



Internal Audit Report

**Provincial Engineer's
Office (PEO)**

Provincial Internal Audit Office





INTRODUCTION

In compliance with the approved 2011 Annual Audit Plan, an internal audit has been performed for the Provincial Engineer's Office (PEO). As a background, the PEO is a department within the Provincial Government of Bohol tasked to construct and maintain provincial roads with the following primary objectives: a.) to create effective policies and feedback mechanism thru functional project management and monitoring system; b.) to strengthening of human resources and technical know-how of PEO employees; c.) to provide quality infrastructure services thru efficient and effective construction and maintenance system; and, d.) to maintain an all-weather provincial roads and bridges as infrastructure support to bolster the economic development of Bohol. Its department head, the Provincial Engineer, is under the general supervision of the Provincial Governor.

In our report, we identified and highlighted those potential weaknesses that become apparent as a result of our audit engagement. We obtained comments from the auditee's appropriate staff on each audit findings and asked the management to provide action plans that detail the likely timetable for the implementation of our recommendations.

The audit was undertaken during the period February 25 to March 21, 2011.

OBJECTIVE

The overall audit objective was to conduct an objective and systematic examination of the Provincial Engineer's Office (PEO) road maintenance activities for the year 2010. Based on the identified risks, the internal audit included these objectives:

- Understanding the planning, implementation and monitoring processes of road works
- Assessing the project implementation and performance of construction and maintenance works
- Identifying the actual and/or potential causes of delays in project planning and implementation
- Checking the performance of PEO field workers in the conduct of construction and maintenance activities
- Identifying possible causes of fuel pilferage and recommending control policies to minimize the risk

Since this is the first time that an internal audit was done for the PEO, emphasis was given for the understanding of its existing processes and procedures related to road works.



SCOPE

The audit covered operation and compliance audit of the PEO. In order to evaluate how the 2010 road works were implemented and to ascertain whether PEO has complied with applicable laws, rules and regulations, our audit procedures included:

- Evaluation of operational results against objectives in order to determine whether existing systems are effective and that controls are in practice
- Examination of records and documents to ascertain complete and proper recording of transactions
- Direct observation on the site and its operations
- Interview management staff members to obtain an understanding of management and internal controls
- Physical inspection and inventory of supplies and other necessary procedures
- Reconciliation and validation of established standards

The audit engagement was conducted in strict compliance with the generally accepted government auditing standards.

EXECUTIVE SUMMARY

The Provincial Government of Bohol, with the visionary leadership of Governor Edgardo M. Chatto, aims to institute governance reforms in the provincial bureaucracy. With the all-out support of the Aus-Aid Provincial Road Management Facility (PRMF Project) and being one of the project's incentive targets, an internal audit for the Provincial Engineer's Office was set as among the priorities of the 2011 activities of the Provincial Internal Audit Office (PIAO). Sometime in November 2010, a risk assessment workshop was conducted which served as the basis in the formulation of a Risk Assessment Report that contains the risk matrices of PEO and five other offices. Since risks were already determined, the internal audit focused on the identified high risk areas. In order to assess the risk identified, the PIAO conducted an operation and compliance audit.

In carrying-out the audit, multiple sources of information and data were used to support the findings and recommendations i.e.:

ACTIVITIES RELATED TO FUEL

In addressing the objective of identifying the possible causes of fuel pilferage and recommending control policies to minimize the risk, gaining understanding on the overall functions and processes related to fuel consumption is necessary. Actual observations were done to fully understand the existing systems and processes.



Procedures on the issuance, consumption and liquidation of fuel were identified through the preparation of flow-charts. Assessment was made to determine the adequacy of existing internal controls.

Reconciliation was done basically by reviewing the records of **Work Done and Fuel Consumption**, which is a document kept and consolidated by the Administrative Division, that supports the liquidation of fuel purchase orders. These were compared with the **Record of Fuel Consumption and Accomplishment Report** or **(MAPE 2B)** which is a document of the Monitoring Division. During 2010, these MAPE 2B were submitted by each management units to the Monitoring Division. However for the current year, it is already submitted by each management units to the newly-created Internal Control Division (ICD) of the PEO for consolidation. Variations were then observed and summarized based on the comparison made. Corollary, verifications of the calculations, authority of the approving personnel and completeness of data on the related documents were also done.

Moreover, field tests and actual observation of fuel factor of all 20 equipment were also conducted. The data gathered were compared to the standard fuel factor presently used by the PEO.

INVENTORY

As part of the auditor's work program, an actual inventory count was conducted on March 9, 2011 in the presence of the warehouse custodian in order to verify the existence of the recorded ending balances. The result of the actual count was reconciled with the book balance and resulted in variances. Proper and adequate recording of warehouse inventory is not yet established causing difficulty in reconciling per count and per record variances.

PERFORMANCE OF FIELD WORKERS

In reviewing the performance of PEO field workers in the conduct of road maintenance activities for the year 2010, an examination on the actual output of field workers based on the Monitoring and Performance Evaluation Form 2 (MAPE 2). The MAPE 2 summarizes the actual output and man-days of each field worker for a specific period of time. Their actual output were evaluated and compared with the **PEO's Output and Quality Standards (POQS)**. Average output per Man-Day were computed and compared with the standards to come up with actual average output either as meeting the standard, above standard or below standard. However, there are present activities not reflected on the POQS. Revision and update on the POQS together with establishing the PEO Operations Manual is necessary to standardize the department's functions and processes.

***DELAYED PROJECT IMPLEMENTATION***

Identification of projects was based on the Program of Works (POW) as of December 31, 2010 funded either by the 20% Development Fund or Maintenance and Other Operating Expenses (MOOE). Each project was reconciled to the Progress Report as of December 31, 2010. Date started and date completed of each project was identified to extract the actual duration of the projects. Estimated number of days to complete each project indicated in the POW were compared to the actual duration of the projects based on the Progress Reports as of December 31, 2010.

While identifying the date started and date completed of each project in Progress Report, it was noted that there were projects that have no date started and completed.

Process flows of each operation of PEO were based on the assertions of PEO personnel generated during the initial scoping and from the documents furnished i.e. organizational chart, functional chart.

In addition, extensive reviews of existing policies and procedures as well as interviews of appropriate PEO personnel were conducted.

Our audit indicates that the PEO management, missed to address several operational risks. Also, some risks resulted from inconsistent application of controls. These risks are highlighted in the following:

- difference in “actual” fuel usage against established Standard Fuel Factor for heavy equipment
- weak internal control in the issuance of fuel in the field
- weak internal control for inventory management of supplies
- unreconciled actual hour and fuel usage as against accomplishment reports
- deviation in the actual performance of PEO field workers in comparison to PEO Output and Quality Standards (POQS)
- delay in project implementation
- accomplishment reports for maintenance activities were not validated by an internal control unit

Recommendations have been raised in relation to the risks noted in the audit in order to achieve a fully effective system of internal control. In response, the management of PEO signifies the courses of actions to be implemented in order to minimize if not eliminate these risks. In addition, the PEO also conform to the conduct of follow up audit within six (6) months after the receipt of this internal audit report.