



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
REGIONAL OFFICE NO. II
NATIONAL GOVERNMENT AUDIT SECTOR
Cluster 5A – Education and Employment
 Provincial Satellite Auditing Office
 Basco, Batanes

Office of the Auditor – Audit Team No. R2-13

AOM No. 2025-05(SDO-Batanes)

Date: February 25, 2025

AUDIT OBSERVATION MEMORANDUM (AOM)

For: ALFREDO B. GUMARU JR., EdD., CESO V
 Schools Division Superintendent
 Department of Education – Division of Batanes
 Basco, Batanes

Attention: JANNA JESUSA S. LIM, CPA
 Accountant I/OIC-Accountant, SDO Batanes

SHIRLEY V. ESCALONA
 Administrative Officer V/Cashier

We reviewed the financial statements for the Calendar Year (CY) 2024 and noted the following:

Deficiencies and lapses in the procedural requirements were noted in the accumulation of Cash balance maintained in Land Bank of the Philippines Current Account (LBP CA) No. 1082-1016-63 of DepEd DO Batanes contrary to the provisions of the International Public Sector Accounting Standards (IPSAS), Government Accounting Manual (GAM) for National Government Agencies (NGAs) and the Executive Order (EO) No. 292.

The SDO Batanes maintains Land Bank of the Philippines Current Account (LBP CA) Number 1082-1016-63 for the payment of salaries through Automated Teller Machine (ATM) of SDO Batanes employees (including teaching and nonteaching personnel of schools under the SDO except Implementing Units), net of taxes, contributions, loan repayments, and other deductions. The account was created under the name of DepEd DO Batanes. According to the Cashier, the Regional Director and the Chief of the Finance Division are the authorized signatories in approving/authorizing transactions involving the account. Accordingly, the SDO has no access to the bank statements and other bank transactions pertaining to the LBP CA.

The Regional Payroll Services Unit (RPSU) of DepEd Regional Office Proper (ROP) computes the salaries and deductions for taxes, contributions, loan repayments, and other deductions of the SDO Batanes employees and sends the printed payroll register and summary to



the SDO. Based on the payroll summary, the SDO transfers the amount of net pay indicated therein from the MDS account to the LBP CA. The Regional Director and the Chief of the Finance Division transmit a letter to the LBP, through the SDO Cash Section, authorizing the debit of the LBP CA for the payment of the 1st and 2nd quincena net pay, which shall be credited to the individual and personal account of the employees based on the payroll register attached to the letter containing the individual names of the employees, account number and corresponding amounts to be credited to each account.

Per bank statement as of December 31, 2024, the LBP CA has a balance of ₱94,046.60. however, the said balance was not reflected in the financial statements of the SDO or reverted to the National Treasury as of December 31, 2024. It was also not presented in the financial statements of the Regional Office – Proper (ROP). Furthermore, monthly bank reconciliation statements were not prepared.

The decision of the SDO not to reflect the LBP CA in its FSs was based on the condition that the RD and the Chief of the Finance Division, are the authorized signatories of the account.

After careful consideration of the relevant events and transactions pertinent accounting and auditing rules and regulations, the accountability, authority, and control over the LBP CA No. 1082-1016-63 rest with the SDO based on the following:

1. **Funding.** Personnel Services of the SDO was specifically appropriated in the General Appropriations Act (GAA) and the Notice of Allocation (NCA) for the payment of personnel services expenses were particularly issued to the SDO, the funds used for the payment of salaries of SDO employees are sourced from the Personnel Services appropriated and allocated to the SDO.

Section 2 of Presidential decree (P.D.) No. 1444 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 law and regulations, and safeguard 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.**”* Hence, the funds appropriated and allocated to the SDO for the payment of salaries of its employees are the responsibility of the head of the SDO Batanes.

2. **Expense Recording.** Although the computation of net pay is done at the ROP, the Salaries and Wages-Regular account, representing the expenses incurred for the payment of personnel net salary pay, is debited and recorded in the books of accounts of the SDO. The recording of the expense at the SDO is warranted as the fund is appropriated, allotted and allocated to the SDO. In addition, the hiring, termination, monitoring of Daily Time Record (DTR), and other matters involving SDO employee records are done and resolved at the SDO level.
3. **Effective and efficient control.** The utilization of the appropriated, allotted and allocated fund is the responsibility of the SDO, hence, control over and ownership of the LBP CA should belong to the SDO. This set-up further enhances the efficient and effective



monitoring of the proper utilization of the fund including the monitoring of all transactions involving the LBP CA. Had this been the practice, the SDO could have discovered the discrepancy between the amount deposited/transferred from the MDS account to the LBP CA and the amount authorized by the ROP to be debited, which could have allowed the SDO proper disposition thereof, that is, to revert the excess cash from the NCAs to the National Treasury. The lack of the access to the bank statements and other bank transactions precluded the SDO to take proper disposition on the unused/unutilized NCAs.

Furthermore, should there be excess in the cash allocation, the SDO is rightfully entitled to revert the same to the National Treasury because the NCA was issued to the SDO and not the ROP. Apart from that, if the ROP decided to recognize the LBP CA, it would be tedious and impractical for the ROP to transfer back the excess from the cash allocation to the SDO, which in turn reverts to the National Treasury. Such cash movement is deemed unnecessary and inefficient when SDO can directly revert the unused/unutilized NGAs.

a) Non-recognition of LBP CA No. 1082-1016-63 with accumulated cash of ₱94,046.60 as of December 31, 2024

IPSAS 1 provides that: *“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation 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 IPSAS. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair representation. The same standard defines asset as: “resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.”*

The nonrecognition of the current account for the payment of salaries of the SDO employees can be traced from the inconsistent entries made in recording personnel services transactions.

Section 57, Chapter 6, Volume I of the GAM for NGAS provides illustrative accounting entries for the payment of salaries through ATM and proforma entries can be summarized as follows:

Particular	Account Code	Debit	Credit
1. To recognize expenses for salaries and wages to be paid through ATM:			
Salaries and Wages	50101010	xxx	
PERA	50102010	xxx	
Due to BIR	20201010		xxx
Due to GSIS	20201020		xxx
Due to Pag-IBIG	20201030		xxx
Due to Philhealth	20201040		xxx
Other Payables	29999990		xxx
Due to Officer and employees	20101020		xxx
2. To recognize deposit for salaries and wages paid through ATM:			
Cash in Bank-Local Currency, Current Account	10102020	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
3. To recognize the payment of salaries and wages through ATM:			
Due to Officer and Employees	20101020	xxx	
Cash in Bank-Local Currency, Current Account	10102020		xxx



The cash flow for the payment of employees' net salaries follows the series of accounting entries mentioned above. However, the book of accounts of the SDO does not represent the actual series and trail of transactions as it omits the recording of the deposit of net salaries to the LBP CA. The proforma accounting entries made by SDO during 2024 and prior years to record the salaries of employees are as follows:

1. To take-up PSU billing

Particulars	Account Code	Debit	Credit
Salaries and Wages – Regular	5010101001	xxx	
PERA	5010201001	xxx	
Pag-IBIG Contributions	5010302001	xxx	
PhilHealth Contributions	5010303001	xxx	
Due to BIR	2020101000		xxx
Due to GSIS	2020102000		xxx
Due to Pag-IBIG	2020103000		xxx
Due to PhilHealth	2020104000		xxx
Other Payables	2999999000		xxx
Due to Regional Offices	2030103000		xxx

2. To recognize cash transfer for net salaries

Particulars	Account Code	Debit	Credit
Due to Officers and Employees	2010102000	xxx	
Cash – Modified Disbursement System (MDS)	1010404000		xxx

The foregoing accounting entry may be correct at the account balance level if the deposits to the LBP CA is equal to the actual payment of net salaries. However, in the case of SDO Batanes, the LBP CA No. 1082-1016-63 has a balance of ₱94,046.60 as of December 31, 2024, which indicates that there were instances when deposits/transfers to the LBP CA were not equal to the actual payments of net salaries of the employees.

Since the LBP CA No. 1082-1016-63 is held under the name of SDO Batanes, which indicates control and potential flow of economic benefits to the SDO, the balance of the LBP CA should have been reported as an asset in the financial statements and included in the Cash in Bank account. Furthermore, the recognition of Cash in Bank account is necessary as the transfer from the MDS account to the LBP CA does not substitute a complete payment of the employees' net salaries until the transfer from the LBP CA to the individual and personal account of each employee.

Consequently, the nonrecognition and non-recording of the actual deposits of net salaries to the LBP Current Account resulted in the misstatements of affected accounts.

b) Deficiencies in the accounting, control and authorization of transactions affecting the LBP CA No. 1082-1016-63.

Section 3, Chapter 21, Volume I of Gam for NGAs states that: *“the bank Reconciliation Statement (BRS) shall be prepared in order to check the correctness of both the bank’s and*



agency's/entity's record, serve as a deterrent to fraud, and enable the agency/entity or bank to take up charges or credits recognized by the bank or agency/entity but not yet known to the agency/entity or bank". Section 4 further states that: "the monthly BRS shall be prepared by the Chief Accountant/designated staff for each of the bank accounts maintained by the agency/entity using the Adjusted Balance Method."

No monthly BRSs were prepared by the SDO for the LBP CA No. 1082-1016-63 as of December 31, 2024. The non-preparation of bank reconciliations precludes the agency from timely identifying irregularities of transactions affecting the LBP CA, such as transferring the wrong amount of net pay from the MDS to the LBP CA or from the LBP CA to the individual account of the employees and disbursing amount in LBP CA to improper payees or transactions. Moreover, the non-preparation may result in non-adjustments of reconciling items, thereby affecting the fair presentation of the cash in the bank account in the financial statements.

The signatories of the LBP CA are from the ROP, thus, the SDO has no access to the bank statements and other bank transactions details/information which precluded the latter in the preparation of BRSs. It should also be noted that the authorization by the ROP to disburse funds from the LBP CA No. 1082-1016-63 may not be appropriate because, as it was established in the preceding paragraphs, the accountability, control and authorization over the said LBP CA should rest upon the SDO.

Moreover, Pass-through Account, as defined in Treasury Circular No. 4-2024 dated May 15, 2024, is an account with no initial deposit and maintaining balance requirement, with zero balance by end of day. It is further classified into three: Clearing Account, Parking Account and Disbursement Account. Since the LBP CA is not a Pass-through Account, there is no mechanism in place to maintain a zero balance by end of day except for the monitoring of the debits and credits of the account, which may be impossible for the SDO to accomplish considering that it has no access to the LBP CA.

c) Unexpended/Undisbursed fund has not yet been reverted to the General Fund.

Section 28, Chapter 4, Book VI of EO No. 292, the Administrative Code of 1987, states that, *"Unexpended balances of appropriations authorized in the General Appropriations Act shall revert to the unappropriated surplus of the General Fund at the end of the fiscal year and shall not thereafter be available for expenditure except by subsequent legislative enactment."*

It is also provided in the National Budget Circular No. 592, Guidelines on the Release of Funds for the Fiscal Year 2024 dated January 2, 2024, that Allotment for Personnel Services shall be valid until December 31, 2024, and all unreleased appropriations shall lapse while unexpended or undisbursed funds shall revert to the unappropriated surplus of the General Fund in accordance with EO 292.

The balance of the LBP CA No. 1082-1016-63 amounting to ₱94,046.60 as of December 31, 2024 should have been reverted to the General Fund as provided in the above-cited regulation.

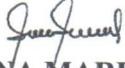
We recommend that:



- a) **The Accounting Section review and reconcile LBP CA No. 1082-1016-63 and cause the reversion of the unused/unutilized NCA to the National Treasury;**
- b) **The Accounting Section prepare the monthly bank reconciliation statement of the LBP CA 1082-1016-63 for the succeeding periods to monitor and properly reflect the account balance in the Financial Statements;**
- c) **The Management consider opening of a Pass-through Account, the maker of which shall be the SDO Cashier and the authorizer shall be the School Division Superintendent. In addition, the SDO Cashier shall be responsible in monitoring and ensuring that the Pass-through Account will have zero balance after the successful crediting of payrolls; and**
- d) **The Cash Section revert the balance of the account to the General Fund, observing proper accounting procedures, and the Accounting Section make proper accounting entries to record the reversion of the fund.**

May we have your comments on the foregoing audit observations within 15 calendar days from receipt hereof.

In case of your failure to reply within the herein specified period, our audit observations shall be deemed accepted, and we shall re-evaluate our findings on the basis of available documents/information on hand.


COA Signed
2025-02-27
11:33:52
ANNA MARIE A. MERIEL
State Auditor III
OIC- Audit Team Leader


COA Signed
2025-02-27
12:03:20
ADELINE P. BAARDE
State Auditor V
Regional Supervising Auditor



Proof of Receipt of AOM: 2025-05 (SDO Batanes) dated February 25, 2025			
Name	Position/Designation	Received by	Date
Alfredo B. Gumaru Jr.	Schools Division Superintendent		
Janna Jesusa S. Lim	Accountant I/OIC-SDO Accountant		
Shirley V. Escalona	Administrative V/Cashier		

