AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. PPPI's accumulated deficit of P389.254 million continues to cast doubt on its ability to carry out its mandated function as the central procurement arm for all government agencies for the importation of drugs and medicines.

1.1 The results of operations of PPPI's since it started business in CY 2006 is shown below:

Results of operations : (thousand pesos)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Sales	154,310	941,258	559,952	344,643	63,727	154,223	121,567	159,610	123,652	260,773	29,832
Cost of sales	137,858	891,220	518,490	291,427	51,659	114,299	96,235	126,428	94,581	203,465	21,146
Gross margin	16,452	50,038	41,462	53,216	12,068	39,924	25,332	33,182	29,071	57,308	8,686
Expenses	54,507	56,160	57,108	44,706	35,894	49,798	86,872	81,619	111,068	98,527	40,960
Net income / (Loss)	(38,055)	(6,122)	(15,646)	8,510	(23,826)	(9,874)	(61,540)	(48,437)	(81,997)	(41,219)	(32,274)
Gross margin %	10.66%	5.32%	7.40%	15.44%	18.94%	25.89%	20.84%	20.79%	23.51%	21.98%	29.12%

1.2 As shown in the above table, since the start of its operation in CY 2006 to the current period, PPPI has been incurring consistent operating losses and is in distressed financial condition. Gross profit margin never covered operating expenses, thus resulting in net losses during the past eleven years. In CY 2016, the gross margin of P16.452 million which was 10.66 per cent of sales, still did not cover operating expenses of P54.507 million which was 35 per cent of sales or 331 per cent of gross profit, thus, resulting in net loss of P38.055 million.

1.3 As pointed out in the previous years, net income of P8.510 million in CY 2013 was attributed only to the gain of P11.918 million from the loan restructuring with NDC, which meant only a paper income that did not actually improve its financial position. Without considering the gain from loan restructuring, PPPI would still have an operating loss of P3.408 million during the said year.

1.4 As discussed in Note 2 of the Notes to Financial Statements, PPPI ended CY 2016 with net sales higher by 172 per cent of the target for the year. However, PPPI's overall financial performance did not improve since this was only 16 per cent compared to the CY 2015 sales of P941.258 million. Sales performance for the current year decreased significantly by P786.948 million or 83.61 per cent compared to last year, mainly due to the substantial decrease of sales to DOH which accounted for 96 per cent of the total sales in CY 2015.

1.5 After eleven years in operation, PPPI was unable to manage its business effectively to improve its financial position. Details of the financial position of PPPI are presented in the following table:

(in thousand pesos)

Year	**Assets**	**Liabilities**	**Stockholder's Equity (Capital Deficiency)**
2016	168,188	519,942	(351,754)
2015	410,292	723,106	(312,814)
2014	293,568	600,261	(306,693)
2013	194,371	486,283	(291,912)
2012	46,094	358,201	(312,107)
2011	109,908	353,644	(243,736)
2010	134,214	361,841	(227,627)
2009	172,172	338,259	(166,087)
2008	227,542	345,191	(117,649)
2007	291,778	327,431	(35,653)
2006	290,521	284,894	5,627

1.6 As may be gleaned from the above table, PPPI continues to have problems on liquidity due to excess liabilities over the assets and capital deficiencies. For the year under audit, current ratio was computed at 0.46:1 which means that PPPI has only P0.46 current assets for every peso of current liability. As regards to liquid assets, PPPI only has P0.37 to cover its current liability, as shown below:

Current Assets	=	P 153.049
Liquid Assets (Cash and Receivables)	=	P 120.775
Current Liabilities	=	P 329.845
Current Ratio (Current Assets/Current Liabilities)	=	0.46: 1
Acid Test Ratio (Liquid Assets/Current Liabilities)	=	0.37 :1

1.7 Furthermore, the current cash position is insufficient to meet the operational requirements of the Agency. The Cash in Bank balance of P5.027 million is not enough to support operations for two months or meet the monthly average operating expenses of P3.208 million, much more to pay its creditors. In addition, even if the receivables of P 26.009 million would be collected, this would not be sufficient to meet current liabilities amounting to P329.844 million, of which P40.717 million pertains to trade payables. The total liabilities of P519.942 million are more than thrice the total assets of P 168.188 million.

1.8 Moreover, PPPI has negative equity since its 2nd year of operations. Capital deficiency further increased to P351.754 million from P312.814 million due to the current year’s loss. As regards the long-term loan to NDC, the quarterly amortization on the principal amount of the P291.795 million long-term loan has not been paid since the restructuring in CY 2013. During the year, no payment was made on the quarterly interest payable which has accumulated to P50.743 million.

1.9 Although, PPPI had drafted three major strategic directions for CY 2016 that will help reposition itself as the preferred procurement agency of the government, and at the same time achieve its mandate and goals, the same did not fully materialize as it encountered difficulties, as shown below:

Strategic Direction/Business Plan	Accomplishments
1. Provide procurement outsourcing services to the DOH; **2.** Undertake pooled procurement for oncology medicines, vaccines, and common medicines requirements by government agencies, PhilHealth contracted hospitals and LGUs; and **3.** Partner with the Procurement service of the DBM	1. Projected service income of P62.131 million did not materialize due to previous DOH administration policy in the 1st semester to an in-house procurement for all its medicine requirements 2. Most of DOH medicine requirements were already bid out when the new administration assumed office 3. Service fee will only be realized in 2017 from three DOH projects awarded to PPPI in December 2016 4. Sales to LGUs only accounted for 36 per cent of total sales during the year due to the limited number of medicines being offered 5. Sales generated from 16 out of 25 or 64 per cent of PhilHealth contracted hospitals 6. Covered only 16 of the 40 target-provinces through PS-DBM or direct sales

1.10 Unless the foregoing observations are addressed, the possibility that PPPI would not be able to sustain its operation is inevitable.

1.11 We reiterated our recommendations that Management:

a. Conduct an assessment of the conditions affecting the consistent unfavorable operating performance of PPPI; and

b. Formulate policies and action plans as well as establish specific courses of action to implement strategies to be undertaken to address the results of the assessment conducted.

1.12 Management commented that they duly recognized and noted the observations on PPPI's viability. They agree that lack of operating capital contributed to PPPI's operating loss. The opportunities to grow sales are vast; however, they are hampered by their inability to service the requirements of their customers in a complete and timely manner. Thus, they are taking actions to address the working capital requirement. Among the initiatives being pursued are the following:

a. Secure a bridge financing agreement with DBP, LBP and Philippine Veterans Bank on a Purchase Order scheme;

b. Work on the approval by of the Office of the President on the EO that will designate PPPI to put up the Pooled Procurement Facility for Medicines (PPFM); and

c. Lobby for direct subsidy from the national government.

1.13 For 2017, the same strategic directions drafted in 2016 shall be adopted as Management believes that focusing on these three strategies will not only help improve the financial condition of the company but will ensure that they are able to respond to the need of the public sector for low-priced quality medicines.

1.14 Finally, Management noted the recommendation to conduct an assessment of the conditions affecting the consistent unfavorable operating performance of the company. They hope to conduct this in June 2017, in time for the planning for the 2018 Scorecard and will submit the policies and plans arrived thereon to COA for validation.

2. Liquidated damages (LD) imposed on suppliers were not in accordance with the terms and conditions of the PPPI purchase order resulting in uncollected revenue of P21.896 million.

2.1 Liquidated damages charged by PPPI to two suppliers at 1/10 of 1 per cent was not in accordance with the terms and condition of the PPPI purchase order (PO) which provides:

> *Seller's/contractor's failure to deliver specified goods when due will authorize PPPI to impose a penalty of a deduction from invoice value, as liquidated damages, ½ of 1% of the total value of the undelivered portion of the order for each day of delay in delivery or P500.00, whichever is higher, or make an open market purchase of the items delivered and*

charge to defaulting seller/contractor the excess in price, if any x x x. (underscoring supplied)

2.2 Review of liquidated damages charged to these suppliers disclosed the following:

Supplier	LD charged by DOH to PPPI (1)	LD charged by PPPI to Supplier 1/10 of 1% (2)	LD based on PO rate ½ of 1% (3)	Foregone Revenue from LD (3-1)
Supplier 1	P 1,821,216	P 2,384,616	P 11,923,077	P 10,101,861
Supplier 2	3,073,000	2,973,506	14,867,532	11,794,532
TOTAL	**P 4,894,216**	**P 5,358,122**	**P 26,790,609**	**P 21,896,393**

2.3 The charging of LD at 1/10 of 1 per cent instead of ½ of 1% as stated in the PO resulted in foregone income on the part of PPPI in the total amount of P21.896 million.

2.4 On the other hand, LD were not imposed on late deliveries despite the absence of a written request for extension of delivery from the suppliers contrary to the provisions of the Government Procurement Manual prescribed by the Government Procurement Policy Board (GPPB) as shown below:

Supplier	PO No.	Item	Contract Amount	Delivery Date	Actual Delivery	No. of Days Delayed	Forgone Revenue from LD
1	1409	Doxorubicin Hydrochloride 50mg powder	108,050.00	2/16/2015	3/3/2015	15	8,104
		Doxorubicin Hydrochloride 50mg powder	21,610.00	2/16/2015	3/12/2015	24	2,593
		Cytarabine 100mg/ml amp	41,917.50	2/18/2015	7/20/2015	152	31,857
2	1253	Co-Amoxiclav 50+	49,020.00	10/8/2014	11/3/2014	26	6,373
		Co-Amoxiclav 250mg	28,000.00	10/8/2014	11/3/2014	26	3,640
3	1467	Multivitamins Capsule	39,250.00	3/18/2015	4/17/2015	30	5,888
		Ascorbic Acid 500mg	24,102.77	3/18/2015	4/17/2015	30	3,615
		TOTAL					**P 62,070** ========

2.5 The Government Procurement Manual requires that:

The supplier/manufacturer/distributor submits a written request to the PMO or end-user unit for an extension of the delivery or performance period, citing the reason/s for such delay x x x. (underscoring supplied)

It further provides that:

> *If the supplier/manufacturer/distributor incurs delay and it does not request for an extension*
>
> *a. The PMO or end-user unit informs, within a reasonable time from the first day of delay, <u>the supplier/manufacturer/distributor that the Procuring Entity shall impose the liquidated damages agreed upon by the parties</u>.*
>
> *b. Upon delivery, the <u>PMO or end-user unit and the Technical Inspection and Acceptance Committee records the delay in the inspection documents, noting there in the amount of liquidated damages</u> imposable on the supplier.*
>
> *c. Upon payment, <u>the amount of liquidated damages due is deducted from the total amount payable to the supplier</u>, and the same shall be reflected in the DVs x x x . (underscoring supplied).*

2.6 The non-imposition of liquidated damages on late deliveries likewise resulted in foregone income of P62,070 on the part of PPPI.

2.7 We recommended that Management comply with the provisions of the Government Procurement Manual on the imposition of liquidated damages.

2.8 Management commented that PPPI imposed penalty based on Section 68 of the 2016 IRR of RA No. 9184 which provides:

"For the procurement of goods, infrastructure projects, and consulting services, the amount of the liquidated damages shall be at least equal to <u>one-tenth of one percent (.001)</u> of the cost of the unperformed portion for every day of delay…..xxx"

This rate of penalty being charged is in compliance with the provision stated in the Bidding Documents relative to delayed deliveries. Further, this is also the same rate being charged by the DOH on its suppliers.

2.9 Management further commented that they did not notice inadvertently that the rate of penalty stipulated in the terms and conditions of the PO is ½ of 1 per cent instead of 1/10 of 1 per cent. Old PO forms were still being used and they failed to reconcile the rate of penalty stipulated in the PO with what is provided for in the PPPI Bidding Documents and Contract Agreement. Management committed to just consume the remaining forms and manually correct the rate of penalty for delayed deliveries. The terms and conditions shall be revised upon printing of the new PO forms.

2.10. On the observation that PPPI did not impose penalty/liquidated damages on late deliveries despite the absence of a written request, Management explained that this is the only case for some items procured through the Ordering Agreement arrangement. From a business point of view, they are constrained to charge the suppliers for liquidated damages because of apprehensions that these suppliers might stop doing business with PPPI. Their cash flow problem hinders them to meet their obligations to the suppliers stipulated under the Ordering Agreement.

2.11 As a rejoinder, we maintain our stand that PPPI revisit the rate of LD to be charged to its supplier which should be higher than the rate charged to PPPI by DOH and all its other customers. It must be pointed out that the base cost used by PPPI in charging LD to its supplier is lower than cost DOH uses in computing LD against PPPI, which includes the markup. This will result in a higher LD charged by DOH to PPPI. In this regard, to avoid LD, we recommended that the terms and conditions relative to delivery dates and payment terms be revisited taking into consideration the factors to avoid delay in the delivery and the paying capacity of PPPI. Moreover, that PPPI requests for extension of delivery from DOH when there are indications that their supplier will be delayed

3. The payment of Representation and Transportation Allowance (RATA) to the officers/employees of Philippine Pharma Procurement, Inc. (PPPI) exceeded the amount prescribed under National Budget Circular (NBC) No. 2013-548 dated May 15, 2013 as implemented in the General Appropriations Act (GAA) provisions on the payment of RATA. Likewise, the required documentation under Item 4(e), Rationalization of Allowances, Benefits and Incentives, J.R. No. 4 series of 2009 was not complied.

3.1 NBC No. 2013-548 dated May 15, 2013 provides that the authorized monthly rates for each type of allowance shall be as prescribed under the pertinent General Provision of the annual GAA.

3.2 Accordingly, Section 59, General Provisions of Republic Act No.10717, otherwise known as the “GAA FY 2016 ”, specifies the prevailing rates for RA/TA for each rank/position as follows:

P 14,000 - Department Secretaries;
P 11,000 - Department Undersecretaries;
P 10,000 - Department Assistant Secretaries;
P 9,000 - Bureau Directors & Department Regional Directors;
P 8,500 - Assistant Bureau Directors, Department Assistant Regional Directors, Bureau Regional Directors, & Department Service Chiefs;
P 7,500 - Assistant Bureau Regional Directors (SG 25); and
P 5,000 - Chief of Divisions, identified as such in the Personal Services Itemization and Plantilla of Personnel.

3.3 Further stated under Section 59 that *No amount of representation or transportation allowances, whether commutable or reimbursable, which exceed the rates authorized under this section may be granted to the foregoing officials.*

3.4 Verification of the monthly payroll showed that RATA payments to officers/employees exceeded the prescribed amount under GAA FY 2016. RATA payments for CY 2016 are presented below:

Position	Representation Allowance	Transportation Allowance	Total
President	P 54,400.00	P 13,600.00	P 68,000.00
Vice-President	21,280.00	5,320.00	26,600.00
Manager 3	15,104.00	3,776.00	18,880.00
Manager 2	11,760.00	2,940.00	14,700.00
Manager 1/ Legal Officer/ OIC Manager	8,800.00	2,200.00	11,000.00
Supervisor II	5,920.00	1,480.00	7,400.00
Supervisor	2,600.00	650.00	3,250.00

3.5 When requested for the basis of these rates, PPPI Management submitted to the Audit Team an unsigned copy of the salary package of PPPI, as approved by the Board of Directors on June 26, 2006 together with the copy of the Secretary's Certificate attesting to the said Board approval.

3.6 Included in the said Salary Package is the provision of RATA to certain officers/employees, tabulated as follows:

Position	Salary Level	RATA
President & CEO	1	P 68,000.00
Executive Vice-President	2	53,000.00
Senior Vice President	3	38,400.00
Vice President	4	26,600.00
Manager	5	18,880.00
Supervisor	6	11,340.00

3.7 It was noted that RATA of those occupying the Manager 2, Manager 1, Legal Officer, OIC Manager, Supervisor II and Supervisor positions were not provided for in the Salary Package as approved by the Board on June 26, 2006.

3.8 There were no documents to support the grant of RATA in compliance with Item 4(e), Rationalization of Allowances, Benefits and Incentives, J.R. No. 4 series of 2009 which states that *"xxx..allowances, benefits and incentives shall be granted only upon compliance with all the qualifications and conditions laid down by the President."*

3.9 Although no equivalent ranks were formally issued on the salary classification of PPPI officers/employees, any amount to be stipulated as RATA should neither exceed nor inconsistent with the amount provided per Section 59 of the GAA FY 2016. Since PPPI is under the Department of Trade and Industry, the position classification of the President of PPPI most likely will be that of a Department Assistant Secretary which has a RA/TA of P10,000.00. Consequently, those with positions below the PPPI President should not exceed P10,000.00.

3.10 The Audit Team correlated the positions of PPPI officers and employees to the assumed equivalent ranks of National Government officials entitled to RATA. As shown on the tables below, the rates adopted by PPPI varies from the rates provided under GAA, to wit:

Position	Equivalent Position	Equivalent SG	Representation Allowance (RA)	RA per GAA	Over (under)
President	Executive Director	29	P 54,400.00	10,000	44,400
Vice-President	Deputy ED	27	21,280.00	8,500	12,780
Manager 3/ Legal Officer	Department Manager	26	15,104.00	7,500	7,604
Manager 2	Division Chief	24	11,760.00	5,000	6,760
Manager 1/OIC Manager		22	8,800.00	5,000	3,300
Supervisor II		22	5,920.00	5,000	920
Supervisor		22	2,600.00	5,000	(2,400)

Position	Equivalent Position	Equivalent SG	Transportation Allowance (TA)	TA per GAA	Over (under)
President	Executive Director	29	P 13,600.00	10,000	3,600
Vice-President	Deputy ED	27	5,320.00	8,500	(3,180)
Manager 3/ Legal Officer	Department Manager	26	3,776.00	7,500	(3,724)
Manager 2	Division Chief	24	2,940.00	5,000	(2,060)
Manager 1/OIC Manager		22	2,200.00	5,000	(2,800)
Supervisor II		22	1,480.00	5,000	(3,520)
Supervisor		22	650.00	5,000	(4,350)

3.11 From the data presented above, it can be gleaned that most of the positions exceeded the rate specified under the GAA for the RA while a certain position exceeded the prescribed TA rate.

3.12 **We recommended that Management secure approval of its Salary Package from the Office of the President thru the Governance Commission of GOCCs (GCG). Otherwise, adjust payment of RATA to PPPI Officials by adhering to NBC No. 2013- 548 dated May 15, 2013 implementing GAA provisions on the authorized rates of the RATA.**

3.13 Management commented that PPPI does not receive appropriations/subsidy from the National Government, PPPI is exempt or not required to comply with the provisions of the GAA and that NBC No. 548 applies to selected government offices whose budgets are dependent on the annual GAA.

3.14 As a rejoinder, we maintain that while PPPI was created under the Corporation Law, it must be stressed that the Board's discretion on the matter of personnel compensation is not absolute as the same must be exercised in accordance with the standards laid down by law, that is, its compensation system, including the allowances granted by the Board to PPPI employees, must strictly conform with that provided for other government agencies under NBC No. 548 in relation to the General Appropriations Act. To ensure such compliance, the resolutions of the Board affecting such matters should first be reviewed and approved by the Department of Budget and Management pursuant to Section 6 of P.D. No. 1597.

4. Creditable expanded withholding taxes (CEWT) for the period CYs 2014 and 2015 amounting to P0.096 million were recorded and used as tax credits for CY 2016 contrary to Section 2.58.3 (A) of Revenue Regulation (RR) No. 2-98, and may result in the re-assessment of taxes by the BIR.

4.1 CYs 2014 and 2015 CEWT applied as tax credit in CY 2016 are shown below:

SI No.	Date	Date per BIR Form 2307	Payor	Amount
15792	-	9/1/2014 – 9/30/14	Payor 1	P 257.14
16913/17084	8/26/15	12/1/2015-12/31/15	Payor 2	89.29
16999/17008 17013	10/8/15; 10/9/15; 10/13/15	10/1/2015-12/31/15	Payor 3	382.39
17131	12/9/15	12/28/2015	Payor 4	1,410.71
17074/17065	10/29/15 ; 10/26/15	10/1/2015-12/31/15	Payor 5	2,325.06
Various	-	9/1/2015 – 9/30/15	Payor 6	89,558.73
16476/77/78/16 817	4/21/15; 7/29/15	7/1/15 – 7/31/15	Payor 7	1,739.10
TOTAL				**P 95,762.42**

4.2 Section 2.58.3 (A) of BIR Revenue Regulation No. 2-98, as amended, provides that the amount of creditable tax withheld shall be allowed as a tax credit against the income tax liability of the payee in the quarter of the taxable year in which income was earned or received.

4.3 In addition, Section 2.57.4 of subject RR requires that the obligation of the payor to deduct and withhold the tax mentioned arises at the time an income is paid or payable.

4.4 Examination of sales invoices as well as BIR 2307 forms revealed that the CEWT claimed in CY 2016 pertained to Sales recognized in CYs 2014 and 2015.

4.5 Inquiry from the Miscellaneous Operating Monitoring Division of the BIR revealed that tax withheld from prior years shall not be credited on the current period as the tax appertains to the income previously reported. The same may only be claimed as a tax credit if the previously submitted Income Tax Return (ITR) is amended to include said withholding tax.

4.6 It was also noted during the review that some expanded withholding taxes claimed as credits in CY 2016 were not supported by BIR Form 2307, contrary to Section

2.58(B) of RR No. 2-98 and Revenue Memorandum Circular (RMC) No. 23-2007 dated March 20, 2007.

4.7 Section 2.58 (B) of RR No. 2-98 states that *Every payor required to deduct and withhold taxes under these regulations shall furnish each payee, whether individual or corporate, with a withholding tax statement, using the prescribed form (BIR Form 2307) showing the income payments made and the amount of taxes withheld therefrom, for every month of the quarter within twenty (20) days following the close of the taxable quarter employed by the payee in filing his/its quarterly income tax return. Upon request of the payee, however, the payor must furnish such statement to the payee simultaneously with the income payment.*

4.8 BIR RMC No. 23-2007 dated March 20, 2007, on the other hand, provides that the certificates (BIR form 2307) shall be the proof of claimed tax credit of EWT against income tax due and shall be attached to the Quarterly/Annual ITR.

4.9 Verification of the BIR Forms 2307 attached to the Annual ITR revealed that several taxes withheld by suppliers were claimed as tax credits despite the absence of certificates to support the claim, to wit:

Ref No.	Date	Payor	Amount
OR#00001232	6/1/2016	Payor 1	513.39
OR#00001259	6/15/2016	Payor 2	1,644.29
OR#0006136	10/17/2016	Payor 3	6.16
OR#0006144	10/24/2016	Payor 4	437.06

4.10 When requested for copies of the BIR form of the afore-mentioned taxes withheld, Management informed that PPPI still has to secure the said certificates. To date, the same has not been submitted.

4.11 It is worth mentioning that BIR provides a penalty clause to payors reported by payees for not having issued the Certificate of Tax Withheld at Source. The report which has been validated to be correct, shall be subject to mandatory audit on their withholding tax liabilities and appropriate sanctions may be imposed under the Tax Code and other applicable regulations.

4.12 We recommended that Management:

a. Amend the prior years and current year's ITR, taking into account the necessary adjustments to reflect the correct CEWT to be claimed in the corresponding annual ITR;

b. Exercise due care in determining the correct CEWT to be claimed in the preparation of the ITR, to avoid re-assessment by the BIR.

c. Secure copies of recorded creditable withholding taxes particularly those that were used as credits; and

d. **Ensure that payors provide the creditable income tax certificates on time and the forms are properly filled-out.**

4.13 Management commented that the CEWT for the period CYs 2014 to 2015 amounting to P95,762.42 were recorded and used as tax credits for CY 2016 due to the collection of various Sales Invoices in that year. With regard to the EWT claimed as credits in CY 2016 that were not supported with BIR Form 2307, Management will secure copies of recorded creditable withholding taxes and ensure that the income payors provide the creditable income tax certificates on time and the forms are properly filled out.

4.14 By way of audit rejoinder, Section 2.58.3 (A) of BIR Revenue Regulation No. 2-98, as previously cited in the observation, provides that the amount of creditable tax withheld shall be allowed as a tax credit against the income tax liability of the payee in the quarter of the taxable year in which income was earned or received, not when it was collected.

5. Performance/Bidders Bond Payable lodged under Accounts Payable in the total amount of P4.749 million as of December 31, 2016, have not been refunded to suppliers/bidders contrary to Sections 39.4, 39.5, 27.5 and Section 28.1 of RA No. 9184.

5.1 Section 27.5 of the Implementing Rules and Regulations (IRR) of RA No. 9184 which states that *In no case shall bid security be returned later than the expiration of the bid validity period indicated in the Bidding Documents, unless it has been extended in accordance with Section 28.2 of this IRR x x x.*

5.2 Furthermore, Section 28.1 of the said IRR provides that *Bids and bid securities shall be valid for a reasonable period as determined by the Head of the Procuring Entity concerned, which shall be indicated in the Bidding Documents, but in no case shall the period exceed one hundred twenty (120) calendar days from the opening of bids.*

5.3 Performance and Bid security bonds posted by suppliers/bidders amounted to P4.870 million and P1.089 million, respectively, as of December 31, 2016, as shown below:

Periods	Performance Bond	Bid Security	Total
2009 - 2014	4,238,878.29	1,089,193.94	5,328,072.23
2015 - 2016	631,453.13	0	631,453.13
Total	**4,870,331.42**.	**1,089,193.94**	**5,959,525.36**

5.4 As may be gleaned from the table, all unreleased bid security amounting to P1.089 million already exceeded the 120-days validity period. Unless these bid bonds were converted by the winning bidders to performance bonds on projects not yet completed, these bid bonds should have been returned to the bidders.

5.5 This observation has been brought to the attention of Management in CY 2014. Management commented that the bid securities shall be returned to bidders and suppliers in CY 2015. To date, however, the said amount is still outstanding.

5.6 As regards Performance bonds payable**,** Sections 39.4 and 39.5 of the IRR of RA No. 9184 provides that:

Section 39.4 The performance security shall remain valid until issuance by the procuring entity of the final Certificate of Acceptance

Section 39.5 The performance security may be released by the procuring entity after the issuance of the Certificate of Acceptance, subject to the following conditions:

a. Procuring entity has no claims filed against the contract awardee or the surety company;
b. It has no claims for labor and materials filed against the contractor; and
c. Other terms of the contract x x x.

5.7 Review of Performance Bonds Payable as of December 31, 2016 disclosed that 75 per cent of the P4.870 million performance bonds payable or P3.660 million refers to projects completed in 2009 to 2013. Said amount should have been refunded to respective suppliers in accordance with the previously cited provisions.

5.8 Furthermore, it was noted that certificates of acceptance for projects completed were not issued prior to the release of the following performance bonds to suppliers, contrary to the provisions of the Section 39.4 of the IRR of RA No. 9184:

Date of Release	Date Bond was Received	Project Ref.	Supplier	Amount
02/11/2016	06/30/2014	BAC/GOODS/2014-018	1	338,490.30
02/11/2016	09/4/2014	ALLMAP - BAC/GOODS/2014-024 (BAC RESO 2014-120)	2	136,026.00
02/11/2016	07/03/2009 to 09/15/2015	Various Medicines	3	706,457.74

5.9 Inquiry with concerned PPPI personnel revealed that release of performance bond is processed upon receipt of a written request from suppliers. The procurement officer then prepares an undated certification which states that return of subject performance security is in order.

5.10 Audit of payment for the refund of performance bonds showed that aside from the certification cited in Paragraph 5.9, no certificates of acceptance were attached to the vouchers.

5.11 The performance and bid securities are not part of the operating funds. With its current financial position, PPPI may not meet its obligation to return the performance and bid securities amounting to P4.749 million upon demand by the suppliers and may result to legal problems in the future.

5.12 We recommended that Management:

a. **Comply with the provisions of Sections 27.5 and 28.1 on the return of the bid security and Sections 39.4 and 39.5 on the return of performance security;**

b. **Refund/return the bid securities of P1.089 million unless bid bonds were converted to performance bonds on projects which have not been completed or are still ongoing;**

c. **Refund/return performance securities of P3.660 million upon demand of the supplier and when all obligations have been complied with; and**

d. **Issue certificate of acceptance for completed projects.**

5.13 Management commented that they are still in the process of reconciling the remaining bid security and performance bonds with the different suppliers. Of the total performance and bid bonds payable as of December 31, 2015 of P19.789 million, a total of P16.238 million was released as of December 31, 2016. Management will endeavor to return the remaining performance bond for all completed projects within 2017, upon demand of the suppliers. Management further averred that they are aware of the requirement for the issuance of a Certificate of Acceptance prior to releasing the bond of a supplier as evidenced by the other releases done in 2016 and rest assured that compliance to the requirement will be ensured.

6. PPPI formulated a Gender and Development (GAD) plan with a budget of P0.500 million; however, none of these was implemented due to financial constraint.

6.1 Despite its declining financial condition and Management is aware that it could not provide the amount for its GAD activities, PPPI adopted a budget of P0.500 million for its GAD Program/Activity/Projects.

6.2 However, considering the insufficient cash position as discussed in Audit Observation No.1, none of the activities contained in the GAD Plan and Budget were conducted.

6.3 **We recommended that Management:**

a. **Ensure the formulation and implementation of a doable annual GAD plan by identifying GAD related activities embedded in the regular operations/activities which may be considered sufficient compliance with the required five per cent of the corporate operating budget; and**

b. **Coordinate with Philippine Commission on Women (PCW) for assistance in identifying regular activities of the agency where GAD activities may be embedded as well as other GAD-related activities.**

7. Compliance with Tax Laws

7.1. PPPI has been consistently withholding and remitting taxes on salaries and wages and other benefits due from its officers and employees as well as on procurement of goods and services to the Bureau of Internal Revenue (BIR) for CY 2016. Due to BIR as of December 31, 2016 were remitted to the Bureau, as follows:

Taxes Withheld	Due to BIR as of 12/31/16	Date Remitted
Employees' Withholding Tax	242,151.24	1/9/2017
Creditable Income Tax Withheld - Expanded	20,597.30	1/6/2017
Withholding Tax on Vat and Other Percentage Taxes	16,750.34	1/6/2017

8. Social Security Systems (SSS), Philippine Health Insurance Corporation (PHIC) and Pag-IBIG Contributions and Remittances

8.1 In addition, PPPI is also consistently withholding and remitting contributions to SSS, PHIC and Pag-ibig Fund. Contributions for December 2016 were remitted as follows:

	Amount due as of 12/31/16	Date Remitted
Social Security System	105,128.72	1/10/17
Philippine Health Insurance Corporation	21,975.00	1/10/17
Pag-IBIG	70,050.22	1/10/17