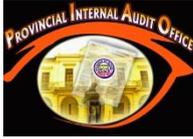




by: Provincial Internal Audit Office

INTERNAL AUDIT REPORT

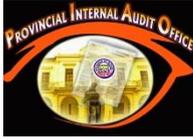
**PROVINCIAL TREASURER'S
OFFICE (PTO)**



PROVINCIAL TREASURER'S OFFICE (PTO)

INTERNAL AUDIT REPORT

Report No. : 05
Report Date : March 28, 2012



INTRODUCTION

The Provincial Internal Audit Office (PIAO) has performed and completed the internal audit for the operations of the Provincial Treasurer's Office (PTO). It was in compliance with the approved 2011 Annual Audit Plan of PIAO which identifies the six prioritized road sector offices included in the plan. As a background, the Provincial Treasurer's Office has its mandate as the collecting and disbursing arm of the Provincial Government of Bohol, including the custody of public funds and its proper utilization as provided for by accounting rules and auditing regulations.

Our audit was basically based on the risks identified by the PTO Head of Office and his key personnel during the risk assessments. The risks identified were eventually validated by PTO's key personnel through a validation process.

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 finding and asked the management to give comments on our recommendations during the exit conference.

An entrance meeting was conducted on Feb. 9, 2012 to formally start the engagement. This meeting briefly discusses the scope and objectives of the audit, the purpose of the audit, processes and procedures and other matters related to the conduct of this operations audit. This initial meeting is a necessary step in PIAO's audit since it gives opportunity to establish the proper tone and to begin building good relationships and to explain who are the persons involved, and the nature, timing, and extent of audit procedures. The audit field work was undertaken during the period Feb. 27 to March 9, 2012. An exit conference, participated by the PTO Head and his key personnel was conducted on March 28 to formally close the audit engagement. During the exit conference, management actions and comments were gathered. A follow-up audit was agreed to be conducted six months after the audit engagement.

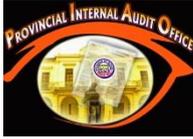


OBJECTIVES

The audit objectives of this operations audit done by PIAO were categorized into two areas, as identified on PIAO's approved Annual Audit Plan. These were namely ,revenue generation and disbursement process. On the revenue generation, it focuses on the achievement of revenue targets and collection efficiency. Major risk on this area is the shortfall on revenue targets and the non-achievement of the 10% increase per year on revenue. On the other hand, disbursement process focuses on understanding the processes involved specially that now, PTO is starting to implement a computerized system in its processes, namely the Enhanced Tax Revenue Assessment and Collection System (E-TRACS) and Financial Transaction Tracking System (FITTSYS).

Since PIAO uses Risk-Based Approach on its audit, PTO has identified, summarized and prioritized the risks in attaining its goals and objectives. The prioritized risk areas are the following:

- a) Shortfall on 2011 revenue targets/ collection efficiency and growth rate
- b) Delays in claiming of checks/retrieving of vouchers for Financial Assistance
- c) Unclaimed checks resulting to stale checks
- d) Unbecoming attitude of personnel/Customer Dissatisfaction
- e) Office Mobility



SCOPE

This internal audit of PTO involves operations audit. This operations audit includes assessing the collection efficiency of PTO. In addition, analyses of the length of time signed checks are being kept by the office before releasing to payees. An evaluation was conducted to determine prompt remittance of all the municipalities of the province share on the Real Property Tax. Our audit procedures included the following:

- Interview management staff and employees to obtain adequate understanding on the organizational structure, processes and procedures, and roles and responsibilities of personnel.
- Conduct of individual interviews to develop an understanding on the key processes and activities that relate to the four divisions of PTO namely the Cash Receipt Division, Cash Disbursement Division, Field Operations and Administrative Division.
- Prepare process flowchart or process-mapping of the identified procedures.
- Walkthrough on the flowcharts and interview with selected employees involved in the process to determine if the flowchart accurately describes the flow of work in the office.
- Examination of records particularly in obtaining the dates of transactions for analysis.
- Analytical review procedures in analysing the collection efficiency and revenue growth/decline rate for 2011.



EXECUTIVE SUMMARY

The Provincial Government of Bohol, under the 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 Treasurer's Office was set as among the six prioritized road sector offices 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 PTO 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 audit related to the identified risks.

In carrying-out the audit, five areas were given primary concern. These areas were related to the identified priority risks validated by PTO key personnel. These areas includes the (a) identification of the achievement on revenue targets and increase in collection by 10% per year; (b) the delays in claiming of checks by the payees; (c) existence of unclaimed checks for financial assistance which could result to stale checks; (d) unbecoming attitude of employees which could affect customer satisfaction in the delivery of services; and (e) unavailability of vehicles which could hamper PTO's field operation activities. These five areas were then used as the basis in formulating our audit objectives.

Work Programs have been prepared to address each of these five areas identified. Multiple sources of information and data were used to support the findings and recommendations i.e.:

1. SHORTFALL ON COLLECTION TARGETS (2011 COLLECTION EFFICIENCY and GROWTH RATE)

Collection Efficiency

The PTO, being the collecting arm of the provincial government, has the function of collecting revenues to support the Projects, Plans and Activities (PPAs)



undertaken by the provincial government. Shortfall in revenue targets could affect these PPAs. The PTO has identified this shortfall as a major risk in carrying out their functions. Collection efficiency for 2011 has been computed to assess whether PTO is meeting its revenue targets for the year.

The PGBh posted an unfavourable overall collection efficiency of **-3.5%** for the year 2011. PTO has only collected **96.5%** of the total estimated income for 2011.

Since the province has no full control on the amount of **Internal Revenue Allotment** (IRA) it received from the national government, it is important to compute the collection efficiency of the province in generating income from local sources. This income includes collections from both tax and non-tax revenues. It also includes the collection from Special Education Fund (SEF). Tax revenues include collections from Real Property Taxes (RPT) and taxes on goods and services. Non-tax revenue includes the collections from service/user charges, rentals, extraordinary receipts and other receipts. A big bulk of the service/user charges comes from income of the ten hospitals owned by the provincial government.

The collection efficiency for **Real Property Taxes** (RPT) posted an unfavourable rate of **-23%** which reflected an under collection. There are several events that causes shortfall on RPT collection. These includes but not limited to (a) non-compliance to the mandate of LGU Code about periodic submission of reports of delinquency in real property; (b) delayed remittances of monthly Real Property Tax provincial shares by Municipal Treasurers; (c) no updated posting of collectibles by taxpayers in the Municipal Treasurer's records; and (d) lack of coordination and linkages between Municipal Treasurer's Office (MTO) and PTO, and between Provincial Assessor's Office (PASSO) and PTO. Another segment of this report discusses about the delayed remittances on monthly RPT provincial shares by Municipal Treasurers wherein dates for remittances were reviewed.

Revenue Growth/Decline Rate

The PGBh has targeted an annual increase in **revenue collection from local sources** by 10% per year. In 2011, it has achieved an increase of **13.7%**, surpassing its targeted **10%** increase per year.



The **total revenue growth** of the PGBh for 2011 shows favorable trend with an increase of **8.2%** from that of 2010. For the local revenue sources only, there is a revenue growth of **13.7%**. This includes collections from local tax and non-tax revenues.

The **RPT** collection has posted a decline rate of **-4.9%**.

The PGBh is primarily dependent on **the Internal Revenue Allotment (IRA)** from the National Government. Locally generated revenue comprises only **12%** of the total revenue for 2011 despite effort of updating fees in the different revenue sources. IRA comprises of about **88%** of the total revenue for 2011. To expand its revenue base, the province identified potential revenue generating offices as enterprise units which will be tasked to generate more local revenues and eventually decrease IRA dependency. These can be seen on the various Revenue Generation Plans of PTO.

Real Property Tax (RPT) Remittances

Municipalities incur delays in remitting the province' share of the Real Property Taxes. **2,710** RPT Official Receipt (OR) Remittances from 2009 to 2011 were reviewed in terms of their date of OR remittance to PTO, of which, the average number of days was computed. It took an average of **22.86 days** for an RPT province share to be remitted to PTO for 2011. This is based on the average days of the **618** RPT Official Receipts reviewed. For 2010, it took an average of **37.71 days** and an average of **32.97 days** for 2009. These were based on the **1,084** and **1,008** Official Receipts for years 2010 and 2009 respectively.

Year 2010 shows the longest average number of days over the 3-year comparison. It implies that municipalities remitted the province share on RPT after more than a month from its covered period.

2. DELAYS IN CLAIMING CHECKS FOR FINANCIAL ASSISTANCE (2011)

The computerized system on the **Report of Check Issued (Released)** for 2011 posted a total check transaction of **18,900** items, both from the **General Fund** and **Trust Fund**. After reviewing the corresponding date of released of some **10,837 (57%)** of all check transactions in **2011**, it showed that it took an average of **17.9**



days for a check to be released to payees after it was issued. However, this figure excludes the stale checks.

The posting also shows that **1,181** or **11%** of the checks were released **over 30 to 60 days**, while **619** or **6%** of the checks were released **after 60 days** from issuance.

For the year **2011**, a total of **87** checks became **stale**. This represents about **0.5%** of the total checks issued. Mostly these stale checks are disbursements for financial assistance, barangay aids and municipal share for tax on sand and gravel.

3. EXISTENCE OF UNCLAIMED CHECKS AND STALE CHECKS (2011)

One of the risks identified by PTO is the existence of unclaimed checks which could result to stale checks. Stale checks could result to loss of resources because PTO will have to prepare another check replacing the stale ones. This requires additional office supplies and time element. Most of these stale checks are disbursements for **Financial Assistance** and **Aids to Barangays**. Usually, these checks are not personally claimed by the payees. Instead, the "Sponsor" (GO or VGO representative) will claim the checks with vouchers at the PTO and distribute those checks to the concerned recipients in the different municipalities or barangays. Upon distribution, recipients will affix their signatures on the vouchers and the GO/VGO representative will be the one to return the signed vouchers to PTO. The risk on this area is when the GO/VGO representative could not distribute the checks before it becomes stale. Worst to happen is when vouchers were misplaced or lost while in transit.

With the existing concern, the PTO needs a strict policy on releasing of checks for Financial Assistance and Aid to Barangays. A measure was implemented where only authorized regular employees can claim the checks and require them to leave their ID's until they can return the corresponding vouchers.

There is also a need to strengthen the coordination between the **PTO** and the **GO/VGO representative** who will distribute the checks. In this way, recipients whose checks are claimed by GO/VGO representative need not double claim their checks at the PTO anymore.

4. CUSTOMER SERVICE SATISFACTION

The PTO has not yet implemented a system which could fully address the issue on Customer Service Satisfaction in the delivery of services. Although there were already attempts and initial steps to address this matter, the same were yet not implemented.

It was observed that there is really a great need to conduct trainings and seminars to develop or improve the **customer service delivery** of the PTO employees especially to the front liner employees or those involve in entertaining clients.

There is no effective feedback mechanism in-placed (such as a Suggestion Box) in the office to address complaints and concerns of clients and stakeholders in the delivery of services. It is also observed that there is a need for the PTO to incorporate customer service satisfaction assessments during their annual office planning.

5. OFFICE MOBILITY

PTO personnel claimed that one of the factors that have an effect on their revenue generation programs is their office mobility in conducting field operations in the various municipalities of Bohol. Lack of vehicles can hamper their field operation activities. The poor condition and lack of regular mechanical check-up of existing service vehicles also increases possibilities of vehicular accidents.

At present, PTO has five existing vehicles. However, only two service vehicles are in running condition. The other two vehicles are under repair at the Provincial Motorpool Office while the remaining one is unserviceable.

Recommendations were made to address each of the findings noted during the audit engagement. As a response, the management were required to formulate its responses on the each findings and recommendations. Their responses and plans were then incorporated in our recommendations. This could help minimize, if not eliminate the risks previously identified.