

EXECUTIVE SUMMARY

INTRODUCTION

Legal Basis:

Presidential Decree No. 1949 “Establishing a Judiciary Development Fund and For other Purposes dated July 18, 1984 (Annex 1) and A. M. No. 99-8-01-SC “A resolution providing for other sources of the Judiciary Development Fund” dated September 14, 1999 (Annex 2).

Sources of Funds:

1. Increase in legal fees prescribed in the amendments to Rule 141 of the Rules of Court to be promulgated by the Supreme Court of the Philippines (Annex 3).
2. Incomes derived by the Judiciary from:
 - a. Sales of reports of Decisions of the Supreme Court (SC), Court of Appeals (CA), Sandiganbayan (SB) , books, periodicals, pamphlets or the like, printed by the SC, CA, or SB, unserviceable equipment and pieces of furniture, disposable records or papers;
 - b. The pursuit or operation of transportation facilities for members and personnel of the Judiciary offered by the SC, CA, the SB, or the lower courts.
 - c. the grant of concessions to operate canteens or to provide other services.
 - d. rentals of facilities.
3. Fees collected from Bar candidates or participants of seminars/workshops or conferences offered or conducted by the Court.
4. Fees now authorized to be paid or collected by the sheriffs, such as sheriff’s commission.
5. Interests on deposits of its income.
6. Interests on deposits of money paid to or deposited with Clerks of Court or other accountable officials of courts for any purpose, such as for interpleader, consignment, etc., which have been, or to be treated as trust fund or special fund.
7. Confiscated cash bonds, satisfaction of judgments against bonds, and proceeds from the public sale of confiscated property bonds, in both civil and criminal cases where such bonds were posted.

Purpose of the Fund

To augment the allowances of the members and personnel of the Judiciary and to finance the acquisition, maintenance and repair of office equipment and facilities.

Income Sharing Distribution

At least 80% of the Fund shall be used for cost of living allowances (COLA) and not more than 20% shall be used for office equipment and facilities of the Courts located where the legal fees are collected.

Collection and Reporting System

Legal and other fees are paid by litigants/parties concerned and received by the Clerk of Courts/designated accountable officers of each court of the Lower Courts, Office of the Court Administrator (OCA), SC– Proper, and other offices under the supervision of the SC, which are the CA, Court of Tax Appeals (CTA) and SB. The fees collected are receipted and then deposited to the Account of the JDF at the Land Bank of the Philippines (LBP) under Savings Account No. 0591-0116-34.

The accountable officers of the SC, CA, CTA and SB prepare and submit the Reports of Collections and Deposits (RCD) for JDF directly to the Accounting Unit of the SC for recording purposes. While accountable officers of the lower courts prepare the RCDs monthly and submit them directly to the OCA, who in turn prepares a summarized Abstract of Collections and Deposits for submission to the SC Accounting unit. At present there are 1,377 accountable officers of the lower courts stationed throughout the country.

Method of Income Recognition

There are two methods of income recognition used in the JDF. In the books of accounts of the SC, income is recognized upon receipt of the RCDs from the accountable officers of the SC, CA, CTA and SB and the summarized abstract of collections and deposits from the OCA. However, for purposes of COLA disbursement, income is recognized upon receipt by the LBP of the deposits made by the accountable officers as shown in the bank statements.

Depository Bank

The SC maintains 2 savings accounts and 2 current accounts with the LBP for the JDF Fund. Collections of income for the Fund are directly deposited to Savings Account No. 0591-0116-34 otherwise known as the main account of the Fund. Periodically, the deposits in the main account are segregated by applying the sharing ratio of 80-20. The 80% share remains in the main account and is transferred to current account no. 0592-1021-53 whenever the SC grants the COLA. While the 20% share for equipment and improvement of facilities is deposited with Savings Account No. 0591-1601-41. Whenever the SC pays for assets acquired, amounts are transferred from the Savings Account to the Current Account No. 0592-1056-91.

Disbursement Guidelines

The Chief Justice administers and allocates the fund and has the sole exclusive power and duty to approve the authorize disbursements and expenditures of the fund.

The Chief Justice authorizes the release of the COLA monthly. The share is computed by multiplying 80% with the deposits received by the bank during the current month and the balance of the 80% share of the income collected for the prior months. The allowances are distributed in proportion to the basic salaries of the SC and supervised agencies' personnel. Personnel receiving

salary of P7,000.00 and below are granted bigger allowances than those who are receiving salaries of P7,001.00 and above (Annex 4).

While disbursements for acquisition of office equipment and construction/improvement of facilities of the courts are all approved by the Chief Justice.

Accounting Procedures

1. The books of accounts of the JDF are maintained by the SC – Accounting Unit.
2. The New Government Accounting System (NGAS) was fully implemented for JDF books only on September 2002.
3. The Fund was recorded as trust liabilities under the General Fund books of accounts from FY 1985 to FY 1999 under Account no. 8-84-900 (184-2). The Accounting division did not prepare separate yearly financial reports indicating the income and disbursements of the Fund. Acquisitions during this period were recorded as fixed assets held in trust. As of December 31, 1999, the balance of fixed assets held in trust account amounted to P52,612,119.59. Corollary entries were not set-up for all assets acquired during the period, but the Property Division maintained a record of all acquisitions.
4. From FY 2000 to FY 2001, separate books of accounts were maintained for the Fund, however income and disbursements were all accounted in the trust liability account (8-84-900). Corollary entries were set up for asset accounts while expenses were not recognized as such in the books but rather as a debit to account 8-84-900. The Accounting unit prepared only a separate trial balance during the period.
5. For FY 2002, separate books of accounts were also maintained for the fund. The old government accounting system (OGAS) was used from January 1 to 31, 2002 only while the new government accounting system (NGAS) was adopted starting February 1, 2002 with exception because the trust liability account (8-84-900) was converted as Other Payables account (450). On September 1, 2002, the NGAS was fully implemented when the Other Payables account was closed and the income account was recognized in the books. A trial balance was prepared for the fund which was consolidated with the other funds maintained by the SC at the end of FY 2002. No balance sheet and statement of income and expenses were separately prepared for the Fund.
6. RCDs submitted by the SC and other supervised agencies are directly recorded by the SC Accounting Unit while RCDs submitted by accountable officers of the Lower Courts are initially recorded in the books of accounts of the various lower courts, such as the Regional Trial Courts (RTC), Metropolitan Trial Courts (MeTC), etc. At the end of each month, the accounting division of the OCA summarizes the income collected by the various courts and prepares a journal entry voucher transferring the JDF transactions to the Accounting Unit of the SC for recording in the JDF books of accounts.

SCOPE OF AUDIT

The audit covered the operations of the JDF from January 2000 to December 31, 2002.

FINANCIAL CONDITION

Comparative Audited Balance Sheet as of December 31, 2002, 2001 and 2000

ACCOUNT TITLE	2002	2001	2000
ASSETS			
Current Assets			
Cash			
Cash-Collecting Officers	P 57,593,699.84	P 58,035,232.44	P 6,586,245.17
Cash-Other Agencies			20,931,400.00
Cash-Disbursing Officers		319,830.00	3,687,134.50
Cash-in-bank-Local Currency-Current Account	577,730,385.21	488,196,628.05	244,887,968.40
Cash-in-bank-Local Currency-Savings Account	29,456,009.75		
	P 664,780,094.80	P 546,551,690.49	P 276,092,748.07
Due from Officers and Employees	P 125,374.38	P	P
Due from NGAS	55,861.25		
Accountable Forms Inventory	1,047,024.00		
Office Supplies Inventory	2,810.00		
Other Inventory Items	1,777,131.00		
Advances to Contractors	5,505,177.09		
Receivables- National Government Agencies		55,861.25	
Inventory			
Supplies and Materials Semi Expendable Expenses		1,775,011.00	1,590,810.00
	P 8,513,377.72	P 1,830,872.25	P 1,590,810.00
	P 673,293,472.52	P 548,382,562.74	P 277,683,558.07
Property, Plant and Equipment			
Buildings	P 143,427,835.38	P 65,128,390.66	P 42,031,860.97
Construction in Progress	1,338,784.00		
IT Equipment and Software	109,403,165.73		
Telegraph, Telephone, G&G, TV & Radio Equipment	3,433,242.01		
Motor Vehicles	30,192,700.00		
Office Equipment	76,068,078.67		
Other Equipment	11,632,312.25		
Equipment for Verification (No DV on File)	4,451,380.92		
Office Furnitures and Fixtures	66,381,436.09		
Furniture, Fixtures & Equipment Held in Trust		158,727,578.47	101,873,091.36
	P 446,328,935.05	P 223,855,969.13	P 143,904,952.33
Total Assets	P 1,119,622,407.57	P 772,238,531.87	P 421,588,510.40
Liabilities and Equity			
Current Liabilities			
Guaranty Deposits Payable	P 3,475,500.33	P	P
Withholding Tax Payable	939,467.46		
GSIS Payables	6,626.92		
Due to NGAS	5,000.00		
Due to Officers and Employees	2,522.00		
Payables- National Government Agencies		2,522.00	22.00
Trust Liabilities			
NGAS Not Covered by TRA		670,101.59	308,402.08
Gov't Owned or Controlled Corp.		6,626.92	6,626.92
Miscellaneous		545,928,301.23	275,777,697.07
Miscellaneous Liabilities and Deferred Credits		1,775,011.00	1,590,810.00
	P 4,429,116.71	P 548,382,562.74	P 277,683,558.07
Equity			
Government Equity	P 1,115,193,290.76	P	P
Residual Equity			
Invested Capital - Held in trust		223,855,969.13	143,904,952.33
	P 1,115,193,290.76	P 223,855,969.13	P 143,904,952.33
Total Liabilities and Equity	P 1,119,622,407.47	P 772,238,531.87	P 421,588,510.40

STATUS OF TRUST FUND

Comparative Statement of Trust Liability Account as of December 31, 2001 and 2000 using the old government accounting system where the JDF was treated as a trust liability account of the General Fund books of accounts.

Comparative Statement of Trust Liability Account As of December 31, 2001 and 2000

	2001	2000
Beginning balance	P 275,777,697.07	P 676,915,468.65
Add: Income from Government Services	1,517,226,917.83	1,056,528,182.55
Interest Income	5,717,942.64	10,421,351.26
Retention Fee	360,516.46	615,318.55
	P 1,523,305,376.93	P 1,067,564,852.36
Total Trust Liability	P 1,799,083,074.00	P 1,744,480,321.01
Less: Disbursement of funds		
Personnel Benefits	P 1,156,777,508.53	P 1,380,098,904.80
Construction of Buildings	23,096,529.69	42,031,860.97
IT Equipment	4,475,878.00	1,602,430.00
Telegraph, Telephone, Cable, TV & Radio Equipment	2,717,567.11	165,600.00
Motor Vehicles	2,725,000.00	8,080,000.00
Office Equipment	45,459,628.00	21,571,690.00
Other Equipment	838,044.00	1,044,224.35
Office Furniture and Fixtures	1,400,670.00	3,438,411.50
Equipment (For Verification - No Disbursement Voucher on File)		4,451,380.92
	P 80,713,316.80	P 82,385,597.74
Subsidy of Supreme Court for the Printing Press of the Court of Appeals		5,000,000.00
Purchase of Semi-expendable Inventories		69,000.00
Office Supplies Expenses	2,243,901.00	710,450.00
Medical, Dental & Laboratory Supplies Expenses	1,503,300.00	
Building Maintenance	1,065,727.23	123,890.00
Other expenses	77,970.00	152,400.00
	P 4,890,898.23	P 6,055,740.00
Release of Retention fee	P 6,406,798.21	P 162,381.40
Refund of Excess Docket Fees	P 4,366,251.00	
Total Disbursement	P 1,253,154,772.77	P 1,468,702,623.94
Ending balance	P <u>545,928,301.23</u>	P <u>275,777,697.07</u>

RESULT OF OPERATION

Income Statement for the Year ended December 31, 2002 using the new government accounting system where the JDF was recorded in separate books of accounts.

Income Statement For the Year Ended December 31, 2002

		2002
Income		
Income from Government Services	P	1,305,702,863.63
Interest Income		8,764,843.50
Total Income	P	1,314,467,707.13
Less: Expenses		
Personal Services		
Personnel Benefits	P	960,449,613.78
Maintenance & Other Operating Expenses		
Printing and Binding Expense	P	93,250.00
Office Supplies Expense		745,400.00
Medical, Dental, and Laboratory Supplies Expense		8,760.00
Building Maintenance		875,519.00
IT Equipment Maintenance		112,064.00
Other Equipment Maintenance		54,824.00
Other Repairs and Maintenance		765,655.45
Accountable Forms Expenses		671,576.00
Other Expenses		393,845.00
Subtotal of MOOE	P	3,722,663.45
Financial Expenses		
Bank Charges	P	1,770.00
	P	964,172,277.23
Excess of Income over Expenses	P	<u>350,295,429.90</u>

ASSETS ACQUIRED

Schedule of Acquired Assets for FY 2002, 2001, 2000

Comparative Schedule of Assets Acquired for the Fiscal Years Ended December 31, 2002, 2001 and 2000

ACCOUNT	2002	2001	2000
Buildings	P 78,299,444.62	P 23,096,529.69	P 42,031,860.97
Construction in Progress	1,338,784.00		
IT Equipment and Software	103,324,857.73	4,475,878.00	1,602,430.00
Telegraph, Telephone, Cable, TV & Radio Equipment	550,074.90	2,717,567.11	165,600.00
Motor Vehicles	20,150,000.00	2,725,000.00	8,080,000.00
Office Equipment	9,036,760.67	45,459,628.00	21,571,690.00
Other Equipment	9,750,043.90	838,044.00	1,044,224.35
Office Furnitures and Fixtures	23,000.00	1,400,670.00	3,438,411.50
For Verification (No Disbursement Vouchers on File)	-	-	4,451,380.92
Total	P <u>222,472,965.82</u>	P <u>80,713,316.80</u>	P <u>82,385,597.74</u>

COMPUTATION OF FUND UTILIZATION PERCENTAGES

During the period FY 2000 to FY 2002, the Fund was utilized to pay COLA, Maintenance and Operating Expenses and Acquisition of Properties. Shown in the table below is a Comparative Computation of Fund Utilization Percentages.

	2002	2001	2000
COLA Personnel Benefits/ Income	$\frac{960,449,613.78}{1,314,467,707.13} = 73.07\%$	$\frac{1,156,777,508.53}{1,522,944,860.47} = 75.96\%$	$\frac{1,380,098,904.80}{1,066,949,533.81} = 129.34\%$
Maintenance and Other Operating Expenses / Income	$\frac{3,722,663.45}{1,314,467,707.13} = 0.28\%$	$\frac{4,890,898.23}{1,522,944,860.47} = 0.32\%$	$\frac{6,055,740.00}{1,066,949,533.81} = 0.56\%$
Acquired Assets / Income	$\frac{222,472,965.82}{1,314,467,707.13} = 16.92\%$	$\frac{80,713,316.80}{1,522,944,860.47} = 5.30\%$	$\frac{82,385,597.74}{1,066,949,533.81} = 7.72\%$

COMMENTS AND OBSERVATIONS

1. Validity of cash in bank account cannot be ascertained.

The balances of Cash in Bank account of the JDF per books and per bank as of December 31, 2002, 2001 and 2000 were not reconciled as shown in the table below.

Year	Based on Unadjusted Book Balance	Bank Confirmation/ Statement	Difference
2002	P 591,010,366.03	P 801,070,946.35	P 210,060,580.32
2001	488,196,628.05	790,580,670.66	302,384,042.61
2000	234,466,617.14	611,340,484.68	376,873,867.54

Management did not prepare bank reconciliation statements on a regular basis thus differences were noted in audit. These differences could be attributed to the following factors, to wit:

- a. Interest income amounting to P10,421,351.26 and P5,754,667.67 for FY 2000 and 2002, respectively, were not taken up in the books of accounts as of December 31, 2002. Had these amounts been considered in the books, the difference between the books and the bank balance as of December 31, 2002, could have been narrowed down to P193,882,881.39;
- b. Non-submission on time of the Monthly Report of Collections and Deposits (RCDs) by the 1,377 accountable officers of the lower courts;
- c. outstanding checks (checks issued but not yet presented for payment to the bank);
- d. unrecorded bank charges e.g. cost of check books, charges on out of town checks, etc.;

The interest income for FY 2000 and 2002 were recorded in June 2003.

The audit findings discussed in the preceding paragraphs were disclosed in the FY 2000, 2001 and 2002 Annual Audit Reports.

Management commented that a reconciliation of the book and bank balances is being undertaken and any adjustments will be taken up in the books of accounts.

Management should prepare bank reconciliation statements as of December 31, 2002 in the proper form and to make the necessary adjusting entries to correct the account. Thereafter, management should regularly prepare the bank reconciliation statement on a monthly basis and any adjusting/ correcting entry should be taken up immediately in the books.

2. Validity of physical count of Property, Plant and Equipment (PPE) cannot be ascertained.

2.1 Physical count of PPE was not completed.

Not all of the properties acquired using the JDF were counted during the physical count conducted in FY 2002 and the early part of FY 2003 due to manpower and time constraint. The reconciliation process was not also completed as of December 31, 2002.

Shown below is the summary of assets acquired for the period FY 2000- FY 2002.

ACCOUNT	2002	2001	2000	TOTAL
Buildings	P 78,299,444.62	P 23,096,529.69	P 42,031,860.97	P 143,427,835.28
Construction in Progress	1,338,784.00			1,338,784.00
IT Equipment and Software	103,324,857.73	4,475,878.00	1,602,430.00	109,403,165.73
Telegraph, Telephone, Cable, TV & Radio Equipment	550,074.90	2,717,567.11	165,600.00	3,433,242.01
Motor Vehicles	20,150,000.00	2,725,000.00	8,080,000.00	30,955,000.00
Office Equipment	9,036,760.67	45,459,628.00	21,571,690.00	76,068,078.67
Other Equipment	9,750,043.90	838,044.00	1,044,224.35	11,632,312.25
Office Furnitures and Fixtures	23,000.00	1,400,670.00	3,438,411.50	4,862,081.50
Equipment (For Verification- No Disbursement Vouchers on File)	-	-	4,451,380.92	4,451,380.92
Total	P <u>222,472,965.82</u>	P <u>80,713,316.80</u>	P <u>82,385,597.74</u>	P <u>385,571,880.36</u>

Management commented that the conduct of physical count has been partially made but the reconciliation process is not completed yet.

Management should complete the physical count, prepare the Report on the Physical Count of Property, Plant and Equipment and accelerate the reconciliation per books and per count.

2.2 No depreciation was provided on PPE.

The PPE with a total book value of P 446,328,935.05 was not provided with depreciation as of December 31, 2002 as prescribed under the Manual on New Government Accounting System (NGAS).

Management commented that the failure to provide depreciation was partly due to lack of personnel to keep the ledger cards, that the Management Information Systems Office (MISO) expertise is being tapped on computerization programs to implemented for PPE, and that depreciation will be provided in the succeeding year.

Management should provide depreciation for PPE in accordance with the NGAS.

2.3 Cost of buildings was erroneously charged to Consultancy Services instead of Construction in Progress – Agency Assets account.

Consultancy contracts with Siemens Building Technology, Inc. in the amount of P1,338,784.00 for the supervision of the renovation of the SC Main Session Hall and the construction of the SC- Court of Appeals Multipurpose Building were charged to *Consultancy Services* account contrary to the accounting policy prescribing the application of the construction period theory whereby all expenses related to the projects during the construction period should be capitalized.

Management should capitalize all related expenses incurred during the construction of the project while those that were incurred after the construction period should be charged to the operating costs of the agency. Correcting entry to transfer the payments made to Siemens Building Technology, Inc. to *Construction in Progress- Agency Assets* account shall be prepared, and upon completion of the project, the account shall be closed to the Buildings account.

2.4 Non submission of contracts and their integral parts for infrastructure projects to the Auditor within five (5) days from date of perfection in violation of COA Circular No. 95-006 dated May 18, 1995.

We noted that contracts for infrastructure projects together with their integral parts were not submitted to the auditor for review and evaluation in violation of COA Circular No. 95-006 which requires all government agencies to submit to the Auditor contracts and their integral parts within five days from date of perfection.

As of August 31, 2003, all infrastructure/consultancy contracts entered into by management with private contractors/ consultants were submitted to COA for review and evaluation.

Management should submit all contracts for infrastructure projects, together with their integral parts, to the Auditor within five (5) days from date of perfection.