 13. Suboptimal recruitment processes and inadequate human resource development, particularly those in crucial roles, not only impede individual**

growth but also pose significant risks to APEZFA's efficiency, productivity, and overall performance.

- 13.1 In any government agency, employees play a vital role in the efficient delivery of services and the realization of its goals. To ensure this, adequate and competent personnel are expected to perform the tasks assigned to each position. This requirement is particularly stated in Section 42, Volume III of the Government Accounting and Auditing Manual (GAAM), which reads: *Employees should possess technical competence and professional integrity commensurate with their assigned responsibilities.*
- 13.2 Furthermore, Section 4 of R. A. No. 6713 states that:
- Norms of Conduct of Public Officials and Employees. - (A) Every public official and employee shall observe the following as standards of personal conduct in the discharge and execution of official duties:*
- (a). xxx
- (b) Professionalism. - Public officials and employees shall perform and discharge their duties with the highest degree of excellence, professionalism, intelligence, and skill. They shall enter public service with utmost devotion and dedication to duty. They shall endeavor to discourage wrong perceptions of their roles as dispensers or peddlers of undue patronage.*
- 13.3 A well-functioning organization requires individuals in critical positions with the necessary competencies and qualifications to carry out their responsibilities effectively. Competence is a fundamental aspect of human resource management and directly impacts an organization's success.
- 13.4 Over time, APEZFA's audit reports have indirectly pointed out the inadequacy in the competence of its employees. These findings imply that this inadequacy contributes to the slow progress and growth of APEZFA. Despite being in its 16th year, APEZFA remains in the start-up phase, with major development projects halted or abandoned. This deviates from the initial plan, which aimed for APEZFA to become operational within 20 years of its establishment. Consequently, this has resulted in missed opportunities, misuse or waste of resources, and failure to meet its intended goals.
- 13.5 Our initial review indicates that the root of this problem stemmed from having suboptimal recruitment processes in APEZFA. While possessing the necessary qualifications may fulfill the basic requirements for securing a position in APEZFA, such qualifications alone may not fully prepare an individual to effectively fulfill the functions and responsibilities inherent to roles in an economic zone environment. Our analysis of the APEZFA workforce's backgrounds and experiences highlighted this issue.
- 13.6 It was further revealed that while employees may possess the requisite academic credentials or technical expertise, they may lack the practical skills, industry knowledge, and in-depth understanding of the challenges in the economic zone environment. This gap between theoretical qualifications and practical requirements

- shows that the recruitment process is ineffective in assessing and selecting candidates with the full range of skills needed to excel in their roles within APEZFA.
- 13.7 Considering the circumstances mentioned, and while these employees hold permanent positions in the government, it is imperative for the Management to take proactive steps to enhance and refine their skills through strengthened training and capacity-building programs aimed at addressing the deficiencies in competence.
- 13.8 However, the audit results revealed persistent inadequacies and insufficiencies in APEZFA's human resource development. This includes insufficient training programs, inadequate professional development opportunities, and the absence of career development pathways. As a result, the workforce is not adequately prepared to fulfill its duties, which leads to inefficiencies, mistakes, and underperformance. Employees who lack the necessary skills and knowledge to handle their responsibilities cause these issues.
- 13.9 Inadequacies in training and capacity-building initiatives in human resource development not only impede individual growth but also undermine organizational effectiveness and competitiveness in the long run. It is imperative for Management to recognize the strategic importance of investing in employee development and take proactive measures to address this critical gap.
- 13.10 **We recommended and the President agreed to undertake the following courses of action:**
- a. **Reevaluate the recruitment processes to ensure adequate assessment of candidates' suitability for critical positions. Focus on meeting basic qualifications and evaluating practical skills, industry knowledge, and experience relevant to an economic zone environment.**
 - b. **Create personalized training programs for new and current employees, covering job functions, compliance, best practices, and emerging trends.**
 - c. **Implement professional mentoring. Experienced staff can mentor junior employees, share knowledge, and offer advice for professional growth.**
 - d. **Encourage employees to pursue relevant education, certifications, and skills development.**
 - e. **Recognize and reward those demonstrating commitment to continuous learning and contributing to APEZFA's success.**
- 13.11 As highlighted in the exit conference, the resolution of the observation will be integrated into strategic planning initiatives ahead of the proposed reorganization.
14. **Deficiencies in project planning and implementation were due to (a) lack of coordination between Departments, (b) lack of commitment to lead the implementation of infrastructure projects, and (c) changes in design plans or scope of works, thus resulting in a significantly low implementation rate of**

4.98% or ₱5,243,590.89 out of ₱105,211,374.00 allocated for the 17 infrastructure projects for CY 2023.

14.1 Section 2 of Presidential Decree (PD) No. 1445 states that:

It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with laws and regulations, and safeguarded against loss, or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy, and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

14.2 As embodied in the prior years' Annual Audit Reports, the Audit Team recommended Management to:

- plan the projects strategically;
- have timely and transparent methods of communication so that all key personnel and officials get involved with the process;
- monitor and evaluate the implementation of the projects to properly address the issues and prevent them from becoming more significant that can threaten the project's success; and
- ensure that necessary actions are taken to maximize the use of funds allocated to the projects.

14.3 However, the Authority's implementation of infrastructure projects continues to fall behind in CY 2023.

14.4 The Department of Budget and Management approved APEZFA's Corporate Operating Budget for FY 2023 which amounted to ₱352,216,000.00. Of this amount, ₱105,211,374.00 was allocated for the implementation of 17 infrastructure projects.

14.5 Following an inquiry from the Finance and Administrative Department regarding the disbursements for the 17 infrastructure projects, it was disclosed that only 4.98% or ₱5,243,590.89 of the allocated appropriation had been utilized. Tables 1 and 2 below present a summary of utilization and the current status of project implementation as of December 31, 2023:

Table 1: Summary of Utilization

Fund Year	Amount of Appropriation		
	Total Amount	Utilized	Not Utilized
Continuing from CY 2022	₱ 87,734,004.00	₱ 0.00	₱ 87,734,004.00
CY 2023	17,477,370.00	5,243,590.89	12,233,779.11
Total	₱ 105,211,374.00	₱ 5,243,590.89	₱ 99,967,783.11

Table 2: Status of Implementation

Status of Project	Number of Project
Completed	1
Started/On-going	3
Terminated	2
Failure of the end-user to submit project's specification	5
Failure of bidding/ No bidder	1
Not Started	5
Total	17

- 14.6 Dates of implementation of the projects that are started/completed and the percentage of implementation based on the reports given by the Finance Department are as follows:

Infrastructure Project	Date implemented	Status and % of implementation
Repair of Water System	June 6, 2023	13.26%, <i>On-going</i>
APECO Casiguran Office	January 18, 2023	78.55%, <i>On-going</i>
Replacement of Railings (Staff House and Executive Cottages)	December 12, 2023	Completed
Office & IT Equipment and Furniture & Fixtures	March 28, 2023	94.29%, <i>On-going</i>

- 14.7 From the table above, it is evident that the three ongoing projects commenced in the first and early second quarters of 2023, while the Replacement of Railings project was initiated and concluded during the last month of the year.
- 14.8 As of writing, the program of works and other technical documents for the projects have not been presented to the Audit Team. Consequently, the status of the projects' implementation remains unverified, impeding the ability to conduct auditorial and technical reviews of procurement transactions and promptly detect/correct potential deficiencies.
- 14.9 Furthermore, the projects that were terminated, specifically: (1) Design and Construction of APECO Underground Power Distribution Line (UPDL) – Phase 2 and (2) Design and Construction of APECO Central Water Supply and Reservoir (CWSR) Phase 2, were terminated in November 2023 due to the Contractor's inability to meet the target completion. The percentages of actual accomplishment and negative slippage are detailed below:

Projects	Accomplishment	Negative Slippage
Design and Construction of UPDL – Phase 2	8.00%	84.44%
Design and Construction of CWSR Phase 2	14.19%	85.81%

- 14.10 According to the Head of the Engineering and Environmental Safety Department, these projects were set for rebidding for CY 2024. Specifically, the Pre-bid Conference for Design and Construction of CWSR Phase 2 was scheduled for February 20, 2024. Meanwhile, no updates were conferred regarding the procurement of the Design and Construction of UPDL – Phase 2.
- 14.11 Additionally, we identified three primary reasons for the implementation delays, which were confirmed during interviews with the Head of the Engineering and Environmental Safety Department and the BAC Secretariat.
- 14.12 It is worth emphasizing that the APP provides all the agency's procurement activities during the applicable year. The APP, as a matter of procedure is reviewed and endorsed by the BAC and approved by the HoPE. It is not solely prepared to comply with the procurement law; in essence, the details and information indicated therein, particularly the mode of procurement, shall be observed not because it is required to be filled up but because it has passed the scrutiny and deliberation as endorsed by the BAC and approved by the HoPE.
- 14.13 The Annual Procurement Plan (APP) was evaluated by various department heads before approval was received. Reportedly, APEZFA officials held numerous meetings and reminders to streamline procurement processes. However, despite these efforts, certain projects remained unimplemented due to a lack of project specifications. This problem hinders the BAC from proceeding with the next steps of the procurement process.
- 14.14 The following projects were not procured due to the non-provision and non-submission of specifications needed:

Projects	Approved Budget for the Contract	Department End-User
Procurement of Geodetic Equipment	₱ 700,000.00	Engineering and Environmental Safety Department
Document Management System	500,000.00	Engineering and Environmental Safety Department
Land Acquisition	5,061,616.00	Engineering and Environmental Safety Department
Street Lighting	985,000.00	Office of the President
Campus CCTV System	625,000.00	Administrative and General Services
Total	₱ 7,871,616.00	

- 14.15 The procurement of these projects was intended to be conducted through the Negotiated Procurement-Small Value Procurement (SVP) method. However, the procurement process couldn't proceed because the end users failed to furnish the required technical specifications for the projects. This deviation from Item D.8, Section V of Annex "H" of Republic Act No. 9184 and its Implementing Rules and Regulations, which clearly assigns the responsibility of preparing and defining technical specifications:

b) Procedure

- i. The End-User shall submit a request for SVP to the BAC, which indicates the technical specification, scope of works, terms of reference, ABC and other terms and condition.*

- 14.16 This practice of the Authority not only prevented the timely utilization of the fund, but also made the consumed time and effort in planning misspent and ineffective, which can be further used in discussing and dealing with other relevant matters.
- 14.17 It was observed that the slow implementation of projects was mainly anchored by the absence of an officer who would spearhead the implementation of the project. Review of the APP disclosed that approximately 59% of the projects remained unimplemented because no officer was designated to monitor the procurement and guide the department from execution to completion of the project.
- 14.18 Moreover, the majority of the projects are scheduled for procurement in the second and third quarters of the year. Despite the Engineering and Environmental Safety Department being overseen by the Division Manager for Operation until the third quarter, the actual progress indicates that only three projects were initiated during this timeframe. This raises concerns about the management's commitment and proactive approach to realizing its planned projects.
- 14.19 It was also shown that projects having large budget allocations were unimplemented and even terminated at the end of the year. Thus, the projects' objectives and goals were not fully met, affecting not only the Authority's commitment to its investors and stakeholders but also its operation as a whole.
- 14.20 Likewise, the material amounts of government funds have been left idle for so long, indicating the absence of clear direction or priorities in the pursuit of its development projects. Hence, the people were also denied development opportunities and benefits that could have been derived therefrom.
- 14.21 Several revisions and fabrication of new designs to consider elements, such as outdated specifications, changing prices of the materials and labor fee, and other significant instructions from the Engineers that were not contemplated in the original plan, greatly contributed to the delay in the completion of the projects.
- 14.22 The Head of the Engineering and Environmental Safety Department emphasized that the projects' technical specifications and program of work need to be reevaluated to ensure their effectiveness and viability at present. However, it is worth mentioning that these modifications and methods will entail more time and additional costs to the Authority.
- 14.23 Although the poor planning and management of infrastructure projects resulting in negative effects on the duration and completion of projects were highly emphasized in the prior years' audit, the Management was still unable to effectively respond to the mandate that all government resources shall be managed, expended and utilized in accordance with law and regulations, for the efficient, economical and effective operations of the government, foregrounded in Section 2 of Presidential Decree No. 1445.

- 14.24 **We recommended and the President agreed to take the following courses of action:**
- a. **Require the respective end-users to timely submit their request for SVP to the BAC in accordance with Item D.8, Section V of Annex “H” of RA No. 9184 and its IRR.**
 - b. **Instruct the Head of EESD to intensify monitoring and reporting on the status of project implementation.**
 - c. **Direct the BAC and other concerned departments to properly plan and schedule early procurement activities, especially on infrastructure projects, to allow their timely implementation.**
 - d. **Ensure that all the Authority’s programs, projects, and activities are properly planned to avoid wasting government time and funds.**
- 14.25 In the exit conference, Management conveyed that infrastructure projects had not been given priority by the previous management, leading to low achievements over the past years.
- 14.26 Management also disclosed that they are currently taking steps to intensify the monitoring and reporting on the status of project implementation.
- 14.27 BAC also revealed that they are engaged in strategic planning exercises. As part of operational planning, they have established a budget planning committee to coordinate the necessary plans for budgeting purposes.
- 15. Payments of Per Diems/ Honorarium were made to the APEZFA Board of Directors (BODs) in a total amount of ₱553,950.00 as of December 31, 2023, which was in excess of what was prescribed in Executive Order (E.O.) No. 24, dated February 10, 2011, and non-submission of pertinent documents regarding the disbursements in compliance with Presidential Decree (PD) No. 1445.**
- 15.1 Executive Order (EO) No. 24, dated February 10, 2011, prescribes the rules to govern the compensation of the members of the Board of Directors/Trustees in the Government-Owned and Controlled Corporations, including Government Financial Institutions. Among the policy considerations stated in Section 1 are to (a) promote transparency, accountability, and prudence in government spending and (b) provide for the standardization and rationalization of the compensation of members of the Board of Directors/Trustees that is reasonable, justifiable, and appropriate to prevent abuses in the grant of salaries, per diems, allowances, bonuses, incentives, and other benefits.
- 15.2 Section 6, under the same EO, identifies the GOCC classification for determining the maximum allowable compensation for members of the Board of Directors/Trustees, which shall be classified by size based on assets and revenues, as follows:

Classification	Assets	Revenues
A	> 100 Billion	> 10 Billion
B	> 25 Billion and < 100 Billion	> 2.5 Billion and < 10 Billion
C	> 5 Billion and < 125 Billion	> 500 Million and <2.5 Billion
D	> 1 Billion and < 5 Billion	>100 Million and <500 Million
E	<1 Billion	<100 Million

15.3 The following are the conditions set in the EO:

- a) Assets shall be based on the prior year's audited balance sheet;
- b) Revenues shall be based on the average of the prior three years' audited income statements;
- c) GOCC must meet both asset and revenue criteria;
- d) Additional consideration may be given to such factors as financial performance, industry, and strategic positioning; and
- e) Changes in GOCC's classification shall be reviewed, evaluated, and recommended by the Department of Finance, subject to the approval of the President.

15.4 Based on the EO, the Authority met the requirements under GOCC Classification "E" with ₱1,598,778,313.21 total assets in CY 2022 and an average of ₱69,743,419.77 in total revenues over the last three years of operations, as shown below:

Calendar Year	Total Revenue
2020	₱ 73,107,521.34
2021	72,805,462.36
2022	63,317,275.60
Total	209,230,259.30
Average	₱ 69,743,419.77

15.5 Section 9 of the said EO provides provision on Per diems for board meetings, which states that *the maximum per diem per Regular or Special Board meeting actually attended provided to members of the Board of Directors/Trustees shall be based on the size of the GOCC but not to exceed the maximum annual amounts specified herein. Actual amounts provided shall consider the nature of the GOCC as fiscal realities. Still, any increases from the current rates of per diems being granted shall take effect only upon approval by the President.* (Emphasis ours)

15.6 Moreso, the table below shows the schedule of the maximum amount of per diem per meeting and for the year, based on the classification of the Corporation, viz:

Classification	Max Per Diem Per Meeting	Max Per Year
A	₱ 40,000.00	₱960,000.00
B	20,000.00	480,000.00
C	15,000.00	360,000.00
D	10,000.00	240,000.00

Classification	Max Per Diem Per Meeting	Max Per Year
E	5,000.00	120,000.00

- 15.7 Meanwhile, Section 15 of R.A. No. 9490 or ASEZA (APEZFA) Law also covers the powers vested in and exercised by the Board of Directors. It was stated that the members of the Board shall each received per diem at a rate to be determined by the Department of Budget and Management, **in accordance with the existing rules and regulations**. Provided, however, that the total per diem allowed to be collected each month shall not exceed the equivalent per diem for four meetings. Unless and until the President of the Philippines has fixed a higher per diem for the members of the Board, such per diem shall not be more than ₱10,000.00 for every board meeting.
- 15.8 Accordingly, claims on per diems should be capped at ₱5,000.00 per meeting and ₱120,000.00 per year. However, during our audit for CY 2023, we noted that the Authority made a total payment of ₱1,107,900.00 for BODs per diems, as presented in the following table:

Board of Directors	Per Diem Claimed on 23 BOD meetings	Allowed in E.O. 24	Excessive Claims
Chairperson	₱ 218,500.00	₱ 109,250.00	₱ 109,250.00
BOD 1	142,500.00	71,250.00	71,250.00
BOD 2	138,900.00	69,450.00	69,450.00
BOD 3	218,500.00	109,250.00	109,250.00
BOD 4	142,500.00	71,250.00	71,250.00
BOD 5	180,500.00	90,250.00	90,250.00
BOD 6	66,500.00	33,250.00	33,250.00
Total	₱1,107,900.00	₱ 553,950.00	₱ 553,950.00

- 15.9 Evidently, the amount of per diems claimed by the BODs for the attendance of board meetings was more than the maximum allowable per diems by ₱5,000.00 for each claim. Furthermore, per diems of 5 BOD and the Chairperson had already exceeded the ₱120,000.00 maximum allowable limit per year.
- 15.10 Section 111 of PD No. 1445 or the Government Auditing Code of the Philippines provides that:

Keeping of accounts

1. 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. Xxxx

- 15.11 Likewise, COA Circular No. 2009-006, dated September 15, 2009, was issued to prescribe the use of Rules and Regulations on the Settlement of Accounts. The Circular provides that the auditor may issue a Notice of Suspension pending

compliance with various requirements for transactions that may result in pecuniary loss to the government.

- 15.12 Our audit revealed that all payments of per diem were not duly supported by required documentation as prescribed under Section 5.7.3 of COA Circular No. 2012-001 dated January 14, 2012, such as (i) Appointment/designation as a member of the Board; (ii) Certification that the claimant is not an appointee to a regular position in the governing Board of the collegial body who receives salaries, regular allowances, and other benefits; and (iii) Minutes of meeting and Attendance Sheet as certified by the Board Secretary.
- 15.13 Accordingly, Management was aware of the policy guidelines outlined in E.O. 24. However, their inquiry with the DBM revealed that the Authority was categorized as Classification “D”, which was concurred by DBM. Furthermore, Management justified that the ₱10,000.00 per diem for board meetings was incorporated into the Corporate Operating Budget, duly approved by the DBM, thereby permitting BOD to claim the per diem at the said amount for each attended board meeting.
- 15.14 In the previous report, the Audit Team recommended that Management ensure compliance with E.O. No. 24, order the refund of the excessive per diem claims, and submit the required supporting documents for per diem.
- 15.15 Management opted to write a letter to DOF on November 29, 2023, requesting that it be classified as class “D.” This was done to continue granting ₱10,000.00 per diems to its BODs for every board meeting attended, as provided under RA 9490, amended by RA 10083.
- 15.16 They explained to the DOF that regular meeting of the Board occurs only twice a month, and their per diems are sourced from the operational revenue of APEZFA. They also added that members of the board do not avail any of the allowable reimbursable expenses enumerated under E.O. 24, making the ₱10,000.00 per diem cover all their expenses when attending a board meeting, especially if the meeting is held in Casiguran, Aurora, where APEZFA head office is located.
- 15.17 As of this writing, the Authority continuously grants the rate of P10,000 as per diem to each member of the Board, thus receiving an amount in excess of what was provided in E.O. No. 24.
- 15.18 **We recommended and the President agreed to take the following courses of action:**
 - a. **Ensure compliance with E.O. No. 24 on the payment of BOD per diems notwithstanding the approval from the DOF and the President of the Philippines on this matter.**
 - b. **Follow up with the Department of Finance (DOF) regarding the Authority's proper classification as a GOCC and furnish a copy to the Audit Team.**

- c. **Strictly ensure compliance with PD 1445 and cause the immediate submission of the required supporting documents for per diem and communication expenses.**
- 15.19 During the exit conference, the Management committed to comply with the recommendations.
- 16. The cyberattack targeting APEZFA’s official website poses a major challenge, impacting its digital infrastructure and undermining stakeholders’ trust. This highlights the vital importance of strong cybersecurity measures to safeguard the Authority’s data, ensure seamless operations, and protect its reputation.**
- 16.1 The APEZFA’s website serves as a critical platform for disseminating information about the Authority’s services, incentives, investment opportunities, and regulatory framework. It also facilitates communication with stakeholders, including investors, businesses, residents, and government agencies.
- 16.2 APEZFA is currently under contract with a third-party web host to cater to the subscriptions of its domain name — auroraecozone.com and website hosting. Review of the Terms of Service with the third-party website host disclosed the following reservation:
1. The website host *reserves the right to refuse service and/or access to its servers to anyone. The website host does not allow any of the following content to be restored on its servers:*

*Miscellaneous content – Including pirated software, ROMS, emulators, phreaking, **hacking**, password cracking, IP spoofing, etc., and encrypting of any of the above. Also includes any sites providing “links to” or “how to” information about such material*
- 16.3 It was determined in an interview that APEZFA’s official website had been subjected to a cyberattack sometime in September 2023. The attackers gained unauthorized access to the website and infected malware with its contents, leading to its compromise and subsequent hacking.
- 16.4 A report detailed that Management attempted to access the APECO Travel Pass page on auroraecozone.com, but encountered a malware notification, resulting in denied access. They conducted online malware detection through Sucuri and notified their web host via email with the subject “Website Malware Detected.” The web host responded, stating that they had removed the suspected malware file and conducted an additional antivirus scan to ensure no other malicious files were present.
- 16.5 Following this, Management inquired about the possibility of restoring from backup, to which the web host replied that backup restoration was subject to quotation and that website maintenance was not part of their contract. Management then requested pricing for the restoration. The APEZFA IT Consultant sought technical workarounds, and the web host proposed a “transfer & fixing” solution.

- 16.6 In October 2023, Management discovered that auroraecozone.com had been suspended. They subsequently inquired to the web host and reiterated their proposal with attachments indicating over 1,000 infected/malicious files. Management also contacted the web host, requesting an in-person meeting. However, as of this writing, the website host has not responded to the Management.
- 16.7 The cyberattack incident has several significant implications for APEZFA:
- The compromised website damages APEZFA's reputation and credibility, as stakeholders may perceive the Authority as insecure and unreliable.
 - The unauthorized access to sensitive data raises concerns about the security and confidentiality of information stored on the website, potentially exposing stakeholders to identity theft and fraud.
 - The website serves as APEZFA's primary communication channel. Its compromise disrupts operations and hinders the Authority's ability to engage with stakeholders and provide timely information effectively.
 - The breach may lead to legal and regulatory consequences, as APEZFA is responsible for safeguarding sensitive information and complying with data protection regulations.
 - It may result in financial losses for the Authority due to expenses incurred in restoring the website, implementing cybersecurity measures, and potential legal fees associated with addressing the breach.
- 16.8 This incident targeting the website of APEZFA is a serious cybersecurity threat that has significant implications for the Authority's operations, reputation, and stakeholder trust. Immediate action is required to restore the website's functionality, enhance cybersecurity measures, and mitigate the impact of the breach. Additionally, proactive steps must be taken to prevent future security incidents and ensure the security and integrity of the Authority's digital infrastructure.
- 16.9 Moreover, it is important to note that, in accordance with provisions outlined in the Republic Act No. 8792, also known as the Electronic Commerce Act of 2000, the Philippine Government required each department to have a presence on the web.
- 16.10 Meanwhile, it has come to our attention that part of the Web Hosting Terms of Service disclosed that the website host *reserves the right to **cancel the service at any time**. In this event, the customers will be entitled to a pro-rata refund based upon the remaining period of membership. If a customer violates the web host's terms of service, a refund will not be issued in the event of a cancellation. Client may cancel their account at any time. Client is not entitled to receive a refund unless the service is cancelled by the web host.*
- 16.11 This clause outlines the terms and conditions governing the cancellation and refund process for the web hosting service. It delineates the rights and responsibilities of

both parties and seeks to balance the interests of the website host and the customers. However, APEZFA Management should carefully review and understand these terms before agreeing to the service to ensure they are secured with their rights with the potential implications in the event of cancellation.

16.12 We recommended and the President agreed to take the following courses of action:

- a. Develop and implement an incident response plan outlining protocols and procedures for responding to cybersecurity incidents, including data breaches and website compromises.**
- b. Revisit the existing contract with the web host to ensure they include provisions for cybersecurity and data protection measures. Consider revising contracts to include specific requirements for security assessments, regular updates, and compliance with cybersecurity standards and regulations.**
- c. Review and assess the cybersecurity posture of web hosts to ensure they adhere to industry-standard security practices and protocols. Establish clear contractual agreements that outline security requirements and responsibilities.**
- d. Ensure compliance with relevant cybersecurity regulations and standards, including the Republic Act No. 10173 or the Data Privacy Act of 2012, and other applicable laws and regulations governing the protection of sensitive information and personal data.**

16.13 During the exit conference, Management disclosed that instead of utilizing web hosting services, they are now undertaking steps to apply GovMail to the Department of Information and Communications Technology (DICT).

16.14 The Management will also be appointing a Data Privacy Officer and updating the data privacy policy.

17. The non-preparation of the prescribed Procurement Monitoring Report (PMR) and Agency Procurement Compliance and Performance Indicator (APCPI) prevented the establishment of proper accountability and transparency in the procurement process.

17.1 Management's continuous monitoring and evaluation of the procurement process establishes integrity and compliance with laws and set standards. In addition, it helps confirm whether the procurement activities are executed as planned and that adequate controls are in place to achieve accountability for the performance and execution of procurement functions and transparency in the conduct of the entire process.

17.2 In line with this, the Government Procurement Policy Board (GPPB) prescribes the use of the (a) Procurement Monitoring Report (PMR) and the (b) Agency Procurement Compliance and Performance Indicator (APCPI) as monitoring and

evaluation tools to develop and strengthen the procurement monitoring system of the agency.

- 17.3 Section 12.2 of the Revised IRR (RIRR) of R.A. No. 9184, as amended by GPPB Resolution No. 11-2020 dated May 20, 2020, requires the Procuring Entity to abide by the standards prescribed, such as the preparation of the PMR. It is a report that provides a snapshot of the current status of the procurement projects. It allows stakeholders to follow and analyze all procurement activities at any stage – whether initiated, ongoing, or completed- and therefore provide efficient traceability.
- 17.4 The PMR is mainly described in the RIRR as follows:
- covers all procurement activities specified in the Annual Procurement Plan (APP);
 - a document where one could follow and analyze all procurement activities at each stage or level – whether ongoing or completed, from the holding of the pre-procurement conference to the issuance of Notice of Award and the approval of the contract, delivery/completion, and acceptance/turn-over;
 - includes the standard and actual time for each major procurement activity;
 - approved and submitted by the Head of the Procuring Entity (HoPE) to the GPPB in printed and electronic format (MS Excel and PDF) within 14 calendar days after the end of each semester;
 - prepared in the prescribed updated format, in accordance with GPPB Circular No. 03-2017 as amended by GPPB Resolution No. 11-2020, dated 20 May 2020; and
 - posted on the agency's website, in accordance with EO 662, s. 2007, as amended.
- 17.5 A Consolidated PMR (CPMR) is likewise prescribed. It provides a profile of agency procurement for one calendar year, which includes information such as a breakdown of APP according to types and methods of procurement, number of procurement activities, etc.
- 17.6 GPPB Resolution No. 39-2017 dated December 21, 2017 prescribes the use of the APCPI to assess the performance of the government agency's procurement activities and to compare its effectiveness against that of the national public procurement systems and international best practices and standards using baseline standards and indicators.
- 17.7 The APCPI is a self-assessment tool consisting of four key areas called Pillars that characterize the basic elements of an agency's procurement as patterned after the national public procurement system, 16 indicators, and 41 sub-indicators to which the existing Pillars may be assessed. It helps to identify the agency's strengths and weak areas and eventually address these weaknesses in implementing the procurement system. A User's Guide is provided to assist in preparing the same.
- 17.8 The GPPB adopted the use of the Agency Procurement Compliance and Performance Indicators (APCPI) System as the standard procurement monitoring, assessment, and evaluation tool, which aims to determine qualitatively and

quantitatively procurement strengths and weaknesses of agencies and formulate a reasonable action plan to address identified areas for improvement while adopting measures to sustain strengths alongside a competitive, transparent, economical, efficient and accountable public procurement regime.

- 17.9 The APCPI assessment is the responsibility of the HoPE with the assistance of the BAC and its Secretariat and other departments/divisions/units concerned within the procuring entity. Upon completion, final review, confirmation, and approval of the APCPI results by the HoPE, the BAC Secretariat is expected to submit a copy of the consolidated report to the GPPB-Technical Support Office (TSO) together with the accomplished Self-Assessment Form, Consolidated PMR, APCPI Questionnaire, and Action Plan.
- 17.10 Inquiry with the BAC Secretariat has confirmed the non-compliance in preparing these reports despite awareness of the GPPB requirement. They justified that the authority has its own monitoring templates accomplished by the Property and Supply Officer (PSO) and the BAC Secretary.
- 17.11 However, the monitoring reports prepared by Management showed that PSO's monitoring is based on the issued Purchase Orders (POs). At the same time, the BAC Secretary is on the Budget Utilization Requests (BURs). Our analysis revealed that the tracking of procurement activities is based on those POs and BURs instead of aligning them with the procurement plan. As a result, it does not serve the purpose of the formal tracking and monitoring of all procurement categories.
- 17.12 While the Audit Team understands the BAC Secretariat's predicament, we believe that accomplishing and submitting the PMR and APCPI efficiently tracks specific procurements throughout the process. Furthermore, the use of the said forms identifies strengths and weaknesses in the Authority's procurement system, hence substantially complying with the pertinent provisions of the RIRR requiring the same. This would likewise promote the proper establishment of accountability and transparency.
- 17.13 **We recommended and the President agreed to direct the:**
- a. **Bids and Awards Committee (BAC) to establish a mechanism that provides the necessary guidance and support to the BAC Secretariat to comply with the required monitoring and evaluation activities, pursuant to Section 3(c) of Revised IRR of RA 9184.**
 - b. **BAC Secretariat to implement, as required by the GPPB-TSO, a more efficient and effective procurement reporting and the mandatory preparation and submission of APPs, PMRs, and APCPI Results through electronic mail, in both Microsoft Excel and PDF files.**
- 17.14 During the exit conference, the Management committed to comply with the recommendations.

18. **Procurements of operating expenses amounting to P3,609,388.90 were made on a reimbursement basis instead in the regular procurement system contrary to the provisions of RA No. 9184 and COA Circular No. 97-002, where payments must be made by check and petty cash fund. While Section 25.b, Chapter 6 of GAM for NGAs, Volume 1 requires payments to be facilitated through a cash advance.**

18.1 COA Circular No. 97-002 dated February 10, 1997 was issued to provide the pertinent rules and regulations on the granting, utilization and liquidation of cash advances. More specifically, Section 2 (2 and 3) of the aforesaid circular states:

“2. All payments must be made by check

3. Only payments in small amounts may be made through the petty cash fund. Replenishment of the petty cash fund shall be equal to the total amount of expenditures made therefrom.”

18.2 Project Procurement Management Plans (PPMPs) and Annual Procurement Plan (APP) disclosed that the Authority used the Small Value Procurement method for purchasing goods and service transactions. However, this is not being implemented for all transactions. The reimbursement method has been a practice and acceptable within the agency for convenience for years. The urgency of the procurement was the default justification cited by the Management for non-conformity.

18.3 Review of Reports of Checks Issued (RCI) from January 1 to December 31, 2023, disclosed that 304 transactions charged to operating expenses totaling P3,609,388.90 were paid through a reimbursement basis.

18.4 In our post audit of submitted transactions from January 1 to November 31, 2023, we observed that these reimbursements were mainly from the purchase of supplies and materials, meals, hotel accommodations, travel per diems, repairs of office equipment and service vehicles, among others, to wit:

Operating Expenses	Amount
Goods	₱ 79,566.25
Diesel	967,023.60
Toll	428,311.81
Meals and Hotels	437,456.82
Taxes and Legal Services	45,605.00
Per diem - Travels	1,009,511.42
Repairs and Maintenance	146,670.01
Trainings	2,000.00
Extraordinary and Miscellaneous Expenses	10,000.00
Internet and Telephone	30,248.38
Others	20,110.76
TOTAL	₱3,176,504.05

- 18.5 A significant portion of reimbursements is for petroleum products, which has been a common practice by the APEZFA Pasay Satellite Office due to the absence of a supplier offering credit lines within the vicinity. Procurements of petroleum, fuel, oil, and lubricants on the motor vehicles of the Authority totaling ₱967,023.60 were made through reimbursement contrary to RA No. 9184 and its revised Implementing Rules and regulations. This observation was included in the prior year's audit report, and Management committed to implement the Audit Team's recommendation that would adopt properly the appropriate mode of procurement for the procurement of the Authority's petroleum requirements with strict adherence to the Procurement Law or RA No. 9184. However, the Authority has not implemented the recommendation, hence, a reiteration.
- 18.6 Section 53.14 (Negotiated Procurement) of RA No. 9184 states that:
- Direct Retail Purchase of Petroleum Fuel, Oil and Lubricant (POL) Products, Airline Tickets, and Online Subscriptions. Where Goods and Services are required by a Procuring Entity for the efficient discharge of its principal mandate, governmental functions, or day-to-day operations, direct retail purchase of (i) petroleum fuel, oil, and lubricant (POL) products; (ii) airline tickets; and (iii) online subscriptions may be made by end-users delegated to procure the same from identified direct suppliers or service providers.*
- 18.7 Except for travel per diems, all operating expenses in the above table, specifically those not petty expenses and/or did not fall under emergency cases, should also have been procured in conformity with the regular procurement process or RA No. 9184 and should be included in the APP.
- 18.8 Furthermore, since the transactions were through reimbursement, they were not subjected to withholding tax as provided in Section 4 of Revenue Regulation No. 10-93, dated June 6, 1993, as amended, which deprives the Bureau of Internal Revenue of the withholding taxes that could be collected thereon.
- 18.9 Nonetheless, it is worth emphasizing that it is the procuring entity's responsibility to consider seeking the best opportunities for acquiring goods and/or services at the most economical price, reasonable contract terms, and tax advantages to the benefit of the government through the appropriate procurement method.
- 18.10 Section 25.b, Chapter 6 of GAM for NGAs, Volume 1 provides that officials and employees authorized to travel shall be granted cash advances to cover traveling expenses. The amount to be granted shall be accounted for as Advances to Officers and Employees. Similarly, Item 1.1.4 of COA Circular No. 2012-001 prescribed that traveling allowances granted shall be treated and accounted for as cash advances.
- 18.11 As observed, a substantial amount of traveling expenses incurred by officials and employees were paid through reimbursement totaling ₱1,009,511.42 rather than through cash advance. Verification disclosed that the said deficiency is recurring since the Authority still resorted to direct charges/ reimbursement of expenses for official travels contrary to the above-mentioned manual/ circular.

- 18.12 Due to the above practices, the completion of travels and the corresponding expenses incurred could not be easily monitored; hence, it may disrupt the Authority's cash management and result in the non-recognition of expenses in the appropriate accounting period. Moreover, it could assist personnel in managing their expenses while traveling, particularly when they lack additional cash on hand.
- 18.13 Instead of using the petty cash fund or cash advance to defray petty operating expenses, which cannot be paid conveniently by check or are to be paid immediately, the Authority resorted to reimbursement contrary to COA Circular No. 97-002 dated February 10, 1997, defeating the purpose for which the cash advance for petty expenses was established.
- 18.14 COA Circular No. 97-002 states that, *Ideally, cash should be handled under the general principles of the imprest system. In practice, however, there are certain instances when making payments by check may be very difficult, impractical, or impossible. In such a case, payments may be made by the disbursing officer in the form of cash through his cash advance.*
- 18.15 Further review of the documents disclosed that several expenses that were claimed for reimbursements were petty operating expenses. However, instead of payments made through the petty cash fund, purchases were disbursed in advance from the employees' personal funds. Allowing the reimbursement of payments made for petty operating expenses by the Authority personnel defeats the very purpose for which the cash advances are granted.
- 18.16 The Audit Team further observed in the reimbursement process that the personnel accumulated the transaction receipts for months before eventually reimbursing them to the Authority. The practice of accumulating receipts months before reimbursement reflects the Management's lack of attention to cash management. Cash management encompasses how the Authority manages its operations, such as payments for operating expenses. It pays attention to ensure that there is sufficient cash available for operating expenses. By its nature, the reimbursement process alone would not coincide with sound cash management, much more on claims for reimbursements on transactions that occurred months after.
- 18.17 Lastly, it is important to note that this practice is highly susceptible to disregarding proper authorization since the employees already advanced the procured items prior to the disbursement's approval.
- 18.18 **We recommended and the President agreed to strictly follow the schedule and the mode of procurement indicated in the Annual Procurement Plan and comply with the provisions of R.A. No. 9184, COA Circular No. 97-002, and Section 25.b, Chapter 6 of GAM for NGAs, Volume 1, and refrain from allowing reimbursements of payments made.**
- 18.19 During the exit conference, the Management committed to comply with the recommendations.
19. **Audit disallowances totaling ₱410,807,159.78 were recognized as Receivables-Disallowances/Charges in the Aurora Pacific Economic Zone and Freeport**

Authority (APEZFA) books of accounts. These remained unsettled as of December 31, 2023, despite the issuance by the Commission on Audit (COA) of a Notice of Finality of Decision (NFD) and COA Order of Execution (COE), contrary to Section 7.1 of COA Circular No. 2009-006 dated September 15, 2009.

- 19.1 COA Circular No. 2009-006 dated September 15, 2009, provides the following Rules and Regulations on the Settlement of Accounts (RRSA):
- 19.2 Section 10.4 - *The disallowance shall be settled within six (6) months from receipt of the ND by the person liable.*
- 19.3 Section 16.1.4 - *Public officers and other persons who confederated or conspired in the transaction which is disadvantageous or prejudicial to the government shall be granted **jointly and severally** with those who benefited therefrom. (Emphasis supplied.)*
- 19.4 Section 7, supra, enumerates the responsibilities of the Agency Head in the audit and settlement of accounts, while Sections 7.1.3, 7.1.4, and 7.2.1, in particular clearly cite their duties in the implementation of final audit decisions:

Responsibility of the Agency Head

7.1.3 He shall enforce the COE by requiring the withholding of salaries or other compensation due the person liable in satisfaction of the disallowance or charge.

7.1.4 He shall ensure that all employees who are retiring or transferring to other agencies shall first settle the disallowance and charges for which they are liable.

- 19.5 Corollary to the above rules and regulations, the last paragraph of the Notice of Finality of Decision (NFD) and the Notice of Disallowance (ND) clearly directs the liable person to settle the disallowance immediately.
- 19.6 It was observed that several NDs were issued to APEZFA for the disbursement of funds on projects/expenditures without complete documentation and legal bases. These disallowances were issued with the corresponding NFD after they had become final and executory. Some NDs covered by NFD were even issued with COE.
- 19.7 Scrutiny of records of the status of NDs served to management, reported as final and executory, disclosed the following details:

NFD Date	ND No.	Amount	COE Date
19-Nov-14	2014-001-104/103-(13)	₱ 84,301.32	19-Nov-14
25-Apr-18	2014-004-104/103-(14)	3,033.10	27-Jun-18
25-Apr-18	2015-01-101-(15)	2,160.00	27-Jun-18
19-Nov-14	2013-001 -104/103-(09-12)	297,372,036.70	19-Nov-14

NFD Date	ND No.	Amount	COE Date
19-Nov-14	2013-002-104/103-(08-09)	29,780,010.04	19-Nov-14
19-Nov-14	2013-003-104/103-(12)	2,995,492.50	19-Nov-14
19-Nov-14	2014-001-101-(10 & 11)	14,060,605.40	19-Nov-14
	With COE- Total	₱344,297,639.06	
27-Jun-18	2014-002-104/103-(13)	39,847,443.12	Without COE
27-Jun-18	2014-003-104/103-(13)	26,662,077.60	Without COE
	Without COE- Total	₱66,509,520.72	
	GRAND TOTAL	₱ 410,807,159.78	

- 19.8 As could be gleaned in the table, ND Nos. 2014-001-104/103-(13), 2014-004-104/103-(14), and 2015-01-101-(15) totaling to ₱89,494.42 were for the accounts of retired and resigned employees. The amount remained unsettled before the said NDs became final and executory. Settlements were made through salary deduction in CY 2017, but thereafter, Management no longer demanded the unpaid balances. It is to be emphasized that the retirement or resignation by a person named liable does not extinguish his obligations; otherwise, the same may be assumed by the other officials and employees who were named as co-liable in as much as the nature of the liability is joint and several under Section 16.1.4 of COA Circular No.2009-006.
- 19.9 Meanwhile, as can be gleaned from the preceding data, the NFDs and COEs were served to Management since CY 2014, but not even a single settlement was made as of December 31, 2023.
- 19.10 For all NDs issued in CYs 2013 and 2014, except for 2014-001-104/103-(13) and 2014-004-104/103-(14), and those without COEs totaling ₱344,208,144.64, our interview with Management disclosed that it has yet to enforce settlement from the parties liable due to the following factors:
- i. It is not clear to the management how much to collect from the liable parties since the structures exist services were delivered; and
 - ii. If management enforces the same, they might expose APEZFA to a possible legal suit that the affected parties may file.
- 19.11 The person who approved and certified the transactions as to the legality, regularity, and necessity of the projects are the persons identified in the ND as primarily liable together with the contractor for receiving the payment of illegal/irregular/inappropriate transactions. Therefore, all of them are deemed liable **jointly and severally**. In relation to item (a), the liability of the persons named liable is up to the extent of the amount/cost of the project subject to the disallowance.
- 19.12 Relative to item (b), Section 7 of the RRSA does not cite the conditions or circumstances exempting a person liable from the enforcement of the ND. However, it is worth noting that on March 29, 2022, the COA Commission Proper issued a Notice of Finality of Decision No. 2022-39, excluding the contractor from the liability under the ND No. 2014-001-101-(10 & 11) amounting to ₱14,060,605.40, after considering the premises on Petition for Review filed by the contractor.

- 19.13 Moreover, the effect of non-compliance with the COE is guided by Section 8, Rule XIII of the 2009 Revised Rules of Procedure of the Commission on Audit, which states that *Any delay in complying or refusal to comply with the order or decision of the Commission shall constitute a ground for contempt, and/or administrative disciplinary action against the officer or employee concerned.*
- 19.14 As a result of Management’s decision to defer the enforcement of the COE, the collectability of the reported amount in the Receivables—Disallowances/Charges Account, which accumulated to ₱410,807,159.78, was uncertain. This could impact the reliability of the Authority’s financial statements as of December 31, 2023, and the years thereafter.
- 19.15 **We recommended and the President agreed to strictly enforce the implementation of the issued COA Order of Execution (COE) in accordance with the Rules and Regulations on the Settlement of Accounts (RRSA) to avoid the sanctions cited therein in case of failure to do so.**
- 19.16 During the exit conference, the Management committed to comply with the recommendations.

Compliance with Tax Regulations

20. **The Agency was substantially compliant with the revenue regulations on the withholding and remittance of current taxes; however, in the absence of reliable and complete records on prior years’ transactions, the balance of the Due to BIR account as of year-end was bloated by ₱287,959.39 consisting of (a) unremitted Capital Gains Tax of ₱205,733.68; and (b) long outstanding balances in the sum of ₱82,225.71 without verifiable details and bases for remittance, contrary to Revenue Memorandum Circular (RMC) No. 23-2012 dated February 14, 2012.**
- 20.1 As prescribed by the Bureau of Internal Revenue (BIR) Revenue Memorandum Circular (RMC) No. 23-2012 dated February 14, 2012, the government withholding agent shall withhold tax on compensation, on income payments subject to expanded withholding tax, and final withholding tax and on government money payment to VAT-registered taxpayers and non-VAT registered taxpayers subject to percentage tax. The RMC further requires that the responsible officials and employees, being the withholding agents, ensure that the taxes withheld are accordingly remitted on or before their due date, scheduled on the 10th day of the following month.
- 20.2 During the year 2023, the taxes withheld and remitted by the Agency amounted to ₱4,757,096.54 and ₱4,444,693.91, respectively, as shown in the table below:

	Due to BIR - Beginning	Taxes Withheld	Total	Taxes Remitted	Due to BIR - Ending
January	526,676.93	370,464.22	897,141.15	414,961.78	482,179.37
February	482,179.37	342,436.20	824,615.57	370,464.22	454,151.35
March	454,151.35	435,061.66	889,213.01	342,436.20	546,776.81
April	546,776.81	367,109.02	913,885.83	437,614.50	476,271.33
May	476,271.33	366,451.07	842,722.40	200,709.37	642,013.03

	Due to BIR - Beginning	Taxes Withheld	Total	Taxes Remitted	Due to BIR - Ending
June	642,013.03	409,010.42	1,051,023.45	194,101.19	856,922.26
July	856,922.26	369,149.59	1,226,071.85	578,829.56	647,242.29
August	647,242.29	621,439.42	1,268,681.71	368,853.24	899,828.47
September	899,828.47	321,412.45	1,221,240.92	621,439.42	599,801.50
October	599,801.50	272,498.00	872,299.50	321,520.70	550,778.80
November	550,778.80	326,791.51	877,570.31	272,498.00	605,072.31
December	605,072.31	555,272.98	1,160,345.29	321,265.73	839,079.56
Total		₱ 4,757,096.54		₱4,444,693.91	₱ 839,079.56

- 20.3 Out of the above balance, subsequent remittances thru the electronic tax system amounted to ₱551,120.17, as follows:

Date of Payment	Amount
January 8, 2024	₱ 305,169.98
January 16, 2024	245,950.19
Total Payments	₱551,120.17

- 20.4 As of this writing, a total of ₱287,959.39 remained unremitted, consisting of the following:

	Amount
Unremitted Capital Gains Tax	₱205,733.68
Untraced/unidentified balance	82,225.71
Total	₱287,959.39

- 20.5 As discussed in the previous years' Annual Audit Report (AAR), Management withheld Capital Gains Tax (CGT) from the purchase of real estate. However, the same was not fully remitted to the BIR within the prescribed period. Over the years, the unremitted CGT has incurred penalties, charges, and documentary taxes. Rather than paying the CGT and such other charges for non-payment thereof, Management opted to negotiate with the BIR for a compromise.
- 20.6 Management was able to pay the CGTs withheld, excluding those for six land acquisitions totaling ₱205,733.68. Based on prior years' records, the previous APEZFA Management apparently initiated the payment of the unremitted CGTs together with the penalties and charges but ceased to pursue action after they learned that payment for penalties and charges could be grounds for audit disallowance. Even up to this writing, Management has yet to find its resolution on the matter. Nevertheless, they committed to further review and prepare the documents to settle the accounts accordingly.
- 20.7 It is also worth noting that the BIR agreed on the settlement of the withheld CGTs. Nevertheless, the penalties, surcharges, and documentary taxes that had accumulated from the date of purchase to the date of remittance were not waived by the BIR. In our review of relative documents, we noted that partial computation of the penalties, charges, and documentary taxes covering various dates from CY 2012 to July 18, 2014 amounted to ₱788,117.75.

- 20.8 The existing records of the Accounting Unit have no details to support the transactions and balances of prior years. For this reason, inconsistencies in the amount of taxes withheld and remitted remained unresolved up to the present. Notwithstanding, Management committed to exert more diligent effort in this respect.
- 20.9 **We recommended and the President agreed to require the OIC-Finance and Administrative Department Manager-A to (a) closely monitor the preparation of the necessary remittance schedules, which shall be reconciled with the corresponding Subsidiary Ledgers (SLs) so that the correct amounts could be remitted accurately and intact to the BIR within the prescribed deadlines; (b) regularly update accounting SLs; and (c) reconcile and validate the remaining unremitted balances with the BIR records for appropriate disposition thereof.**

Compliance with Republic Act (R.A.) No. 8291 or the Government Service Insurance System (GSIS) Act of 1997

21. **For CY 2023, Management was able to deduct from its employees' salaries and wages the mandatory insurance and premiums and loan amortizations due for the period totaling ₱2,975,268.98 and remit to the Government Service Insurance System (GSIS) the amount of ₱2,917,804.58, leaving a balance of ₱1,017,468.15 as at year-end.**
- 21.1 Section 5 (c) of Republic Act (R.A.) No. 8291, otherwise known as the Government Service Insurance System (GSIS) Act of 1997 provides that *It shall be mandatory and compulsory for all employers to include the payment of contributions in their annual appropriations. Penal sanctions shall be imposed upon employers who fail to include the payment of contributions in their annual appropriations or otherwise fail to remit the accurate/exact amount of contributions on time, or delay the remittance of premium contributions to the GSIS. The heads of offices and agencies shall be administratively liable for non-remittance or delayed remittance of premium contributions to the GSIS.*
- 21.2 Further, Section 6 (b) thereof provides that *the employer shall remit directly to the GSIS the employees' and employers' contributions within the first ten (10) days of the calendar month following the month to which the contributions apply. The remittance by the employer of the contributions to the GSIS shall take priority over and above the payment of any and all obligations, except salaries and wages of its employees.*
- 21.3 Section 7 states that *the Agencies which delay the remittance of any and all monies due the GSIS shall be charged interests as may be prescribed by the Board but not less than two percent (2%) simple interest per month. Such interest shall be paid by the employers concerned.*
- 21.4 Deductions and remittances of GSIS contributions and loan amortizations in CY 2023 in observance of the above law are summarized in the following table.

	Due to GSIS - Beginning	Withheld	Total	Remitted	Due to GSIS - Ending
January	960,003.75	357,802.65	1,317,806.40	752,348.97	565,457.43

	Due to GSIS - Beginning	Withheld	Total	Remitted	Due to GSIS - Ending
February	565,457.43	358,024.08	923,481.51	358,024.08	565,457.43
March	565,457.43	203,400.45	768,857.88	203,400.45	565,457.43
April	565,457.43	212,496.71	777,954.14	212,496.51	565,457.63
May	565,457.63	206,696.16	772,153.79	206,696.16	565,457.63
June	565,457.63	206,696.33	772,153.96	204,036.92	568,117.04
July	568,117.04	206,173.37	774,290.41	192,861.65	581,428.76
August	581,428.76	230,659.71	812,088.47	221,636.74	590,451.73
September	590,451.73	188,862.03	779,313.76	190,191.70	589,122.06
October	589,122.06	208,748.06	797,870.12	179,697.34	618,172.78
November	618,172.78	198,710.51	816,883.29	194,667.90	622,215.39
December	622,215.39	396,998.92	1,019,214.31	1,746.16	1,017,468.15
Total		₱2,975,268.98		₱2,917,804.58	₱1,017,468.15

- 21.5 Out of the year-end account balance of ₱1,017,468.15, a sum of ₱97,714.34 and ₱321,959.98 were remitted on January 3 and 8, 2024, respectively. Leaving a balance of ₱597,793.83. Verification of records showed that contributions of the GSIS members and equivalent government share were not remitted to the GSIS due to the Administrative Division's failure to update the GSIS with the members' service records, in addition to unresolved reconciliation issues in the previous year.
- 21.6 Failure to remit the members' contributions to the GSIS and the non-reconciliation of the records of APEZFA with the GSIS prejudiced the availment of privileges and benefits as GSIS members and resulted in the incurrence of penalty for late remittances under Section 7 of R.A. No. 8291.
- 21.7 **We recommended, and the President agreed, that the Administrative Division be required to closely monitor the reconciliation of the GSIS account and consistently comply with existing rules and regulations on deducting and remitting GSIS contributions and loan amortizations in accordance with GSIS law.**

Compliance with Republic Act (R.A.) No. 9679 or the Home Development Mutual Fund (HDMF) Law of 2009

22. **During the year, the Agency has collected and accordingly remitted Home Development Mutual Fund (HDMF) premiums and loans from the salaries of employees and other amounts due to Pag-IBIG pursuant to Republic Act (R.A.) No. 9679 or the Home Development Mutual Fund Law of 2009, except for the unremitted collections totaling ₱11,483.28.**
- 22.1 The beginning balance, total collections, and remittances made in CY 2023 amounted to ₱5,781.57, ₱135,420.52, and ₱129,718.81, respectively, leaving an unremitted balance of ₱11,483.28 as of December 31, 2023. Management remitted a total of ₱10,401.71 on January 9, 2024, leaving an unremitted balance of ₱1,081.57.

- 22.2 **We recommended, and the President agreed, that the concerned official identify and remit the unremitted collections to the Pag-IBIG in accordance with Republic Act (R.A.) No. 9679 or the Home Development Mutual Fund (HDMF) Law of 2009.**

Gender and Development (GAD)

23. **The objectives of the Programs, Projects, and Activities (PPAs) to pursue women's empowerment and gender equality were not fully attained due to the CY 2023 GAD Plan Budget not being endorsed by the Philippine Commission on Women (PCW), the absence of a GAD Focal Point System, and an institutionalized GAD Database, which are inconsistent with PCW-NEDA-DBM JC No. 2012-01.**
- 23.1 Republic Act (R.A.) No. 7192, Women in Development and Nation Building Act, promotes the integration of women as full and equal partners of men in development and nation-building. The government ensures that equal opportunities are given to men and women as vital workforce for a progressive economy.
- 23.2 Also, Executive Order (EO) 273, otherwise known as the Philippine Plan Gender-Responsive Development (PPGRD 1995-2025), mandated the implementation of gender and development in accordance with our constitutionally guaranteed human rights. It envisions a society that promotes gender equality and women's empowerment as enunciated in the United Nations Fourth World Conference Platform for Action. Paragraph 1.1 of the said EO directs all government agencies and instrumentalities of the policies/strategies and programs/projects outlined in the Plan.
- 23.3 GAD Plan Budget (GPB) is a gender mainstreaming tool that consists of programs, projects and activities (PPAs) of government agencies to address gender issues and concerns of their respective sectors and departments. It specifies the targets to be achieved and performance indicators.
- 23.4 PCW-NEDA-DBM Joint Circular No. 2012-01 prescribes guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including the accounting of results of agency annual GAD plans and budgets (GPBs), and GAD accomplishment reports (AR) and provides the mechanics for the development of programs, projects and activities (PPAs) to respect, protect and fulfill the rights of women at the socio-cultural, economic and political spheres.
- 23.5 Furthermore, Item 2.3 of the PCW-NEDA-DBM JC No. 2012-01 and Section 35 of the General Provisions of RA No. 11936, respectively, mandate that GAD Planning be integrated into the agencies' regular activities. The cost of implementation shall be at least five percent (5%) of their total budget. The computation and utilization shall be implemented in accordance with the specific guidelines provided therein.
- 23.6 Based on the CY 2023 approved Corporate Operating Budget (COB) of ₱352,261,000.00, the Authority appropriated ₱65,788,974.00 for GAD which was equivalent to 18.68%. Thereof, the amount is adequate and even much greater than

the 5% budgetary requirement as prescribed in Section 36 of R.A. No. 9710 and Item 2.3 of PCW-NEDA-DBM Joint Circular No. 2012-01.

- 23.7 However, verification of the GPB disclosed that it was not endorsed by the Philippine Commission on Women (PCW). Interview with the GFPS Focal Person revealed that the non-endorsement from the PCW was due to lack of Certification of Corporate Operating Budget (COB) which signified the correctness of the budget recorded in the GPB.
- 23.8 Meanwhile, the Finance Department confirmed that they sent the COB for CY 2022 on July 7, 2023, and the COB for CY 2023 on September 8, 2023, via email to the GFPS Focal Person, even without the latter's formal request.
- 23.9 Additionally, PCW Memorandum Circular No. 2022-03, dated August 31, 2022, explicitly stated that the deadline for encoding and submission to PCW of FY 2023 GPBs of GOCCs through the GMMS was November 21, 2022.
- 23.10 The GFPS Focal Person shall take the lead in the preparation of the agency GPB and the GAD AR, monitor its implementation and report on its results, and provide technical assistance to offices or units within their agency on gender mainstreaming. Had the GFPS Focal Person monitored the timeline of submission and exhausted effort in coordinating with the Finance Department for the provision of the lacking document at an earlier date, compliance for the approval and endorsement of the Authority's GPB would have been achieved.
- 23.11 Notwithstanding the absence of a PCW-endorsed GPB, the GFPS Focal Person insisted that they had drafted the Accomplishment Report, but the same was not submitted to the Audit Team. Thus, the status of implementation of PPAs listed in the GPB and its gender-responsiveness were not reviewed.
- 23.12 In view of the foregoing deficiencies, the PPAs formulated in the unendorsed GPB could not be presumed as gender-responsive for lack of concrete and comprehensive basis to support the same. Also, it is reflective of the continuing low priority given to gender-specific needs and concerns, as well as the Authority's weakness in the full realization of the GAD mandates.
- 23.13 Republic Act No. 9710 or the Magna Carta for Women (MCW) mandates the establishment and/or strengthening of a GAD Focal Point System (GFPS) as an institutional mechanism to catalyze and accelerate gender mainstreaming.
- 23.14 The structure and composition of the GFPS necessitate competent agency executives to spearhead the creation and monitoring of GAD programs, projects, and activities.
- 23.15 Moreover, once the GFPS is established, the agency head acts as the Chairperson of the organization. Additionally, members should demonstrate in-depth familiarity with GAD concepts, including proficiency, knowledge, and abilities in the following:
 - a. Policy mandates on GAD such as laws, national and sector plans, memorandum circulars, and other policy guidelines;

- b. Development of GAD policies;
 - c. Application of gender analysis and its tools in regular programs and projects;
 - d. Preparation, review, and implementation of GAD Plans and Budgets (GPBs) and GAD Accomplishment Reports (GAD ARs); and
 - e. Integration of GAD perspective in development planning, including the collection and analysis of sex-disaggregated data and gender statistics.
- 23.16 The Authority issued Board Resolution No. 31 s. 2021 dated November 25, 2021 or a Resolution approving the creation and composition of the GAD Focal Point System. Scrutiny of the document revealed that there were 12 personnel listed as part of the GFPS. However, only nine officials were employees of APEZFA as of December 31, 2023.
- 23.17 Furthermore, it was observed that the President remained excluded from the GFPS. This observation has been noted in previous years, and the Audit Team recommended including the President as the head of the Agency in the GFPS. However, the Authority has yet to update its GFPS at this time.
- 23.18 This practice is contrary to PCW Memorandum Circular No. 2011-01 dated October 21, 2011 regarding the Creation, Strengthening, and Institutionalization of the GAD Focal Point System which states that:
- The GAD Focal Point System shall be composed of the agency head or local chief executive, an executive committee with an Undersecretary (or its equivalent), local government unit official, or official in a strategic decision-making position as Chair; and a technical working group or secretariat which is composed of representatives from various divisions or offices within the agency or local government unit. (underscoring supplied)*
- 23.19 The President must be the Chairman/Head of the GFPS to ensure and sustain the Agency's critical consciousness in supporting gender and development, women empowerment, and response to gender issues. He and all the members of the GFPS shall take a lead role in direction-setting, advocacy, planning, monitoring and evaluation, and technical advisory in mainstreaming GAD perspectives in the Agency programs, projects, activities, and processes.
- 23.20 Consequently, because of the absence of the Chairperson of the GFPS to spearhead the administration of GAD mainstreaming, the planning and formulation of GAD PPAs were not satisfactorily executed. Corollary to this, the Authority failed to provide the following significant reports related to GAD:
- a. PWC-endorsed GPB,
 - b. GAD AR,
 - c. Accompanying reports of the GAD AR such as:
 - i. brief summary of the reported program or project;
 - ii. copies of reported policy issuances;
 - iii. results of HGDG tests, if any, and
 - iv. actions taken by the agency on the COA audit findings and recommendations, if any.

- 23.21 The GFPS Focal Person clarified that updating members in the GFPS was inadvertently overlooked due to the new management's focus on other Authority-related matters. She acknowledged that the previous management had not prioritized the implementation of GAD PPAs. However, she committed that they would update the composition of the GFPS for CY 2024.
- 23.22 Validation of the implementation of previous years' audit recommendations revealed that the Authority has no GAD database that will serve as the basis for gender-responsive planning, programming, and policy formulation. Thus, crucial statistics and information are still absent for evidence-based planning and policy-making.
- 23.23 The GFPS Focal Person also disclosed that they were still gathering data to formulate sex-disaggregated data (SDD) as its GAD Database for internal use only. She reiterated that the target completion of the data gathering for the maintenance of SDD would be in CY 2024.
- 23.24 PCW-NEDA-DBM JC No. 2012-01 states that one of the essential elements in GAD planning and budgeting is the institutionalization of the GAD Database because it will enable the Authority to plan and implement their programs on GAD more effectively. Hence, the Authority shall develop or integrate into 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 information.
- 23.25 **We recommended and the President agreed to implement the following courses of action:**
- a. Conduct close coordination among all personnel involved to fully implement the PPAs included in the GPB;**
 - b. Ensure that the GAD Plan Budget and GAD Accomplishment Report are approved and endorsed by the PCW;**
 - c. Revisit the composition of the GFPS and include the President, being the head of the Agency in compliance with Section 36 of R.A. No. 9710 or the Magna Carta of Women; and**
 - d. Facilitate the development and use of GAD Database/Sex-disaggregated data (SDD) planning and budgeting to ensure that PPA promotes gender equality and responsiveness within and among the clientele.**
- 23.26 During the exit conference, the Management committed to comply with the recommendations.

Status of Audit Suspensions, Disallowances and Charges

24. As of December 31, 2023, one outstanding Notice of Suspension (NS), amounting to ₱172,470,999.32, remained unsettled, while total audit disallowances stood at ₱519,762,121.02 as of year-end.

24.1 The Statement of Audit Suspensions, Disallowances, and Charges (SASDC) for the year ended December 31, 2023, is shown in the following table.

Notices	Beginning Balance (As of December 31, 2022)	This Period (January 1 to December 31, 2023)	Settlement this Period (January 1 to December 31, 2023)	Ending Balance (As of December 31, 2023)
		NS/ND/NC	NSSDC	
Notice of Suspension	₱ 172,470,999.32	0.00	0.00	₱172,470,999.32
Notice of Disallowance	520,165,994.84	0.00	403,873.82	519,762,121.02
Notice of Charge	0.00	0.00	0.00	0.00
Total	₱692,636,994.16	₱ 0.00	₱403,873.82	₱692,233,120.34

24.2 The balance of ₱172,470,999.32 under the Notice of Suspension (NS) represents payments for the following projects which lacked supporting documents, to wit:

NS Date	NS No.	Amount	Remarks
October 27, 2020	2020-003-01101276 (16-18)	₱ 54,519,838.60	Infrastructure Project
April 8, 2022	2022-001-(10-12)	117,700,000.00	Land Rights acquisition
April 8, 2022	2022-002-(10)	251,160.72	Land Appraiser
	TOTAL	₱ 172,470,999.32	

24.3 On the other hand, the Notices of Disallowance (NDs) consist of various suspended transactions that matured into disallowances due to Management's failure to submit the required documents, to wit:

ND Date	ND No.	Amount	Remarks
October 8, 2014	2014-002-104/103 (13)	₱ 39,847,443.12	Issued NFD
December 5, 2014	2014-003-104/103 (13)	26,662,077.60	Issued NFD
October 11, 2013	2013-001 -104/103-(09-12)	297,372,036.70	Issued NFD & COE
October 11, 2013	2013-002-104/103-(08-09)	29,780,010.04	Issued NFD & COE
October 11, 2013	2013-003-104/103-(12)	2,995,492.50	Issued NFD & COE
February 7, 2014	2014-001-104/103(13)	112,860.24	Issued NFD & COE
March 17, 2014	2014-001-101-(10 & 11)	14,060,605.40	Issued NFD & COE
November 5, 2014	2014-004 -104/103-(14)	3,033.10	Issued NFD & COE
May 6, 2015	2015-001-101(15)	2,560.00	Issued NFD & COE
July 2, 2018	2018-001-103/104-(11-12)	375,314.90	No issued NFD
October 11, 2021	2021-001-01101276- (16-17)	27,937,596.01	No issued NFD
October 11, 2021	2021-002-01101276 (15-16)	25,289,135.13	No issued NFD
October 11, 2021	2021-004-01101276 (16-18)	49,467,600.10	No issued NFD
October 11, 2021	2021-003-01101276(14-15)	6,260,230.00	No issued NFD
	TOTAL	₱ 520,165,994.84	

- 24.4 Of the total amount of ₱ 520,165,994.84, ₱371,363,990.48 has become final and executory.
- 24.5 **We recommended and the President agreed to enforce the settlement of disallowances.**