**OBSERVATIONS AND RECOMMENDATIONS**

1. **Financial Audit**
2. **The financial statements (FS) of subsidiaries and controlled entities of the System where it has invested a total of P2.473 billion were still not consolidated with its FS. Likewise, the investment account is overstated by P17.504 million due to the non-elimination of reciprocal accounts contrary to the pertinent provisions of the Philippine Financial Reporting Standards (PFRS) 10 - Consolidated Financial Statements. Hence, the System’s FS do not present the reliable and accurate financial conditions and the results of its operations as of and for the year ended December 31, 2017.**
	1. PFRS 10 – Consolidated Financial Statements sets the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls.
	2. Paragraph Nos. 4, 19 and 21 of the above Standard provides:

Paragraph 4 requires an entity that is a parent to present consolidated financial statements except if it meets all of the following conditions:

1. *It is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;*
2. *Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);*
3. *It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and*
4. *Its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with PFRSs.*

*Paragraphs 19 and 21 requires a parent to prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances and that in preparing**consolidated financial statements, a parent shall:*

1. *Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries;*
2. *Offset (eliminate) the carrying amount of the parent’s investment in each subsidiary and the parent’s portion of equity of each subsidiary.*
3. *Eliminate in full intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group.*

*Paragraph 21**further provides that the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.*

*If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary’s financial statements and that of the consolidated financial statements shall be no more than three months.*

* 1. Section 111 and 127 of the Presidential Decree (PD) No. 1445 states that:

*Section 111. Keeping of accounts*.

1. *The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*
2. *The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*

*Section 127. Administrative disciplinary action*.

*Xxx, any unjustified failure by the public officer concerned to comply with any requirement imposed in this Code shall constitute neglect of duty and shall be a ground for administrative disciplinary action against the said public officer who, upon being found guilty thereof after hearing, shall be meted out such penalty as is commensurate with the degree of his guilt in accordance with the Civil Service Law. Repeated unjustified failure to comply with the requirements imposed in this Code shall be conclusive proof that the public officer concerned is notoriously undesirable.*

* 1. The financial statements of the System and its accompanying notes as of December 31, 2017 disclosed that the System has a total investment in stocks of its subsidiaries and affiliates/controlled entities totalling P2.473 billion, details follow:

|  |  |  |
| --- | --- | --- |
| **Subsidiaries and Affiliates/Controlled Entities** | **Per cent of Ownership** | **Cost of Investment** |
| **2017** | **2016** |
| Monterrosa Development Corporation\*  | 100.00% | 873,765,346 | 873,927,445 |
| Resources Investment House\* | 100.00% | 98,972,103 | 102,123,549 |
| RSBS Land, Inc.\*  | 100.00% | 994,170 | 994,170 |
| Fashion Link Corporation\* | 100.00% | 20,100,000 | 20,100,000 |
| Southern Utility Management Services, Inc. | 100.00% | 10,000,000 | 10,000,000 |
| General Satellite Communications, Inc.\* | 62.00% | 2,906,238 | 2,906,238 |
| AFP Theatre Enterprises, Inc. | 50.00% | 120,000,000 | 120,000,000 |
| Bay Resources Development Corporation\* | 50.00% | 402,000,000 | 402,000,000 |
| Amtrust Holdings, Inc.\* | 25.56% | 127,000,000 | 127,000,000 |
|  *Sub-total* |  | *1,655,737,857* | *1,659,051,402* |
| Matrix Realty Development Corporation\* | 100.00% | 35,931,250 | 35,931,250 |
| Globan Fruits and Development Corporation\* | 100.00% | 10,000,000 | 10,000,000 |
| RSBS Enterprises, Inc.\* | 100.00% | 2,500,000 | 2,500,000 |
| Veterans Electronics Communications\* | 90.65% | 126,738,598 | 126,738,598 |
| Goodfit Manufacturing Corporation\* | 79.99% | 25,556,920 | 25,556,920 |
| Marilaque Land, Inc.\* | 40.00% | 609,000,000 | 609,000,000 |
| Cyquest, Inc.\* | 40.00% | 2,000,000 | 2,000,000 |
| CEMX, Inc.\* | 24.00% | 6,000,000 | 6,000,000 |
|  *Sub-total* |  | *817,726,768* | *817,726,768* |
| **Total** |  | **2,473,464,625** | **2,476,778,170** |

* 1. As of audit date, only Southern Utility Management Services, Inc. and AFP Theatre Enterprises, Inc. submitted their financial statements. The remaining 15 subsidiaries and affiliates of the System did not submit their financial statements where it has invested a total of P2.343\* billion as well as the detail of the accumulated equity in net losses of its subsidiaries and affiliates amounting to P544.797 million (refer to Note 12) to prove the correctness of the balances of the said accounts as at December 31, 2017.
	2. Moreover, no additional information to update the financial statements was provided to properly consolidate the financial information of its subsidiaries and affiliates contrary to paragraph 21 of PFRS 10 and Section 127 of PD 1445.
	3. Note 3.7 to the financial statements states that the System’s investments in subsidiaries and associates are accounted for under the equity method or cost method depending on whether the System has significant influence or not over the entity. Under the equity method, the System recognizes in its statements of income, its equity in the net earnings or losses of subsidiaries and associates since dates of acquisition. The difference between the System’s cost of such investments and its proportionate share in the underlying net assets at dates of acquisition is amortized using the straight-line method for a period of 20 years. Dividends received are credited to the investments account.
	4. Same note further states that the System does not prepare consolidated financial statements, as required by PFRS since majority of the audited financial statements of the System’s subsidiaries are not available because they are either closed or have ceased operations.
	5. The said justification is not among the conditions provided under paragraph 4 of PFRS 10 that will qualify the System for exemption from presenting the line by line consolidation of its financial statements with the financial statements of its subsidiaries.
	6. The System also failed to eliminate the parent and subsidiary reciprocal account balances of P33.693 million and its allowance for doubtful accounts of P16.189 million contrary to Paragraph 21 of PFRS 10, thereby overstating the net asset account balance as of December 31, 2017 by P17.504 million as follows:

|  |  |  |
| --- | --- | --- |
| **Subsidiaries and Affiliates/Controlled Entities** |  **2017** |  **2016** |
| Bay Resources Development Corp. (BRADCO) | 13,191,805 | 13,191,805 |
| Monterrosa Development Corp. (MDC) | 12,406,245 | 12,136,245 |
| Matrix Realty and Development Corp (MRDC) | 5,894,093 | 5,894,093 |
| Veterans Electronics Communications, Inc. | 1,768,761 | 1,768,761 |
| General Satellite Communications, Inc. | 53,615 | - |
| Cyquest, Inc. | 379,000 | - |
| **Total** | **33,693,519** | **32,990,904** |
| Allowance for doubtful accounts |  (16,189,214) |  (17,837,110) |
| **Overstatement** | **17,504,305** | **15,153,794** |

* 1. In view of the foregoing, the financial statements of the System do not present a true and reliable representation of its financial condition and the results of its operations as of and for the year ended December 31, 2017.
	2. **We reiterated our previous years’ recommendation that Management:**
		1. **Prepare the consolidated financial statements to include the assets, liabilities and results of operations of its subsidiaries in compliance with the provisions of PFRS 10;**
		2. **Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation; and**
		3. **Prepare the Statement of Affairs and the Statement of Realization and Liquidation of those subsidiaries and affiliates that are already closed and submit them to COA for audit until all its assets are realized; all its liabilities are settled; and the concerned subsidiaries and affiliates are fully liquidated/dissolved in accordance with the pertinent rules and regulations of Securities and Exchange Commission.**
	3. **Further, we also recommended to require the responsible official to account for and prepare the System’s subsidiaries and affiliates financial statements, otherwise, failure by the officials and employees to comply as such shall be subject to administrative disciplinary action under Section 127 of P.D. No. 1445.**
	4. Management commented the following:
		1. The System has not yet received the audited FS of the System’s actively operating subsidiaries and affiliates due to the following:
* The audit period runs from January to March of the following year;
* Inevitable year-end adjustments; and
* Review, availability and approval of the Board of Directors prior to issuance.
	+ 1. As regards Monterrosa Development Corporation (MDC), the company’s last audited financial statements was for the 2005 terminal audit done by the Commission on Audit (COA).
		2. The rest of subsidiaries where AFPRSBS has controlling interest are either closed and had ceased operations, therefore, the System can only provide the old financial statements. Relatively, the elimination of parent and subsidiary reciprocal account balance was not undertaken by the concerned units.
		3. Equity Investment in Management Department (EIMD) shall secure the last audited financial statements of seven companies as enumerated in paragraph 1.4 above from the Securities and Exchange Commission.
	1. By way of rejoinder on the contention that the System was precluded from consolidating its FS with its subsidiaries because it has not yet received the audited FS of SUMSI and ATEI, we stand otherwise. PAS 27 does not require the audited FS of a subsidiary before it can be consolidated to the FS of its parent.
1. **Foreclosed properties of the System consisting of a parcel of land and 329 condominium and hotel units amounting to P361.072 million were neither recorded in the books nor in the possession of the System as acquired assets despite the lapse of the one year redemption period in CY 2014. Thus, the System was deprived of any rentals, income and other benefit that can be derived there from, contrary to Paragraphs 5 and 16 of Philippine Accounting Standard (PAS) 40. Likewise, waived penalties amounting to P248.607 million were not capitalized as part of the outstanding commercial loan contrary to Paragraph 4.5 of the Amendment to the Loan Agreement dated 21 December 2001.**
	1. Paragraph 5 of Philippine Accounting Standard (PAS) 40 defines Investment property as:

*Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:*

1. *Use in the production or supply of goods or services of for administrative purposes; or*
2. *Sale in the ordinary course of business.*
	1. Paragraph 16 of PAS 40 states that:

*Investment property shall be recognized as an asset when, and only when:*

1. *it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and*
2. *the cost of the investment property can be measured reliably.*
	1. Likewise, the Certificate of Sale (COS) dated February 28, 2013 states that the period of redemption of the real properties foreclosed will expire one year from and after the date of registration of the COS with the corresponding Register of Deeds.
	2. Further, Paragraph 4.5 of the Amendment to Loan Agreement dated December 21, 2001 provides:

*That conditioned upon the faithful performance by the BORROWER of the terms and conditions of the loan and security documents, the LENDER hereby waives the payment of penalty charges in the amount of PESOS: TWO HUNDRED FORTY EIGHT MILLION SIX HUNDRED SIX THOUSAND SIX HUNDRED FIFTY THREE AND 86/100 (P248,606,653.86) which accrued as of 15 September 2001* ***provided that in the event the BORROWER fails to comply with any of the terms and conditions of the loan and security documents, all penalty charges waived shall be automatically reinstated without need of any notice or demand*** *to the BORROWER and shall form part of the RESTRUCTURED LOAN xxx.* (Emphasis supplied)

* 1. In CY 1996, the Board of Trustees of the System approved a P350 million loan to a corporation which is primarily organized to engage in the business of real estate development projects. The purpose of the loan was to partially finance the construction of the project.
	2. In CY 2001, the System restructured its commercial loan to the said corporation since the latter failed to comply with its contractual obligation to pay the loan amortization as they fall due amounting to P365.278 million. These were partially secured by an un-notarized Amendment to the Real Estate Mortgage over the unsold units of the project as well as the Joint and Several Suretyship (JSS) executed in CY 2002 by the spouses who are key officers of the corporation. However, the corporation failed to perform its obligation on the restructured loan.
	3. On November 23, 2012, 330 properties of the corporation were extra-judicially foreclosed for the sum of P361.072 million in favor of the System through the issuance of a COS dated February 28, 2013 with Foreclosure No. 12-3012 by the Regional Trial Court of Manila and then recorded in the Registry of Property on March 14, 2013.
	4. Hereunder are the properties covered with the foreclosure order:
1. Parcel of land where the project is situated with a Transfer Certificate of Title (TCT) No. - 219974; and
2. Condominium and Hotel Units under the Certificate of Condominium Titles (CCTs) shown in Annex A.
	1. Our audit revealed the following:
3. The corporation did not exercise its right to redeem the properties even after the redemption period had lapsed as stipulated in the COS which states that the period of redemption of the real properties described above will expire one year from and after the date of registration of the COS.
4. The System did not record in its books the foreclosed properties as acquired assets in the amount of P361.072 million. The Head of the Accounting Department (AD) reasoned out that the recording was not made in view of the system’s standard operating procedure (SOP) No. CPO-02-2016 dated April 2016 which delineate the performance of specific procedures on foreclosure to its various operating offices. Accordingly, the AD is required to close the account and record the newly-acquired asset after consolidation. This procedure is contrary to the provision of PAS 40.
5. The corporation’s loan account was understated by P248.607 million representing the waived penalties that did not form part of the restructured loan as a result of the corporation’s failure to abide by the terms and conditions of the Amendment to Loan Agreement dated December 21, 2001 which requires all waived penalty charges to be automatically reinstated without the need of any notice or demand and to be a part of the restructured loan amount. As at December 31, 2017, the corporation’s loan account amounted only to P465.521 million instead of P714.128 million, thus an understatement of P248.607.
6. The outstanding balance of the past due – commercial loan to the corporation should be valued at P353.055 million computed as follows:

|  |  |  |
| --- | --- | --- |
| **Account name** |  | **Amount** |
| Past due – commercial loan  | P | 465,521,317 |
| Add: Penalty waived |  | 248,606,654 |
| Less: Value of foreclosed property |  | (361,072,389) |
| **Adjusted past due – commercial loan** | **P** | **353,055,582** |

1. Moreover, inspection of the project revealed the following:
2. Two out of the three commercial units at the Ground Floor were leased out;
3. The 3rd floor parking slots were occupied or are being used;
4. Units 609 and 610 are being used by the corporation as its office;
5. Unit Nos. 1001A and 1401A are fully furnished and ready for occupancy, hence, can be used as income generating property; and
6. The certificates of condominium title (CCT) of the foreclosed properties are still in the name of the corporation pending consolidation.
	1. In view of the executed COS due to the non-fulfillment of the obligation of the corporation and other deficiencies noted above, the System has all the right to exercise its rights, title, interest and claim over the property of the corporation. However, as of audit date the physical possession of the properties as well as the right to receive rentals, income or other benefits were still retained by the corporationdepriving the System of any rentals, income and other benefit that can be derived there from.
	2. The System has endorsed the filing of appropriate action to place them in actual possession of the said properties to the Office of the Government Corporate Counsel (OGCC) on June 5, 2017.
	3. **We recommended that Management:**
7. **Adjust accordingly the unrecorded waived penalty to the outstanding past due – commercial loan to the corporation;**
8. **Reduce the past due – commercial loan to the corporation account by P361.072 million and record as investment property the newly acquired asset; and**
9. **Enforce collection of the adjusted past due balance of the commercial loan against the spouses who are key officers of the corporation in accordance with the JSS.**
	1. Management commented the following:
		1. As to restructuring agreement/amendment to the loan agreement, it is provided that the accumulated penalties in the total amount of P248.607 million would be waived conditioned upon the compliance by the corporation to the conditions of the loans (including the amortization payments for the balance of the loan), otherwise, all the penalty charges shall be reinstated and formed part of the restructured loan. Considering that the corporation failed to comply with the stipulated conditions for the effectivity of the waiver, then the penalty charges could now be added to the outstanding principal obligations as provided for in the amendment to the loan agreement. The Accounting Department will consider the recording of the waived penalties as an addition to the principal amount of the loan of the corporation in the 2018 financial statements. The documents and the previous recordings of the transactions will first be reviewed to ensure that related accounts will reflect the correct figures.
		2. With regard to the reduction of the past due commercial loan to the corporation by P360.072 million and recording the newly-acquired asset as Investment Property, the System will study further the recommendation taking into consideration the complaint filed by the corporation before the RTC of Manila.
		3. The System will exert effort to collect from the corporation of the deficiency. Referral and direct coordination will be made with OGCC on this regard immediately.
10. **The accuracy and validity of property and equipment (PE) accounts with a book value of P23.544 million (exclusive of Building amounting to P9.143 million) as at December 31, 2017 were doubtful mainly due to: (a) difference of P95.009 million between the general ledger (GL) and the subsidiary ledger (SL); (b) difference of P9.210 million between the report of physical count of the property, plant and equipment (RPCPPE) and accounting records; and (c) unserviceable assets in the amount of P2.128 million recorded under the PE account instead of Other Assets.**
	1. PAS No. 16 prescribes the accounting treatment for property, plant and equipment so that the users of financial statements can discern information about an entity’s investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.
	2. Paragraph 67 of the same PAS provides that the carrying amount of an item of property, plant and equipment shall be derecognized: (a) on disposal; or (b) when no future economic benefits are expected from its use or disposal.
	3. Item 4 of Section V of COA Circular 80-124 dated 18 January 1980 requires that:

*The inventory reports shall be prepared on the prescribed form (Gen. Form No. 41-A) and certified correct by the committee in charge thereof and approved by the head of the agency.* ***The reports shall be properly reconciled with accounting and inventory records****. (Emphasis supplied)*

* 1. The Handbook on Property and Supply Management System requires the proper reconciliation of the results of the actual inventory count of property with accounting records and any deficiency(ies) should be noted for appropriate action and/or investigation to settle the differences.
	2. Audit of the PE accounts disclosed that the System’s Integrated Financial Management System (IFMS) maintains SL for its PE accounts which are the basis of recording in the books by the Accounting Department (AD). The amounts reported in the IFMS were based on the January 31, 2014 balances and any transactions for the succeeding periods were maintained manually. Comparison of the GL balances for PE accounts with the total SL balances showed a difference of P95.009 million computed as follows:

|  |  |
| --- | --- |
| **Particulars** | **Cost** |
| General Ledgers (exclusive of Building Improvements) |  P 173,424,710 |
| Subsidiary Ledgers (exclusive of Building Improvements) | 78,415,771 |
| **Difference** |  **P 95,008,939** |

* 1. Likewise, comparison of the accounting records (excluding Building Improvements) with the RPCPPE showed a variance of P9.210 million, to wit:

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Book Value** | **RPCPPE Balance** | **Discrepancy** |
| Office Mach. & Equipment | P 19,345,936 | P 33,396,230 | P (14,050,294) |
| Transportation/Motor Vehicles | 8,708,178 | 5,635,013 | 3,073,165 |
| Office Furniture & Fixtures | 3,320,394 | 1,527,532 | 1,792,862 |
| Books & References | 6,414 |  - | 6,414 |
| No category | - | 31,893 | (31,893) |
|  | **P 31,380,922** | **P 40,590,668** | **P (9,209,746)** |

* 1. Review of the RPCPPE showed the existence of unserviceable assets totaling P2.128 million which remained recorded under the PE account instead of the Other Assets account, details are shown below:

|  |  |
| --- | --- |
| **Asset category** | **Amount** |
| Office machineries and equipment | P2,104,292 |
| Expendable asset | 23,132 |
| Office furniture and fixtures | 470 |
|  | **P2,127,894** |

* 1. Further, the following prior year’s audit observations still exist in CY 2017:
1. The following PE accounts were not properly classified to their appropriate asset accounts:

| **Particulars**  | **Amount** | **Appropriate Asset Account** |
| --- | --- | --- |
| 1. Office machineries and equipment includes IT resources composed of software, hardware and peripherals
 | 28,924,894 | IT Resources |
| 1. Expendable goods
 | 203,688 | IT Resources or Office Machineries and Equipment |
| 1. Software representing MS Office Professional 2010
 | 88,500 | IT Resources |
| 1. Transportation equipment includes tools, helmet and vacuum
 | 55,513 | Office Equipment |

1. Some of the values of the PE accounts were reported in the amount of P10 instead of their acquisition cost.
	1. Due to the unreconciled balances between the GL and SL, unreconciled RPCPPE with the accounting records, and some of the above listed deficiencies, the existence of assets and the correctness of the recorded PE account balances as of December 31, 2017 could not be ascertained.
	2. **We reiterated our prior year audit recommendations that Management:**
2. **Reconcile the difference between the GL and the SL both maintained in the IFMS and manually recorded;**
3. **Reconcile the RPCPPE with the Accounting records;**
4. **Reclassify all unserviceable assets to Other Assets account; and**
5. **Require the Inventory committee to account for and classify the items included in the RPCPPE according to the category used by the AD.**
	1. Management commented the following:
6. The inventory of the PE of the System is being maintained in the Legacy System. The available records in the Legacy System are only from 1996 to 2014. The acquisitions from 2015 to present is being monitored in an excel file. Since there are no available inventory records from the start of the operation of the System up to early 1996, it is difficult to reconcile the books and the SL.
7. The AD is trying to account for the transactions related to PE. The problems encountered, however, are the unavailability of the details of some acquisitions in the database. The only option is to retrieve the original vouchers that dates back to as early as 1980s. This will take time considering that the person handling the reconciliation is not doing it full time.
8. For the unserviceable assets, those expendable items were not included in the PE account. The costs were already expensed upon purchase. For the other items, these will be inventoried again and the corresponding costs will be determined instead of the book value of P10. The total amount of unserviceable assets will then be adjusted to Other Assets account.
9. The Inventory Committee will be conducting an inventory of the PE and the corresponding report will be classified according to the category used by the AD. At present, the System does not have an IT Resources account where it can record the IT-related assets. AD will consider using the account.
10. As regards the monitoring of all the PE accounts, AD sought the assistance of Management and Information Systems Office to enhance the existing PPE Inventory System to aide AD and General Services Department in the monitoring of the PE. This will require diligence of concerned units in updating the records.
11. **The existence, validity and accuracy of Cash in Bank accounts totaling P38.199 million as at December 31, 2017 could not be substantiated due to non-preparation/updating of Bank Reconciliation Statement (BRS) and the inclusion of bank account which was already closed thereby resulting to a discrepancy of P9.364 million between the bank confirmed amount and the GL balance contrary to Sections 63 and 74 of Presidential Decree (PD) No. 1445.**
	1. Section 63 of PD No. 1445 on the accounting for moneys and property received by public officials provides that:

*Except as may otherwise be specifically provided by law or competent authority all moneys and property officially received by a public officer in any capacity or upon any occasion must be accounted for as government funds and government property. Government property shall be taken up in the books of the agency concerned at acquisition cost or an appraised value.*

* 1. Section 74 of the same PD states that:

*Monthly reports of depositories to agency head. At the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.*

* 1. As at December 31, 2017, the System’s Cash and Cash Equivalent amounted to P32.097 million, of which Cash in Banks amounted to P38.199 million. To ascertain the accuracy of balances recorded in the books, confirmation letters were sent to the respective banks where the System maintains its fund. We noted that the bank confirmation for the five accounts maintained by the System disclosed a net discrepancy of P9.364 million, as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Bank** | **Latest BRS** | **Per book** | **Per bank**  | **Difference** |
| AFPSLAI - SA  | Dec 2017 | 10,453,704 | 10,453,704 | - |
| BDO -DRF - SA | May 2017 | 1,286,644 | 1,286,644 | - |
| BDO - CASA | Dec 2008 | (294,140) | 0.00 | (294,140) |
| LBP - CASA | May 2017 | 13,163,060 | 11,037,102 | 2,125,958 |
| DBP - CA | Dec 2016 | 13,589,513 | 6,057,099 | 7,532,414 |
| **Total** |  | **38,198,781** | **28,834,549** | **9,364,232** |

* 1. Our audit revealed the following:
1. Review of the BRS submitted disclosed that the monthly preparation of BRS was not consistently done by the Accounting Department (AD) but rather on an intermittent basis.
* The BRS of AFPSLAI account is being prepared on a quarterly basis since the only transaction affecting this account is the quarterly interest income earned.
* The BRS of BDO-DRF-SA and LBP accounts have only one BRS from January to May 2017.
* The BDO-CASA and DBP accounts have no BRS since 2009 and 2017, respectively.
1. With regard to the bank accounts in BDO-DRF-SA, LBP and DBP we noted the following:
* The reconciling items for CY 2017, such as outstanding checks, deposit in transit, stale checks, bank charges, credit and debit memos, interest income and error in recording were not recorded or adjusted in the books since the AD maintained a manually prepared journal entries. Thus, the AD failed to present the adjusted cash in bank balance both per book and per bank. Below are some of the adjustments that the AD should have recorded in order to arrive at the adjusted balance of cash in bank per Treasury Department’s (TD) reports, to wit:
* Stale checks of members/clients were cancelled in the IFMS but not reflected in the books:

|  |  |  |  |
| --- | --- | --- | --- |
| **Bank** | **No. of check/s** | **Period covered** | **Amount** |
| LBP | 5 | June to Dec 2017 | 12,022,675 |
| DBP | 132 | March to Dec 2017 | 96,406,489 |
| **Total** | 137 |  | 108,429,164 |

* Collections amounting to P7,434,781 from clients through checks covered by 115 official receipts for the CY 2017 were returned or not cleared by the bank due to closed or drawn against insufficient fund accounts:
1. Closed bank account with a negative balance of P294,140 remain in the books as at December 31, 2017.
	1. The non-preparation of monthly BRS as well as inaccurate bank reconciliation by the AD resulted to a discrepancy of P9.364 million contrary to Sections 63 and 74 of PD No. 1445.
	2. **We recommended that Management:**
2. **Reconcile the balances of the accounts and make the necessary adjustments in the books; and**
3. **Prepare the monthly BRS properly for all bank accounts maintained by the System.**
	1. Management commented the following:
4. In 2017, there was a delay in the preparation of BRS for the major depository banks of the System due to the leave of absence/resignation of personnel in-charge of the same. The preparation of the BRS for BDO-DRF, LBP, and DBP was fast tracked in early 2018. Some of the personnel were tapped to prioritize the bank reconciliations and one replacement personnel was hired in March 2018 whose primary tasks involve preparation of the BRS.
5. For the BDO-CASA that was closed already, the book balances cannot be closed yet since the preparation of the BRS is not yet finished. The BRS available is as of 31 October 2013. There is still an un-reconciled 2011 beginning balance in the BRS since the 2009-2011 BRS is yet to be prepared. There is difficulty in the preparation of the BRS due to the computer crash in 2012 that resulted in unreliable database records. The Accounting Department, however, will continue to reconcile the bank account until such time that all transactions are accounted for.
6. Further, AD will exert all its efforts to ensure that BRS will be prepared on a monthly basis for all the depository banks.
7. **Compliance Audit**
8. **Refund of members’ contributions (MCs) inclusive of interest resulted in an overpayment of P6.007 million for 100 samples amounting to P17.103 million. The payments were based on an incomplete and unreliable records of the System contrary to paragraphs 4.46 and 4.49 of the Conceptual Framework for Financial Reporting, Section 4 of Presidential Decree (PD) 361, as amended by PD 1656, System’s Standard Operating Procedure Nos. 11-92 and MAG-96-05-001 dated 25 February 1992 and 22 April 1996, respectively, and AFPRSBS’ BOT Meeting No. 8 dated 4 November 2010.**
	1. Paragraphs 4.46 and 4.49 of the Conceptual Framework for Financial Reporting specifically provides for the recognition of liabilities, to wit:

*A liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which settlement will take place can be measured reliably*.

*Expenses are recognized in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or decrease in assets xxx.*

* 1. Section 4 of Presidential Decree (PD) 361 dated 30 December 1973, as amended by PD 1656 dated 21 December 1979 provides the guidelines for the refund of members’ contributions (MC), to wit:

*Officers and enlisted personnel in the active service of the AFP shall contribute monthly to the System an amount equivalent to five percent (5%) of their monthly base pay, which contribution shall be deducted from their pay by the Armed Forces of the Philippines and paid to the System: Provided, That* ***any officer or enlisted personnel who is separated or retired shall upon his separation or retirement be refunded in one lump sum all his contributions to the System****: Xxx.* (Emphasis supplied)

* 1. The System through its Board of Trustees (BOT) issued BOT Meeting No. 8 dated November 4, 2010, guidelines on the computation of interest on the MCs, based on six per cent simple interest per annum on members’ contributions from January 1, 1992 onwards, effective January 1, 2011.
	2. The MCs are recorded in the books as liability under MC Payable account which should be returned/refunded to members including earned interests upon their retirement. However, the collection of MCs was stopped and its interests were accrued until March 31, 2016 in view of the impending abolition of the System under the Memorandum Order No. 90 dated April 8, 2016 of the Office of the President.
	3. One of the documentary requirements in recording the MCs is the proof of remittance by the AFP to the System containing, among other information, the members’ basic salary and the corresponding five per cent contribution of their monthly base pay.
	4. The System maintains the individual Member Contributions Ledger (MCL) in the IFMS. Included therein, the information for each member shows the list of their MCs, the date of collection and the official receipt serial numbers.
	5. Out of the 989 MCs refund transactions for the first quarter of CY 2017, 100 samples amounting to P17.103 million was selected and audited. As shown in the table below, the System overpaid its members in the total amount of P6.007 million:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  **Per Statement of** **Refund** | **Per Audit** | **Overpayment** |
| Principal | 12,082,244 | 9,423,524 | 2,658,719 |
| Interest | 5,021,244 | 1,672,536 | 3,348,708 |
| **Total**  | **17,103,488** | **11,096,060** | **6,007,427** |

* 1. Our audit revealed the following:
1. Contributions of some members amounting to P2.659 million without proofs of remittances were posted in the IFMS. The Membership Department assumed that these MCs were remitted by the AFP and received by the System on time. To support this, the System submits on its letter dated September 15, 2017 that the Finance Center Philippine Army issued a Certification citing that the System’s MCs was deducted from the Pay and Allowances of concerned members as evident by Official Statement of Earning and Deductions of a member.
2. For the 100 samples, the reckoning date of the accrued interests’ computation was the month to which the contributions were supposedly made and not the actual date the contributions were received and receipted by the System. This error in computation resulted to an overpayment of P3.349 million.
3. The System has not set a policy on the schedule of remittance of MCs by the AFP. As a result thereof, the time of remittance depends upon the sole discretion of the AFP.
4. Moreover, the System does not maintain a registry of all of its members which should have been the basis in billing the AFP, thus, the completeness and correctness of the remittances could not be ascertained.
	1. Thus, the above-stated liabilities recorded in the books of accounts do not meet the recognition criteria of liabilities in Conceptual Framework for Financial Reporting.
	2. **We recommended that Management:**
5. **Provide proof of collection on the remittance of P2.659 million by AFP to the System to ensure the correctness of the refund made to the members or their authorized representative, as the case may be;**
6. **Recover the excess refund of MCs and the interest paid from concerned members or AFP;**
7. **Accrue interest on all of its members’ contribution at the time it has been received/collected; and**
8. **Henceforth, ensure the propriety of the amount to be refunded to members at all times.**
	1. Management explained that the deficiencies noted above were due mainly to the limitations, constraints and inefficiencies of the IFMS, as well as, lack/unavailability of physical records and data.
	2. As an audit rejoinder, we further recommended that Management compute for the right refund of MC, inclusive of interest.
9. **Only P40.50 million or 15.30 per cent of the total PE amounting to P265 million were insured with the Government Service Insurance System (GSIS) contrary to Section 5 of Republic Act No. 656, thus, exposing the System to great losses in case of fire, earthquake, storm and the incurrence of other casualty.**
	1. In order to indemnify or compensate the Government for any damage due to, or loss of its properties due to fire, earthquake, storm, or other casualty, Section 5 of Republic Act (RA) No. 656 otherwise known as the Property Insurance Law requires that:

*Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable* **risk herein provided and pay the premiums thereon, xxx.**

* 1. In CY 2017, the System has insured part of its PE in the amount of P40.517 million with GSIS for P100,162 for Building and Building Improvements and Information Systems and Technology covering the period August 8, 2017 up to August 8, 2018. On the other hand, various Transportation Equipment were also insured upon registration or renewal of registration.
	2. Below is the list of property and equipment that were insured by the System:

|  |  |  |
| --- | --- | --- |
| **Property Insured** | **Insurance** **Coverage** | **Insurance Premiums** |
| Building and Building Improvements | 32,556,025 |  |
| Information Systems & Technology |  3,389,743 | 76,205 |
| Transportation/Motor Vehicles |  4,571,650 | 23,957 |
|  | **40,517,418** | **100,162** |

* 1. Shown below are the valuations of System’s PE as of CY 2016:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Classification** | **Acquisition Cost** | **Allow. For Depreciation** | **Net Book Value** |
| Building/Structures | 91,429,579 | 82,286,621 |  9,142,958 |
| Office Machineries & Equipment | 149,058,691 | 128,571,621 | 20,487,070 |
| Office Furniture & Fixtures | 15,714,472 | 12,344,996 |  3,369,477 |
| Building Improvement |  - |  - | - |
| Books and References | 158,491 | 152,880 |  5,611 |
| Transportation/Motor Vehicles | 8,283,853 | 7,413,035 |  870,817 |
|  | **264,645,086** | **230,769,153** | **33,875,933** |

* 1. An audit of the above-shown table revealed the following deficiencies:
* Office Machineries & Equipment, Office Furniture & Fixtures, and Books and References accounts with a net book value of P23.862 million were not included in the list of property and equipment insured with the GSIS; and
* Management did not maintain separate account for information technology with an insured value of P3.390 million.

* 1. Foregoing considered, the System may not be indemnified in case of destruction, damages to, or loss of its property through fire, flood, theft or other fortuitous events for the total value of the uninsured property and equipment.
	2. **We recommended that Management insure all the System’s property and equipment with GSIS pursuant to RA No. 656.**
	3. Management commented the following:
1. The Management has decided to forego the insurance of Office Machineries and Equipment (OME), Office Furnitures and Fixtures (OFF), and Books and References since mostly have depreciated in their value being old, obsolete, dilapidated, or otherwise needing replacement. This decision was made during the period to cut unnecessary costs and foregoing insurance is conclusively the best choice for the aforementioned reasons. Further, there is an on-going reconciliation of the books and the PPE schedule by Accounting Department and the PPE Inventory Committee. A physical count will again be made to determine the properties that are not yet fully depreciated and the physical condition of the same.
2. Those Office Machineries and Equipment and Office Furniture and Fixtures that will be identified as still in good condition and are not fully depreciated will be included in the insurable properties in the next renewal of insurance. The remaining Books and References were not insured anymore since some are already outdated.
3. A review of the book balances of the PPE-related accounts will be made to determine its correctness or any understatement in the depreciation.
4. **Transfer Certificate of Titles (TCTs) of various assets recorded under the Investment in Real Estate and Acquired Assets accounts in the total amount of P6.885 billion were not yet consolidated in the name of the System, thus, the interests over these assets are at risk for fraud, dispute and encroachment by trespass in the boundaries. Moreover, in view of the issuance of Memorandum Order No. 90, s. 2016 directing the sale of its real estate assets in line with its winding down activities, the System may not be able to sell or may delay the sale of its real estate assets without TCTs.**
	1. Land title is the evidence of right of the owner or the extent of his interest, and by which means he can maintain, control and as a rule assert right to exclusive possession and enjoyment of the property. Ownership of real property is established through the issuance of an official certificate indicating the name of the individual in whom such ownership is vested.
	2. Memorandum Order (MO) No. 90, s. 2016 issued by the Office of the President directed the abolition of the System.
	3. As at December 31, 2017, the System has 62 projects under Investment in Real Estate (IRE) and Acquired Assets (AA) amounting to P6.429 billion and P456 million, respectively.
	4. Inventory of the TCTs currently under the custody of the Internal Records Management Department (IRMD) which supports the IRE and AA revealed a total of 7,056 TCTs amounting to P6.885 billion, to wit:

|  |  |  |  |
| --- | --- | --- | --- |
| **Account** | **Amount** | **Number of TCTs counted** | **Remarks** |
| Investment in Real Estate | P 6,429,293,776 | 4,150 | Registered under the name of AFPRSBS |
| 1,422 | Registered to original owners |
| 153 | Registered both with the Developer and AFPRSBS |
| Acquired Assets | 455,882,451 | 622 | Registered under the name of AFPRSBS |
| 709 | Registered to original owners |
|  | **P 6,885,176,227** | **7,056** |  |

* 1. In previous years’ Annual Audit Reports, we recommended that Management facilitate the immediate consolidation of the TCTs not yet registered in the name of the System to protect its interest.
	2. In the Agency Action Plan and Status of Implementation of audit recommendations for CY 2016, Management commented that Property Management Enhancement Department (PMED) endorsed to the Legal Department the subdivision of Lot Nos. 1959-B and 2173-D (SLS Project). While some lots are still in the seller's name because they are not yet converted from agricultural lands to residential lands.
	3. Records of various properties show that consolidation of titles from the original owner to the System has been slow, considering that some of the properties have been acquired since 1996 or more than 20 years ago.
	4. Out of the 7,056 TCTs counted on various projects, 2,131 TCTs or 30 percent have legal issues on ownership. Deficiencies in documentation and encumbrances on the titles have further delayed the process of consolidation in favor of the System. Also, acquired lots are still registered under the names of the previous owners since they are supported by un-notarized Deeds of Absolute Sale (DAS).
	5. The remaining 2,131 IRE and AA TCTs which are not in the name of the System are listed in Annex B.
	6. The foregoing deficiencies hinder or slow down the consolidation of the said assets, thus, the System’s interests over these assets are at risk of fraud, dispute and encroachment by trespass in the boundaries. Ultimately, the abolition of the System as directed by the President of the Philippines may not be fully attained.
	7. **We reiterated our previous recommendation and Management agreed to require the concerned department/division to expedite the process of consolidating the titles in favor of the System to safeguard its ownership and facilitate its easy disposal in pursuance to the winding down activities.**
1. **Eighteen contracts amounting to P30.723 million entered into by the System with various suppliers and service providers were submitted to the Auditor beyond the reglementary period contrary to Section 39 of P.D. No. 1445 and the pertinent COA rules and regulations.**
	1. Section 39 of PD No. 1445 states that the Commission on Audit shall have the power, for the purpose of inspection, to require the submission of the original of any order, deed, contract, or other document under which any collection of, or payment from, government funds may be made, together with any certificate, receipt, or other evidence in connection therewith. It shall be the duty of the officials under audit or employees concerned to comply promptly with these requirements. Any unjustified failure or refusal of the officials and employees concerned to comply with the requirements herein imposed shall be *subject to the administrative disciplinary action provided in (a) Section 127 of Presidential Decree No. 1445; (b) Section 55, Title I-B, Book V of the Revised Administrative Code of 1987; and (c) Section 11 of Republic Act No. 6713.*
	2. Section 3 of COA Circular No. 2009-001 on Submission and Review Process states that:

*Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned.*

* 1. The Annual Procurement Plan for CY 2017 showed that the System allotted the amount of P78.936 million for the procurement of the following infrastructure and various goods and services:

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Mode of Procurement** | **No. of Projects** | **Amount** |
| Goods and Services | Public bidding | 9 | P 25,015,000 |
| Infrastructure | Public bidding | 8 | 28,130,000 |
| Goods and Services | Alternative method | 24 | 24,941,430 |
| Infrastructure | Alternative method | 5 | 850,000 |
| **Total** |  | **46** | **P 78,936,430** |

* 1. In compliance with the above requirements, Management submitted copies of approved/notarized contracts to the COA Audit Team only during the audit period and no contracts were submitted within five working days from their execution. Of the 46 contracts executed during the year, only eighteen contracts amounting to P30.723 were submitted by Management. The timely auditorial, legal and technical review were not conducted by COA.
	2. **We recommended and Management agreed to require the officials concerned to comply strictly with the provisions of COA Circular No. 2009-001 for the prompt submission of contracts and their supporting documents so that the auditorial, legal and technical reviews can be conducted timely. Otherwise the officials and employees concerned who failed to comply the said directive shall be subject to administrative disciplinary action provided in (a) Section 127 of Presidential Decree No. 1445; (b) Section 55, Title I-B, Book V of the Revised Administrative Code of 1987; and (c) Section 11 of Republic Act No. 6713.**
1. **Relevant provisions of the Revised Implementing Rules and Regulations (RIRR) of RA 9184 were not complied for five reviewed contracts amounting to P9.272 million, thus the procurement timelines were not observed.**
	1. The following pertinent provisions of the RIRR of RA 9184 states that:

 *Section 22.1*

*For contracts to be bid with an ABC of One Million Pesos (P1,000,000.00) or more, the BAC shall convene at least one (1) pre-bid conference to clarify and/or explain any of the requirements, terms, conditions and specifications stipulated in the Bidding Documents. Xxx.*

 *Section 22.4*

*The minutes of the pre-bid conference shall be recorded and prepared not later than five (5) calendar days after the pre-bid conference, and shall be made available to prospective bidders not later than five (5) days upon written request. Decisions of the BAC amending any provisions of the Bidding Documents shall be issued in writing through a Supplemental/Bid Bulletin at least seven (7) calendar days before the deadline for the submission and receipt of bids.*

 *Section 25.2.a(2)*

*Each of the documents submitted in satisfaction of the bidding requirements is an authentic copy of the original, complete, and all statements and information provided therein are true and correct.*

 *Section 37.1.6*

*The BAC, through the Secretariat, shall post within three (3) calendar days from its issuance, the Notice of Award in the PhilGEPS, the website of the Procuring Entity, if any, and any conspicuous place in the premises of the Procuring Entity.*

 *Section 37.2.1*

*The winning bidder shall post the required Performance Security and enter into contract with the Procuring Entity within ten (10) calendar days from receipt by the winning bidder of the Notice of Award.*

 *Section 37.3*

*Contract Approval by Higher Authority. When further approval of higher approval is required, the approving authority for the contract or his duly authorized representative shall be given a maximum of twenty (20) calendar days from receipt thereof to approve or disapprove it. In the case of GOCCs, the concerned board or its duly authorized representative shall be given a maximum of thirty (30) calendar days from receipt thereof to approve or disapprove it.*

 *Section 38.1*

*The procurement process from the opening of bids up to the award of contract shall not exceed three (3) months, or a shorter period to be determined by the procuring entity concerned. Xxx.*

 *Section 39.1*

*To guarantee the faithful performance by the winning bidder of its obligations under the contract in accordance with the Bidding Documents, it shall post a performance security prior to the signing of the contract.*

 *EO 398 (4.1)- Mandatory EFPS Filing:*

*Effective 1 April 2005, all prospective participants to any government procurement of goods and services are mandated to file their income and business tax returns and other required information electronically using the Electronic Filing and Payment system (EFPS).*

* 1. Review and evaluation on the five sampled contracts for goods and services procured by the System in CY 2017 amounting to P9.272 million disclosed non-compliance with the provisions of the RIRR of RA 9184, summarized as follows and shown in details in Annex C.

*Sec. 22.1*

* *Non pre-bid occurrence;*

*Sec. 25.3 (c)*

* No RIV was prepared, instead the Head GSD will notify the President, COO, Head CGS & Chairman BAC that a certain Service/s will expire and recommend that a public bidding be conducted;
* Invitation to bid, performance security and audited financial statements were not attached;
* Notice of Award not received and signed “CONFORME” by the bidder;
* Notice to Proceed - with signature in the “CONFORME” but no date affixed thereon;
* Contract not signed “RECEIVED” by the winning bidder;
* Minutes of Public Bidding were not attached on the documents submitted for review;

*Sec.37.1.6*

* 58 days delayed in the posting in PhilGEPS and conspicuous places of NOA.

*Sec.37.1.6*

* 53 days delayed in the PhilGEPS postings and/or conspicuous places;

*Sec.37.3*

* Contract was signed/notarized 7 days after receipt of NOA instead of within 30CD for GOCC;

*Sec.38.1*

* Opening of bids & awarding of contract was 38 days beyond the validity period;

*Sec. 39.1*

* Likewise, posting of Performance Bond/Security from receipt of NOA was 12 days over the validity period;

*EO 398*

* Non-use of EFPS in filing and payment of business tax returns.

*Annex C*

* Procurement timelines set under Annex C of RA 9184 was not followed;
	1. **We recommended and Management agreed to strictly comply with the pertinent provisions embodied in RIRR of RA 9184, except with the timelines provided for in the Annex C thereof.**
	2. We maintain our position that each procurement activity level has its own specific period which should be observed even if the procurement process was done within the 136 CDs allowable period.
1. **Lease contracts with 14 lessees of the Industrial Park Management Office (IPMO) and SUMSI are not renewed contrary to Article 1403 of RA No. 386 and COA Circular No. 88-282A, thus, prejudicial to the interest of the System.**
	1. Article 1403 of RA No. 386, otherwise known as the New Civil Code of the Philippines provides that:

*The following contracts are unenforceable unless they are ratified: xxx*

*(2) Those that do not comply with the Statute of Frauds as set forth in this number. xxx*

1. *An agreement for the leasing for a longer period than one year, or for the sale of real property or of an interest therein; xxx.*
	1. Paragraph 2.1 of the lease contract provides:

*Only one automatic renewal/extension of term. Upon the expiration of the term of lease xxx, be automatically renewed/extended only once for a period of* ***one year.***

* 1. Section 2 of COA Circular No. 88-282A dated March 3, 1988 provides further that:

*The contract of lease shall be embodied in a public instrument and shall integrate all the covenants, understanding and agreements of the lessor and the lessee. Xxx. (Emphasis ours)*

* 1. The IPMO of the System, located in Taguig City, was acquired through a land grant by virtue of Proclamation No. 1218 dated May 8, 1998 issued by then President Fidel V. Ramos. Currently, the System leases the IPMO’s facilities and open spaces to several lessees. The list of tenants as of December 31, 2017 showed that there are 21 facilities which are all occupied.

* 1. Review of the lease contracts on the 21 facilities disclosed that 14 contracts are not renewed for the year 2017, details of which are as follows:

|  | **Lessee** | **Area (Sq.m)** | **Contract amount** | **End of contract of lease term** | **Expiration of extended lease term** |
| --- | --- | --- | --- | --- | --- |
| 1 | Broadchem Philippines Biopharma Corp | 200 |  P 44,000  | February 28, 2016 | February 28, 2017 |
| 2 | Cavalino, Inc. | 376 |  30,080 | July 2, 2016 | July 2, 2017 |
| 3 | Foundation For Resources Linkage and Development Inc. | 200 |  16,000  | April 19, 2016 | April 19, 2017 |
| 4 | High Performance Solution, Inc. | 1,050 |  141,492  | October 31, 2015 | October 31, 2016 |
| 5 | Meat Plus Specialist Phils. Inc. | 111.30 | 18,366 | April 30, 2016 | April 30, 2017 |
| 6 | Meat Plus Specialist Phils. Inc. | 250 | 31,250 | April 30, 2016 | April 30, 2017 |
| 7 | Meat Plus Specialist Phils. Inc. | 113 | 28,178 | April 30, 2016 | April 30, 2017 |
| 8 | Excellent People's Multi-Purpose Coop. | 71 |  16,330  | November 30, 2016 | No provision for extension |
| 9 | Excellent People's Multi-Purpose Coop. | 75 |  22,500  | July 31, 2017 | No provision for extension |
| 10 | Excellent People's Multi-Purpose Coop. | 80 |  24,000  | January 31, 2017 | No provision for extension |
| 11 | Men in Blue Security Services, Inc | 150 |  51,750  | July 31, 2016 | No provision for extension |
| 12 | Outsourcing and Manufacturing Solutiom, Inc. | Open space | 109,704 | July 31, 2017 | No provision for extension |
| 13 | Outsourcing and Manufacturing Solution, Inc. | 4,896 | 734,400 | July 31, 2017 | No provision for extension |
| 14 | Southern Utility Management Services, Inc | - | 1,200,000 | December 31, 2016 | No provision for extension |

* 1. As can be gleaned from the above table, seven lessees did not renew their lease contracts with the System despite the expiration of the “one-time” one-year automatic extension of the lease term but they continued to pay the monthly rentals based on the old rate. While the other seven lessees still occupy and pay the rentals of the facilities even after the lease contracts expired.

* 1. An inquiry with the Property Management and Enhancement Department (PMED) disclosed that the execution of new/renewal of lease contracts was put on hold due to an on-going negotiation with a prospective long term lessee.
	2. To better protect the System’s interest, it is imperative that it should execute lease contracts whenever it enters into lease agreements with third parties.
	3. Hence, the subject leases are unenforceable pursuant to Article 1403, Chapter 8 of the New Civil Code of the Philippines and Section 2 of COA Circular No. 88-282A, thus, prejudicial to the interest of the System.
	4. **We recommended that Management:**
1. **Execute a duly signed and notarized lease contract before turning over the property to a lessee in compliance with Article 1403 of RA No. 386 and COA Circular No. 88-282A;**
2. **Ensure that for renewals of lease contracts, a new contract should be executed by the System either with the existing lessee or a new tenant prior to the expiration of the lease term with the former; and**
3. **Strictly monitor the observance and implementation of the stipulations in the lease contracts for the benefit of the System.**
	1. Management commented the following:
4. In lieu of lease contracts, a letter informing each lessee of the one-month extension is issued by the System pending finalization of negotiations for the lease of the entire Industrial Park Management Office with a prospective lessee.
5. The contract with the new lessee is already being drafted which will cover the entire area currently being occupied by the aforementioned various lessees.
6. The imposition of penalties is applied for late payments as stipulated in the contract and is reflected in the Statement of Account / Billing of tenants.
7. **Performance Audit**
8. **The System’s limited working capital of P563 million may result in its inability to refund in lump sum the total contributions including earned interest to the officer or enlisted personnel upon separation or retirement from military service under Section 4 of PD No. 361 as amended by PD Nos. 1656 and 1909 or upon liquidation of the System due to the issuance of MO No. 90 dated April 8, 2016 whichever comes first, since the related accumulated members’ contributions payable as at December 31, 2017 amounts to P10.244 billion.**
	1. Section 4 of PD No. 361 as amended by Section 1 of PD No. 1656 states that:

 *Officers and enlisted personnel in the active service of the AFP shall contribute monthly to the System an amount equivalent to five per cent of their monthly base pay, which contribution shall be deducted from their pay by the Armed Forces of the Philippines and paid to the System: Provided, that any officer or enlisted personnel who is separated or retired shall upon his separation or retirement be refunded in one lump sum all his contributions to the System: Provided, further, that such contributions shall be tax deductible for purposes of individual income tax return.*

 *While Section 2 of PD 1909 provides that:*

 *The System shall forthwith support the payment of the increment representing the difference between the existing pension rate and the adjusted pension rate computed on the basis of the prevailing scale of pay officers and enlisted men in the active service: Provided, that payment thereof by the System and receipt of the adjusted pension shall be in accordance with the rate of pension and schedule of payment as shall be determined and fixed under the implementing rules and regulations promulgated by the Chief of Staff, Armed Forces of the Philippines, and approved by the Minister of National Defense: Provided, Further, that nothing herein shall be construed as authorizing payment of back pension prior to the promulgation of this Decree.*

* 1. Working capital is a financial metric which represents operating liquidity available to a business, organization or other entity, including government entity. It measures both a company’s efficiency and its short term financial health. A company can be endowed with assets and profitability but short of liquidity if its asset cannot readily be converted into cash. Positive working capital is required to ensure that a company is able to continue its operation and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses.
	2. Favorable key financial ratios are positive trends signifying stability. With three years comparison, the System is operating on a positive working capital, as its current assets exceeded its current liabilities as shown in the following table:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  **2017** | **2016** | **2015** |
|  | (in million pesos) |
| **Current Assets:** | **1,850** | **2,274** | **3,737** |
|  | Cash and cash equivalents | 42 | 589 | 117 |
|  | Short-term investments-net | 901 | 755 | 2,821 |
|  | Receivables – net | 539 | 515 | 186 |
|  | Current portions of loans receivable | 333 | 383 | 593 |
|  | Other current assets | 35 | 32 | 20 |
| **Current Liabilities:** | **1,287** | **1,386** | **1,203** |
|  | Accounts payable and accrued exp. | 556 | 519 | 522 |
|  | Members’ contributions payable | 529 | 611 | 483 |
|  | Current portion of estimated liability on earnings of MCs | 202 | 256 | 198 |
| **Working Capital** | **563** | **888** | **2,534** |

* 1. The System posted a positive working capital since the bulk of its current assets pertain to short term investment. However, with the issuance of MO No. 90 by the President of the Philippines, dated April 8, 2016, directing the abolition of the System, there is a possibility that it may not be able to meet its maturing obligations such as the payment of refund of the System members’ contributions as they fall due inclusive of interest which may not be advantageous to its members contrary to Section 4 of PD No. 361 as amended by PD No. 1656 and 1909.

* 1. The System is now paying its members the refund of contribution plus interest earned averaging P206 million quarterly or an estimated P825 million a year. In addition, the members’ contribution payable composed of current and non-current amounted to P10.244 billion as compared to the limited working capital of P563 million as at December 31, 2017, thus, the System may not be able to fulfill its mandate to the soldiers/members who are the real beneficiaries of the funds of the System.
	2. **We reiterated our previous recommendation that Management continuously work towards conversion of the majority of the investments in real estate, acquired assets into cash and investments in government marketable securities which are easily convertible to cash. Likewise, pursue collections of all indebtedness due to the System so that it can return to the soldiers/members their contributions upon liquidation of the System or upon retirement/separation whichever comes first.**
	3. Management commented the following:
		1. The System has already started the Bidding Process of the major assets of the System. The P13.568 billion Members’ Contributions Payable to the members as of February 28, 2018 shall be paid out of the proceeds from sale of the real estate properties and equity shares. The Board of Liquidators (BOL) approved the award of sale last March 22, 2018 on of the following properties:

|  | **Real Estate Assets for Auction**  |  **Award of Sale** |
| --- | --- | --- |
| 1. | Green Meadows Iloilo | P 1,251,000,000 |
| 2. | Lot 1979-I, Sta. Rosa, Laguna  | 23,641,200 |
| 3. | Lot 1981-A, Sta. Rosa, Laguna | 10,500,000 |
| 4. | Lots 6B/6C/6D, Aseana City | 3,316,509,038 |
| 5. | Lot 6E, Aseana City  | 1,794,344,509 |
| **Total** | **P 6,395,994,747** |

* + 1. The foregoing assets are payable in cash within 30 days except for Green Meadows Iloilo which is payable in three years at an interest rate of four per cent per annum.
		2. With the award of the sale, the estimated fund that will be available to the members will be:

|  |  |
| --- | --- |
| **Particulars** | **Amount** |
| Cash & Cash Equivalents (as of February 2018)  | P 249,494,857 |
| Short-Term Investments (as of February 2018)  | 889,115,239 |
| Long-Term Bonds/Commercial Papers (as of February 2018) |  5,353,920,701 |
| Proceeds from sale of assets (As of April 2018) | 5,144,994,748 |
| **Total** | **P 11,637,525,545** |

* + 1. Awaiting GCG approval is the disposal of System’s 58 per cent share in the St. Michael Towers Condominium. The Terms of Reference (TOR) has already been approved by the System’s BOL and has already been submitted to GCG.
		2. The long-term bonds/commercial papers being held by the System may have longer maturity dates but these can be easily converted to cash as the need to immediately refund the contributions of the members arises.
		3. As regards EIMD, the Bidding Process for SUMSI has also started. The Minimum Bid Price at which the shares of SUMSI are to be sold is pegged at P30 million.
		4. The System is conducting valuation reports which will be the basis of BOL and GCG approval to sell our shares by public auction for Enchanted Kingdom Holdings, Inc. (EKHI), Marilaque Land, Inc. (MLI) and Eastridge Golf Club, Inc. (EGCI). The sale of equity shares and the remaining real estate properties shall augment the total assets of AFPRSBS while diminishing liabilities, thus, settling the obligation to the members and improving the Working Capital of AFPRSBS prior to its formal closure.
		5. The System will also be working on the sale of some of its receivables to generate additional cash.
	1. As an audit rejoinder, considering the need for at least P13.568 billion for the estimated liabilities for members’ contributions and other liabilities, the sale of asset totaling P6.396 billion the System still needs P7.172 billion as of February 2018.
	2. **Aforesaid considered, we further recommended that Management hasten the sale or divestment of the remaining equity shares and real estate properties to expedite the liquidation process in fulfillment of MO 90.**
1. **The System did not exercise due diligence and did not consider the limitations on the right of property ownership established by law in the acquisition of various real estate and assets as evidenced in the existence of various vast assets that remained idle and where no income were produced therefrom, thereby increasing the risk of losing its properties and monetary burden which is disadvantageous to the government and is repugnant with the mandate of Section 2 of P.D. No. 1445.**
	1. Section 2 of PD 1445 confers upon the Head of the Agency the fiscal stewardship of government resources to ensure that all resources of the Government shall be managed with a view of ensuring efficiency, economy and effectiveness in its operations.
	2. The Steward Concept of property ownership is a legal doctrine which holds that property ownership presupposes concomitant obligations to the state and the community and that property is supposed to be held by the individual only as trustee for people in general; and that as mere steward, the property owner must exercise his rights to the property not just for his own exclusive and selfish benefit or interest but for the good and general welfare of the nation as a whole.
	3. In the light of the foregoing, a reasonable prudent buyer should seek legal representation and retain property advisors that may help him decide on whether or not to proceed with a particular real estate transaction. Likewise, it is a must to take necessary precautions such as ensuring a feasibility study and conduct of survey to help ensure the habitability of the prospective property.
	4. As at December 31, 2017, the total Investment in Real Estate of the System is P6.409 billion representing 40 per cent of its total assets of P16.169 billion. The System has 30 projects under Investment in RE account grouped in eight classifications as follows:

|  |  |
| --- | --- |
| **Classification** | **No. of Projects** |
| On Base Housing Project | 1 |
| Off base Housing Project | 1 |
| Memorial Park | 2 |
| Residential Subdivision | 11 |
| Commercial Subdivision | 4 |
| Golf Course | 2 |
| Sports and Country Club | 1 |
| Landbanking | 8 |
|  | **30** |

* 1. The Audit Team conducted ocular inspection on three accounts under Investment in Real Estate with net carrying values of P1.148 billion or 18 per cent of the total Investment and noted the following observations:
1. As regards the property in Tanauan, Batangas, where the original intent of the management is to have a housing project, they failed to consider the topographical location in acquiring the various lands. Some were located in a strongly sloping hill to mountainous landscape susceptible to soil erosion due to steep slope. The locations of these properties in mountainous areas can only be viewed from a distance because of the sloping hills which could be dangerous and can lead to erosions in the future. Likewise, Bgry. Malaking Pulo covered by TCT No. 65970 containing an area of 14,686 sq.m., a triangular in shape is situated back-to-back with National Housing Authority property with no perimeter fence therefore cannot be safely guarded from encroachment by NHA residents.
* The list of inventories of Agricultural Lots was compared against the vicinity map and it was showed that some of the locations were interchanged which may result to misleading information. To wit: Brgy. Malaking Pulo with TCT No. 65237 containing an area of 15,380 sq.m. is actually Brgy. Sulpoc. Likewise. Brgy. Jacoba with lot numbers 6546-A, 6525-A and 6525-B is also Brgy Sulpoc, while Brgy. Sulpoc with an area of 7,635 sq.m. is actually Brgy. Jacoba.
1. As regards the Eastridge Golf Course and Estates and Eastridge Golf and Club Subdivision (EGCS II), these subdivided lots at EGCS II were not yet titled and was not even resurveyed to determine whether or not it is habitable. Some of the subdivided lots found were slanting or sloppy terrain. The boundaries were not accurately determined as there were no land markings installed to identify the extent of the area. There were neither security guards nor caretakers. Hence, the risk of encroachment and boundary disputes in highly probable.
* Also, only 19 lots out of 103 total lots have Real Property Tax paid as evident by Official Receipts from Provincial Treasurer of the Province of Rizal.
1. As regards the properties in Ciudad Verde, the System being a landowner entered into a partnership agreement with Sta. Lucia Realty & Development, Inc., a developer on August 13, 2008 to develop four parcels of lot with an aggregate area of 227,562 sq. m. referred to as Site I and 26 parcels of lots with an aggregate area of 659,872 sq. m. referred to as Site II, both situated in Calamba, Laguna.
* The landowner planned to develop the property into a commercial-residential subdivision complete with all facilities, amenities and improvements. Ocular inspection of Site I known as Ciudad Verde revealed that the project was fully developed and titles were already in the name of the System, however, some lots remained unsold.
* Ocular inspection of Site II revealed that the lots were still undeveloped. The System is still awaiting the Department of Agrarian Reform (DAR) order of exemption or land use conversion order which delayed the project development.
* In CY 2017, the bidding for the sale of its real estate was not yet initiated despite management’s commitment to undertake it pursuance to MO 90. This results to the prolong enjoyment of beneficial interest.
	1. **We reiterated our previous year’s audit recommendations that Management require the concerned department/division in pursuance to the winding down activities to:**
1. **Implement and take necessary precautions and programs to secure, preserve and enhance the value of acquired assets and prevent the rapid deterioration of the Acquired Asset and Investment in Real Estate properties;**
2. **Continue to initiate public bidding of the System’s property in pursuance to MO 90; and**
3. **Resolve the legal and documentation issues relative to Investment in Real Estate accounts to protect the rights and ownership of the System over the subject properties.**
	1. Management commented that the the System is exerting all its efforts to secure, preserve and enhance the value of acquired assets. In pursuance to MO 90, the System has already disposed several of its properties (Green Meadows Phase 2, Lot Nos. 1979-1 and 1981-A in Sta. Rosa City, Laguna and Lots 6B/6C/6D/6E in ASEANA, Diosdado Macapagal). One other property (St. Michael Towers) is already in the pipeline. The System is likewise in the process of identifying and prioritizing other properties for disposal.

**Gender and Development**

1. **The System has not prepared the annual Gender and Development (GAD) Plan and Budget (GPB) and GAD Accomplishment Report (GAR) for CY 2017. Likewise, GAD concerns were not incorporated in the System’s Revenue, Expense, Capital Outlay and Cash Flow Budget (Corporate Operating Budget) as required by Executive Order No. 273 dated September 8, 1995 and Joint Circular No. 2012-01 of PCW-NEDA-DBM. Thus, the gender issues and needs within the System were not identified and met.**
	1. Executive Order (E.O) No. 273 dated September 8, 1995 approved and adopted the Philippine Plan for Gender-Responsive Development (PPGD 1995-2025) which mandated agencies to incorporate and reflect GAD concerns in their agency performance commitment contracts, annual budget proposals and work and financial plans.
	2. Item 1 of Joint Circular No. 2012-01 prescribes the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GPB and GAR. It also provides the mechanics for the development of programs, activities and projects to respect, protect and fulfill the rights of women at the socio-cultural, economic and political spheres.
	3. Item 4 of Joint Circular No. 2012-01 provides the essential elements in GAD planning and budgeting to enable the agencies to more effectively plan and implement their sectoral programs on GAD which is presented in the next page.
	4. Creation and/or Strengthening of the GAD Focal Point System;
	5. Capability Building on Gender and Development;
	6. Conduct of Gender Audit; and
	7. Institutionalizing GAD Database/Sex-disaggregated Data.
	8. GAD planning shall be integrated in the regular activities of the agencies, the cost implementation of which shall be at least five per cent of their total budget appropriation. The GAD budget shall not constitute an additional budget over the System’s total budget appropriations. The five per cent GAD budget shall endeavor to influence the remaining 95 per cent of the System budget toward gender-responsiveness. The computation and utilization shall be implemented in accordance with the specific guidelines provided therein.
	9. For five consecutive years, the System did not comply with the requirements of the above cited Joint Circular pertaining to the implementation of GAD activities based on approved GAD plan and budgetary requirements. Verification of the System’s Revenue, Expense, Capital Outlay and Cash Flow Budget (Corporate Operating Budget) disclosed that no fund was set aside for GAD as required under EO 273 and Joint Circular No. 2012-01. According to the Accounting Department, the System allotted a budget for their bi-monthly social activities with the intention of creating connections with fellow employees, strengthen their established camaraderie and likewise help the newly-hired employees to be acclimatized to the organization. However, these activities are not in line with the requirements of the above mention government rules and regulations.
	10. Foregoing considered, non-preparation of the annual GPB and non-incorporation of GAD issues within the corporate operating budget of the System may result in less awareness of employees to government services on social protection, services and welfare programs such as addressing gender issues and inequality within the organization which contributes to overall performance of every employee and in a larger scale, the System.
	11. **We recommended and Management agreed to strictly comply with the requirements set forth under Joint Circular No. 2012-1 and include GAD concerns in the System’s Revenue, Expense, Capital Outlay and Cash Flow Budget (Corporate Operate Budget) of at least five per cent of total agency appropriation.**
2. **Status of Suspensions, Disallowances and Charges**
	1. As at year-end, the status of audit suspension, disallowances and charges issued is as follows:

| **Audit Action** | **Beginning balance 01/01/2017** | **Issued** | **Settled** | **Ending balance 12/31/2017** |
| --- | --- | --- | --- | --- |
| Suspensions | - | - | - | - |
| Disallowances | 251,567,707 | - | 335,991 | 251,231,716 |
| Charges | 16,270,683 | - | - | 16,270,683 |
|  | **266,838,390** | **-** | **335,991** | **267,502,399** |

* 1. The Notice of Disallowance on the overpriced land acquisition by the System in the amount of P250.318 million and the corresponding Notice of Charge on the deficiency taxes on the overpriced land amounting to P16.271 million were affirmed by the Commission Proper under COA Decision Nos. 2012-188 and 2012-139 dated November 5, 2012 and September 13, 2012, respectively. Moreover, the Motion for Reconsideration filed by the System on the COA Decisions was denied under CP En Banc Resolution dated February 27, 2015. Accordingly, a Notice of Finality of Decision (NFD) and COA Order of Execution (COE) were issued.
	2. Furthermore, the Supreme Court promulgated its Decision under GR No. 217948 dated January 12, 2016 on the Petition for Certiorari for the notice of disallowance on the overpriced land acquisition affirming COA Decision No. 2012-188 dated November 5, 2012.
	3. The System has partially collected from the person liable amounting to P335,991 as of December 31, 2017.
	4. The details of the other disallowances that were issued in CY 2016 in the total amount of P1.250 million are as follows:

| **Date** | **Number** | **Amount** | **Explanations for unsettled accounts** |
| --- | --- | --- | --- |
| **Disallowed** | **Settled/ lifted** | **Outstanding balance** |
| 5/31/2016 | 16-001-AFPRSBS (13) | 25,000 | - | 25,000 | No appeal filed from the System, for issuance of NFD. |
| 5/31/2016 | 16-002-AFPRSBS (13) | 20,000 | - | 20,000 | No appeal filed from the System, for issuance of NFD. |
| 5/31/2016 | 16-003-AFPRSBS (13) | 20,000 | - | 20,000 | No appeal filed from the System, for issuance of NFD. |
| 5/31/2016 | 16-004-AFPRSBS (13) | 20,000 | - | 20,000 | No appeal filed from the System, for issuance of NFD. |
| 5/31/2016 | 16-005-AFPRSBS (13) | 15,000 | - | 15,000 | No appeal filed from the System, for issuance of NFD. |
| 7/25/2016 | 16-006-AFPRSBS (13) | 236,656 | - | 236,656 | Awaiting decision of CP |
| 5/31/2016 | 16-007-AFPRSBS (13) | 25,000 | - | 25,000 | No appeal filed from the System, for issuance of NFD. |
| 7/25/2016 | 16-012-AFPRSBS (13) | 325,999 | - | 325,999 | No appeal filed from the System, for issuance of NFD. |
| 7/25/2016 | 16-013-AFPRSBS (14) | 27,720 |  | 27,720 | Awaiting decision of CP |
| 8/17/2016 | 16-014-AFPRSBS (13) | 534,131.74 | - | 534,131.74 | Awaiting decision of CP |
| **Total** |  | **1,249,506.74** | **-** | **1,249,506.74** |  |