

**Philippine Association for Government Budget Administration (PAGBA), Inc.
1st Quarterly Seminar and Meeting**

February 13-16, 2019
Crowne Plaza Manila Galleria
Ortigas Avenue, Quezon City

DISPOSAL OF GOVERNMENT PROPERTIES

PRESENTED BY:

LOURDES M. CASTILLO, CPA, PHD.

RETIRED ASSISTANT COMMISSIONER

COMMISSION ON AUDIT

LEARNING OBJECTIVES

At the end of the session, the participants are expected to:

- Know the basic concepts on the disposal of unserviceable properties (except Real Estate, Antiques and Works of Art);
- Acquire sufficient knowledge on the different modes of disposal and the roles of officials/ accountable officials in the process; and
- Conduct review of the appraised values of the properties being disposed of and the necessary requirements to support the same.

LEGAL BASES

- Section 79 of P.D. 1445: Audit Code of the Philippines
Destruction of Unserviceable Property
- National Budget Circular No. 425 dated Jan. 20, 1992
Manual on the Disposal of Government Property
- COA Circular 92-386 dated Oct. 20, 1992
Prescribing The Rules and Regulations on Supply and Property Management in the Local Government
- COA Circular No. 2012-003 dated Oct. 29, 2012
Updated Guidelines for the Prevention and disallowance of IUEEU Expenditures

LEGAL BASES

- Executive Order No. 888 Series of 1983
Authorizing Heads of Ministries/Agencies to Dispose of Their Respective Unserviceable Equipment and Disposable Property
- COA Memorandum Circular No. 2015-007 dated Oct. 22, 2015
Prescribing the Government Accounting Manual for Use of All National Government Agencies

DEFINITION OF TERMS

Property, Plant and Equipment (PPE) – tangible assets that are:

- Purchased, constructed, developed or otherwise acquired;
- Held for use in the production or supply of goods or services or to produce program outputs;
- For rental to others;
- For administrative purposes;
- Expected to be used during more than one reporting period; and
- Not intended for resale in the ordinary course of operations

DEFINITION OF TERMS

Acquisition Cost (AC)

- the price at which the property was acquired which also includes related expenses incurred during the acquisition/construction of the property such as taxes, license fees, permit fees, clearance fees, etc.

Appraisal

- is the art of estimating the fair exchange worth or value of a property as of a specified date, supported by relevant or factual data.

Appraisal is not an exact science but it is an opinion of value.

DEFINITION OF TERMS

Appraised Value

- an opinion of value of an appraiser which is based upon an interpretation of facts and beliefs into an estimate of value, as of a stated date

Depreciation

- is the systematic allocation of the depreciable amount of an asset over its useful life

Depreciable Amount

- is the cost of an asset, or other amount substituted for cost less residual value

DEFINITION OF TERMS

Fair Value

- is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction

Current Market Value

- is the price estimated which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a buyer who buys with knowledge of the actual condition and utility of the property

DEFINITION OF TERMS

Carrying Amount

- is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses

Salvage Value

- the amount that could be realized from the sale of a component/part of an asset to be removed for use, wholly, or in part, elsewhere

DEFINITION OF TERMS

Residual Value (Salvage Value)

- is equivalent to at least five (5) of the cost of an asset that the entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal

Useful Life (Estimated Useful Life)

- is the period over which the asset is expected to be available for use by an entity; or the number of production or similar units expected to be attained from the assets by an entity

DEFINITION OF TERMS

Deterioration

- reflecting the loss in value brought about by wear and tear, disintegration, use in service and the action of elements.

Economic Obsolescence

- reflecting the loss in value brought about by external economic forces, such as legislative enactments restricting or impairing the use of subject equipment

DEFINITION OF TERMS

Functional Obsolescence

- reflecting loss in value due to functional inadequacy due to size, style, or age brought about by changes in art or poor planning

Junk/Scrap Value

- the price of scrap/junk metal or lumber prevailing in the local market



DEFINITION OF TERMS

Obsolete Property

- that which has lost its efficacy either due to technological advancement, change of procedures, recognition/completion of project

Unserviceable Property

- that which is beyond repair and has no more utilization potential

DEFINITION OF TERMS

Disposal/Disposition/Divestment

– the end of the life cycle of a government property

Destruction or Sale of Unserviceable Property

- Has become unserviceable for any cause
- Is no longer needed



DEFINITION OF TERMS

Exchange Transactions

- Are transactions where one entity receives assets or services or has liabilities extinguished, and directly given approximately equal value to another entity in exchange

Non-Exchange Transactions

- Are transactions where the entity either receives value from another entity without directly giving approximately equal value in exchange or given without directly receiving approximately equal value in exchange

DEFINITION OF TERMS

Impairment Loss

- Is the amount by which the carrying cost amount of an asset exceeds its recoverable value

Derecognition

- Removal from the Accounts, the cost of the PPE together with the Accumulated Depreciation and Accumulated Impairment

DEFINITION OF TERMS

Effective Remaining Useful Life (ERUL)

- refers to the number of years from the date of appraisal to the anticipated date that a property may be utilized profitably

Effective Useful Life (EUL)

- refers to the estimated period of time (years) for which a property is anticipated to be useful assuming normal utilization

DEFINITION OF TERMS

Locally Manufactured Properties

- refers to the properties which are one hundred percent (100%) sourced locally and no part of which is imported from other countries



Sound Value

- a measure of value widely used by valuers and appraisers, is derived from replacement cost new (RCN), adjusted to the observed condition of the property for appraisal

PHASES OF PROPERTY AND SUPPLY MANAGEMENT

ACQUISITION

UTILIZATION
Custodianship

DISPOSITION
Destruction or
Sale

MODES OF ACQUISITION

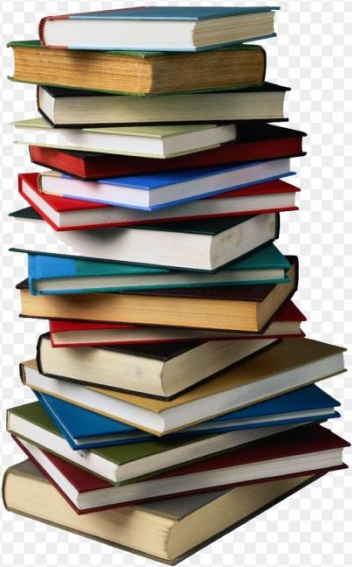
- Purchase
- Donation/Grant
- Construction
- Exchange Transaction
- Non-exchange Transaction
(Ex: Presidential Proclamation)
- Transfers
- Finance Lease

CRITERIA FOR RECOGNITION

The cost of an item of PPE shall only be recognized as assets if and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity
- The cost or fair value of the item can be measured reliably
- Beneficial ownership and control clearly rests with the government objectives; and
- It meets the capitalization threshold of P15,000.00

APPLYING THE CAPITALIZATION THRESHOLD



- The threshold shall be applied on an individual asset or per item basis.

Example: bulk purchases of books for library

APPLYING THE CAPITALIZATION THRESHOLD

The capitalization threshold of P15,000.00 represents the minimum cost of an individual asset recognized as a PPE on the Statement of Financial Position.

- Items with individual values below the threshold but which work together in the form of a group of network asset whose total value exceeds the threshold shall be recognized as cost of the PPE.

Examples: Computer Network, PABX System, Sewerage System

PROPERTY/ASSETS SUBJECT TO DISPOSAL

- Unserviceable Property
- Confiscated/Seized Property
- Property under Distraint/Levy/Garnishment
- Unclaimed Motor Vehicles
- Real Property
- Valueless Records/Documents

CONFISCATED/SEIZED PROPERTY

- are those which came into the possession of the government as a result of the implementation, enforcement of laws and regulations

Examples:

Timber and other forest products

Property in Custom's custody

Narcotics and dangerous drugs

PROPERTY UNDER DISTRAINT/LEVY/ GARNISHMENT

- refers to the personal or real property of a taxpayer forfeited to the government for failure to pay taxes



UNCLAIMED MOTOR VEHICLES

Unclaimed Motor Vehicles

- recovered stolen motor vehicles by the different law enforcement agencies of the government
- The absence of claimants and that the real owners can no longer be determined, these recovered vehicles remained unclaimed

VALUELESS RECORDS/DOCUMENTS

- all records, materials that has reached their prescribed retention period and has lost their usefulness to the agency or the government as a whole

Examples:

- Paper
- Books/photographs
- Microfilms
- Sound recordings
- Drawings
- Maps

MODES OF DISPOSAL/DIVESTMENT

1. Public Auction

- Adequate publicity and notification so as to attract the greatest number of interested parties;
- Sufficient timeframe between publication and date of auction;
- Opportunity afforded to interested parties to inspect the assets to be disposed of;
- Confidentiality of sealed proposals;
- Bond to guarantee performance;
- Fair valuation of tenders; and
- Notification of award



MODES OF DISPOSAL/DIVESTMENT

2. Sale thru Negotiation – done for justifiable reasons or exigencies of the service

- Failure of public auction
 - If there is only one bidder
 - If offers are non-complying or unacceptable

3. Barter – direct exchange of commodities without the use of money and without reference to price

MODES OF DISPOSAL/DIVESTMENT

4. Transfer to other Government Agencies

- Where the property is no longer serviceable or needed by the agency
- Maybe transferred without cost or at an appraised value

5. Destruction or Condemnation

- When the property has no commercial value or is beyond economic repair or there is no willing receiver
- Maybe done thru burning, pounding, throwing beyond recovery

DETERMINATION OF DISPOSABLE PROPERTY

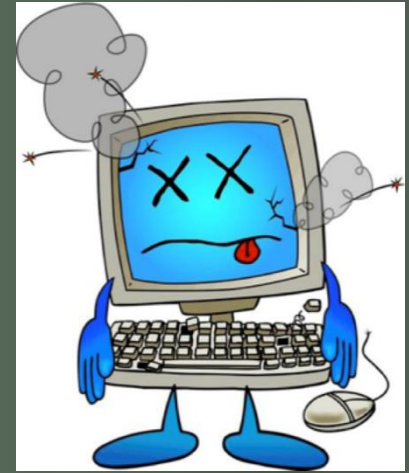
1. Can no longer be repaired or reconditioned
2. Maintenance/repair costs outweigh the benefits and services
3. Has become obsolete or outmoded
4. Has been rendered unnecessary due to change in the Agency's functions/mandate
5. In excess of the requirements
6. Has become dangerous or hazardous to use

DETERMINATION OF CONDITION RATING OF PROPERTY

Very Good (VG) 80-100%	Being used to its fully specified purpose without being modified
Good (G) 55-75%	Being used near its specified utilization, with minor repair
Fair (F) 35-50%	Below its fully specified utilization, requires general repair/replacement of minor parts
Poor (P) 15-30%	Below its fully specified utilization, needs extensive repair/replacement of major components
Scrap (S) 0-10%	Unserviceable/cannot be utilized to any practical degree regardless of modification or repair

WHY THE NEED TO DISPOSE UNSERVICEABLE PROPERTY

1. To avoid continuing carrying costs
2. To prevent further deterioration, thereby obtaining the fair return in case of sale
3. To relieve accountable officers of unnecessary accountability
4. To make available space for the agency



GENERAL GUIDELINES/PROCEDURES ON DISPOSAL

1. The officer immediately accountable for the unserviceable property shall return the same to the property officer.
2. The property officer shall file an application for disposal with the appropriate documents to the COA Auditor.
3. The COA Auditor/TSO shall inspect the items and forward his recommendation to the agency head.

GENERAL GUIDELINES/PROCEDURES ON DISPOSAL

4. The agency head shall forward the to the Disposal Committee who shall recommend the mode of disposal most advantageous to the government.
5. If found to be valuable, the unserviceable property maybe sold at public action to the highest bidder of the proper Committee on Award.
6. The awardee/highest bidder shall pay, claim and withdraw the property.

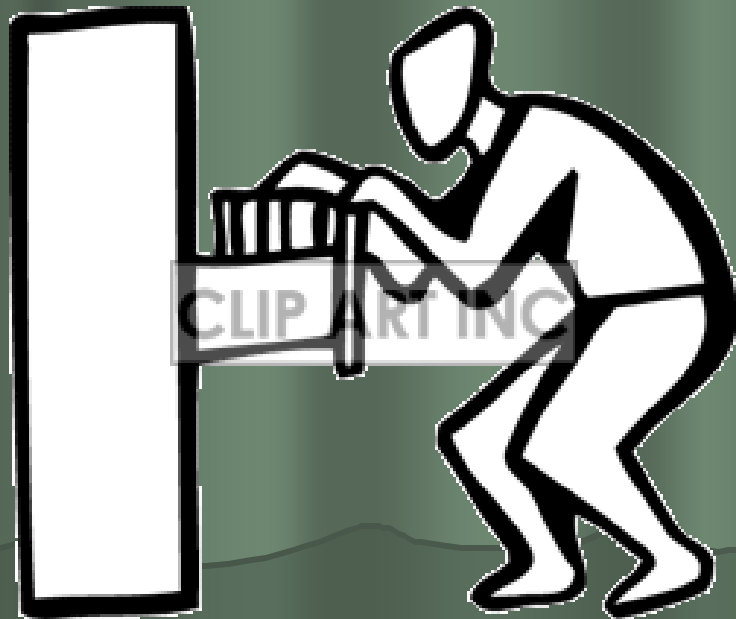
PRELIMINARY DOCUMENTATION

- Inventory & Inspection Report of Unserviceable Property (IIRUP)
- Report of Waste Materials (RWM)
- Checklist for Unserviceable Equipment

SPECIFIC GUIDELINES ON DISPOSAL

1. Documentation

- Duly accomplished Inventory and Inspection Report of unserviceable property



- Waste Materials Report
- Checklist for unserviceable Equipment

SPECIFIC GUIDELINES ON DISPOSAL

2. Conduct of Inspection by the Technical Services Office
3. Determination of Condition Rating of Property
4. Conduct of Appraisal



BASES FOR DROPPING FROM THE BOOKS OF ACCOUNTS

- Inventory & Inspection Report of Unserviceable Property (IIRUP)
- Report of Waste Materials (RWM)
- Invoice-Receipt for Property (IRP)
- Property Transfer Report (PTR)



DBC NBC 425
GAM – National

**Authority and Responsibility
for Divestment or Disposal is
lodged in the Agency Head or
governing bodies.**

COA Circular 89-296

E.O. No. 888

GAAM 501

CREATION OF THE DISPOSAL COMMITTEE and SECRETARIAT (E.O. 888 and 309) for National and Corporate Agencies

Chairman Not lower than Assistant Secretary
for a Department and Assistant
Director for a Bureau

Members • Head of the Administrative Unit
 • Head of Property Unit

INVENTORY AND INSPECTION REPORT OF UNSERVICABLE PROPERTY (IIRUP)

Inventory

- Acquisition date of the PPE
- Description and property number of the unserviceable property
- Quantity, unit cost and total cost
- Accumulated depreciation, accumulated impairment losses, carrying amount
- Quantity, unit cost and total cost
- ARE

INVENTORY AND INSPECTION REPORT OF UNSERVICABLE PROPERTY (IIRUP)

Inspection and disposal

- The amount per mode of disposal such as sale, transfer, destruction, etc.
- Appraisal assigned by the agency
- The official receipt number and corresponding amount for the sales proceeds

Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

**APPRAISAL REVIEW REPORT
ON PROPERTY FOR DISPOSAL**

DATE

Agency : _____

Address : _____

Subject : _____

A. OBJECTIVE

To determine the reasonableness of the appraised value of the property for disposal.

B. SCOPE

Property for disposal to be appraised

C. REFERENCE DOCUMENTS

SUBMITTED			DOCUMENTS	DATE			REMARKS
YES	NO	NA		YY	MM	DD	
			1	In-house/Third Party Appraisal Report Appraisal Report			
			2	Inventory and Inspection Report of Unserviceable Property			
			3	Waste Material Report			
			4	Checklist of the Parts of Equipment for Disposal			
			5	Current Photographs			
			6	Others:			

D. METHODOLOGY

1. Study descriptions, specifications, ratings and capacities of the equipment.
2. Secure inspection template/checklist.
3. Conduct physical/ocular inspection of subject and comparable equipment.
4. Conduct technical evaluation on equipment, component parts and their working conditions.
5. Conduct research data on equipment's acquisition cost/date and/or their RCN and other relevant data.

E. PERSONS/PERSONNEL PRESENT AT THE TIME OF INSPECTION

Name	Position/Designation

F. CONDITIONS/CIRCUMSTANCES ATTENDANT TO INSPECTION

G. RESULT OF VALUATION

Items/Description	Quantity	In-House/ Agency Appraisal	Quantity	COA Appraised Value	Remarks

H. NARRATIVE FINDINGS AND OBSERVATIONS

Note:

(Describe here the Property Inspected, Condition Factor, Formula Used, Source of Price Data, (e.g. canvass, publications.)

Appraised by: DIVISION STAFF

Checked by: SECTION HEAD

Reviewed by: SERVICE CHIEF

ROLE OF THE TECHNICAL SERVICES OFFICE (TSO)

The TAS shall conduct an inspection of the unserviceable equipment or property to verify justification for disposal and determine the existence of the property.



COA Memorandum No. 98-569 A

Sec. 79, P.D. 1445

COA Circular 89-296

COA Circular 92-386

COA Circular No. 2012-003 (85-55 A)

CFAG Joint Resolution No. 35

ROLE OF THE TECHNICAL SERVICES OFFICE (TSO)

The TSO shall determine the condition of the property and reasonableness of the appraised value.

COA Memorandum No. 98-569 A which provides guidelines in observing the condition of the property (Section 6) and Approach to value to be adopted (Section 8.1)

ROLE OF THE TECHNICAL SERVICES OFFICE (TSO)

The TAS shall prepare an Appraisal Review Report and submit the same to the Auditor as a guide in the post audit of the transaction.

COA Memorandum 95-006 (Lifting Pre-Audit)

COA Circular 2011-002 (Lifting Pre-Audit)

CONDUCT OF INSPECTION

- To establish the existence and condition of the property/asset



- To supplement theoretical computation of value with first-hand observation



INSPECTION PROCESS

- Identify the property in accordance with its description in the inventory list or directive.
- Check the condition of the property, determine whether operational, under repair, or irreparable.
- Determine if property is economically repairable and the most probable cost of its repairs, and current cost of spare parts.

INSPECTION PROCESS

- Check for damaged, worn-out or missing parts. Careful determination of its present physical condition shall serve as basis for its depreciation and correct evaluation/valuation.



- Verify stated ratings, capacity, model, year of manufacture, serial number, chassis number, motor number and other technical specifications, and accessories, if any.

INSPECTION PROCESS

- Determine the correct date when property has been acquired or its present age/number of years the property has been actually used or operated
- See if property is obsolete or still being manufactured and if spare parts are still procurable in the market
- Determine quality or degree of maintenance, repair, restoration or upgrading made, check logbook, if available

INSPECTION PROCESS

- Determine the extent of use, mileage, rate of depreciation, and any excessive wear and tear.
- Determine whether property still has market demand; or the existence of probable buyers in the locality.
- Inspect the location of the properties and the available facilities for its transportation.

INSPECTION PROCESS

- See if property is sheltered or exposed to elements and theft.
- If property is to be disposed of as junk, determine parts which could be salvaged or profitably used such as engine, dynamo, wheels, tires, axles, body/chassis, etc. for motor vehicles.





AUDIT PROCEDURES

*To facilitate audit of the disposal/
divestment of assets under the
following:*

1. Government Corporations

- Secure copy of the program for disposal with time schedules
- Inventory Report showing the itemized list and complete description of the assets
- Appraisal report showing the appraised values prepared by the appraisers
- Disposal procedure adopted

AUDIT PROCEDURES

To facilitate audit of the disposal/ divestment of assets under the following:

2. Local Government Units

- Upon the application of the officer accountable therefor
- Be inspected and appraised by the Provincial or City Auditor or his authorized representative

AUDIT PROCEDURES

To facilitate audit of the disposal/ divestment of assets under the following:

3. National Government Agencies

- Upon receipt from the Head of Agency of the Inventory and inspection Report and Waste Material Report, refer this to the Technical Property Inspector for appraisal.
- The TSO shall submit the Inspection Report to the Auditor for transmittal to the Disposal Committee for decision-making.

ROLE OF COA DURING DISPOSAL

In all modes or instances of disposal of government property or assets, the proceedings shall be undertaken by the appropriate authority in the presence of the Auditor or his/her authorized representative
WHO SHALL ACT AS INTELLIGENT, RESPONSIBLE AND ARTICULATE WITNESS thereto.

ROLE OF COA DURING DISPOSAL

- Take into account his/her constitutional duty to examine, audit and settle all accounts pertaining to the expenditures and uses of government funds and property.
- May verbally advise the agency head of any objectionable feature of the proceedings.
- May submit written comments to the concerned agency official which will form part of the bases of his/her action during the post-audit.

*“Government
has no other end,
but the preservation of
property.”*

- John Locke

