OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. The correctness and fair presentation of the Members' Contributions (MC) Payable and Estimated Liability on Earnings of MC accounts amounting to P4.360 billion and P1.393 billion, respectively, could not be established due to the presence of unreconciled amount of P745.483 million between the general ledger (GL) and Integrated Financial Management System (IFMS) subsidiary ledger (SL) balances of the said accounts.

1.1 This is a reiteration of prior years' audit observation as embodied in the Calendar Years (CYs) 2018 and 2019 Annual Audit Reports (AARs) due to the non-implementation of the recommendations presented by the Audit Team.

1.2 Paragraph 15 of Philippine Accounting Standard (PAS) 1 on fair presentation and compliance with Philippine Financial Reporting Standards (PFRS) states that:

> *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. Xxx.*

1.3 The AFPRSBS was established as a funding mechanism to ensure the continuous payment of retirement and separation benefits due to the members of the Armed Forces of the Philippines (AFP). Executive Order (EO) No. 590, as amended by EO No. 590-A, prescribed the deactivation of the AFPRSBS and the transfer of the MCs into a trust account to be managed by a Government Financial Institution (GFI) as Trustee. Further, Memorandum Order (MO) No. 90 directed the abolition, winding down and liquidation of the AFPRSBS effective April 08, 2016 to include, among others, the cessation of collecting MCs and accrual of interest and the refund of AFPRSBS members' contributions as they fall due.

1.4 On April 19, 2016, pursuant to the same MO, the AFPRSBS' Board of Trustees already convened as Board of Liquidators (BOL). The BOL approved the stoppage of the collection of five per cent members' contributions and the accrual of interest on members' contributions effective March 31, 2016 under Board Resolution (BR) No. SPL-01-2016.

1.5 The balances of the MC Payable amounting to P4.360 billion and Estimated Liability on Earnings of MCs amounting P1.393 billion represent the total accumulated MC to be refunded by the AFPRSBS to its members upon their retirement, separation or discharge from active service including the interest earned from the said contributions. The breakdown is presented in Table 1.

Table 1 – Breakdown of Refund of MC and Estimated Liability on Earnings of MCs
As at December 31, 2020

Particulars	Refund of MC	Estimated Liability on Earnings of MC	Total
Current	P 2,376,693,809	P 951,971,791	P 3,328,665,600
Non-current	1,982,986,520	441,456,269	2,424,442,789
TOTAL	**P 4,359,680,329**	**P 1,393,428,060**	**P 5,753,108,389**

1.6 The total amount of P5.753 billion for the two accounts represents 36 per cent of the P15.867 billion total liability and equity of the AFPRSBS as at December 31, 2020.

1.7 In maintaining the MC account, every member of the AFPRSBS has a subsidiary ledger card where his/her contributions are posted. However, the Accounting Department (AD) was not able to provide the Audit Team of said ledgers of members for audit, instead, the AD submitted a list extracted from the IFMS as at July 2015 which is still under reconciliation with the balance of the MC payable per books. As at report date, the AD is continuously reconciling the data retrieved from the IFMS simultaneous with the processing of the member's refund by the Membership Department (MD). According to them, once they are able to ascertain the balance of each member's account, they will be able to compute the total contributions including the estimated interest or MC earnings.

1.8 The AFPRSBS maintains its records of the MC, advance refunds, and the refunds in the Client Module of the IFMS. The individual SLs of the members in the IFMS contain all their monthly contributions except for some observed unposted contributions of which records are still being traced/validated against the printed Remittance Lists. While there is an individual SL for each member in the IFMS, the computerized system does not provide for a facility to generate reports pertaining to outstanding MC. Thus, in CY 2015, an expert was hired to extract the members' individual ledger from the IFMS and converted it into an excel file, and it was found out that there was a variance between the balances per books and balances per IFMS of the MC Payable and Estimated Liability on Earnings of MC accounts.

1.9 As at December 31, 2020, the unreconciled variance between the GL and the extracted balances of the MC Payable account from the IFMS was reduced to P745.483 million from P4.914 billion in CY 2015, as shown below.

Table 2- Status of CY 2015 Unreconciled Balances of the Members Contribution Account per Books/GL and per IFMS SL

Calendar Year	As at Cut-off date of July 31, 2015		Difference
	Per books/GL	Per IFMS SL	
2020	P10,844,040,316	11,589,523,223	P 745,482,907
2015	P10,866,091,376	15,780,353,369	P 4,914,261,993

1.10 At the end of CY 2020, the AD set up P2.377 billion in the current portion of the MC Payable account coming from the non-current portion based on the estimated refund for CY 2021 by the MD. According to the AFPRSBS' President, the target date to fully implement the refund of the contributions to all its members will be moved to CY 2022 instead of CY 2021 due to the delay in their operations caused by the pandemic.

1.11 To date, the continuous updating of the accounts is being performed by the AFPRSBS to determine the accurate amount of refund of MC including the interest earned thereon.

1.12 In a meeting with Management as regards the implementation of prior years' audit recommendations, the AFPRSBS' President mentioned that their priority at this time is to refund first all the contributions to members and later work on the reconciliation of members' accounts in order not to hamper the repayment process being made while the reconciliation is on-going. While we recognize the Management's priority of refunding to all members their contributions regardless of whether their accounts are updated or not due to the pending liquidation of the AFPRSBS, it is to be emphasized that the AFPRSBS' responsibility to have a complete, updated and accurate SL of the MC is indispensable because it is the basis in the computation of the members' refund of their contributions and interest earned. Thus, failure to do so will adversely affect the timely refund of the benefits and will consequently prolong the liquidation process of the AFPRSBS.

1.13 The non-reconciliation of the variance of P745.483 million between the balances in the general ledger and IFMS subsidiary ledgers of the MC Payable and Estimated Liability on Earnings of MC accounts amounting to P4.360 billion and P1.393 billion, respectively, affected the correctness and fair presentation of these accounts in the financial statements as at December 31, 2020,

1.14 **We reiterated our recommendation that Management reconcile the IFMS SLs with the books of accounts/GL maintained by the AD in preparation for the transfer of MC records to the GFI Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.**

1.15 **We further recommended that Management submit a quarterly report on the status of reconciliation of the AFPRSBS' IFMS SLs with the books of accounts.**

1.16 Management commented that they have already uploaded more than 95 per cent of the remittances of the members. Only a few remittance schedules are being located for uploading. Notwithstanding these constraints, there are no delays encountered in the payment of refunds since all members have existing SL in the IFMS. No refunds are made unless the SLs are reconciled.

1.17 The AFPRSBS has been implementing the audit recommendation to reconcile the MC account as shown by the decreasing figure in the discrepancy between the GL and schedule of the MC account. The reconciliation has been greatly affected by the pandemic. The reconciliation is continuously being done as the AFPRSBS processes the refunds of contributions of the members. The reconciliation processes cannot be done thru work-from-home arrangement since there is a need to reconcile the schedule with the ledgers in the IFMS.

1.18 The AFPRSBS will submit regular updates on the reconciliation of the MC payable against the GL.

1.19 We commend Management's continuous efforts to reconcile the SLs of the members per IFMS and the books of accounts maintained by AD despite the limited manpower. However, prior to the refund of all contributions and interests to the members, the amount to be refunded must have already been determined. This will provide the Management a reliable information to actualize the recorded interests on MC and ensure that the AFPRSBS has enough fund for the refund of contributions and interests thereon. In this regard, we maintain our recommendation that Management expedite the reconciliation of the IFMS SLs with the books of accounts maintained by the AD in preparation for the transfer of MC records to the GFI Trustee.

2. The correctness and fair presentation of the balance of the Investments in Real Estate account amounting to P1.730 billion as at December 31, 2020 could not be ascertained due to the net variance totaling 2,517,453 square meters of raw lands, with equivalent cost of P651.925 million, in the total land area per books against the physical inventory of Transfer Certificates of Title.

2.1 This is a reiteration of prior years' audit observation as embodied in the CY 2018 AAR due to the non-implementation of the recommendations presented by the Audit Team.

2.2 Paragraph 2.23 of the revised Conceptual Framework for Financial Reporting (CFFR) provides that comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented; and Chapter 4, Section 4.2 of CFFR 2018 defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.

2.3 In addition, Sections 111 and 114 of Presidential Decree (PD) No. 1445 require that accounts should be kept in such detail for the agency's needs and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government. These include the maintenance of SLs. Also, sound internal control dictates that an entity should maintain adequate records and systems for all aspects of its business including the maintenance of hard copies of individual SLs that will support the GL control account at any given period of time.

2.4 The AD manually maintains SLs for all the remaining inventory of projects booked as Investment in Real Estate where the carrying value, total area/plots/shares and cost per square meter/plot/share are indicated.

2.5 Verification of the Investments in Real Estate account showed that its balance of P1.730 billion as at December 31, 2020 pertains to investment in raw lands net of related allowances for probable loss and decline in value.

2.6 However, the Audit Team noted that the correctness of the recorded Investments in Real Estate account could not be ascertained due to the net variance totaling 2,517,453 square meters or P651.925 million in the recorded total land area against the physical inventory of Transfer Certificates of Title (TCTs). Said variance was noted in the CY 2018 audit and has not yet been reconciled to date. The details are presented in Table 3 below.

Table 3 – Variance between the Recorded Raw Land and Physical Inventory of TCTs
As at December 31, 2020

Project Name	Total Area Per Books (sqms/plots)	Total Area-Per TCTs Found in Vault*	Variance in Land Area	Cost Per sqm/plot	Equivalent Value/Cost
	(A)	(B)	(C) = (A – B)	(D)	(C x D)
Heaven's Gate Memorial Garden**	23,118	14,455	8,663	12,856	P 111,375,368
Benjamin 9, Pampanga	227,808	63,894	163,914	P 538	88,174,696
Eastridge Golf Course and Subdivision I	74,570	0	74,570	1,009	75,273,594
Village East III Subdivision	57,017	0	57,017	507	28,891,799
Riviera Project-Commercial	85,255	78,024	7,231	1,144	8,275,411
Greenland Antipolo	953	690	263	7,408	1,948,257
San Mateo Housing Project***	0	17,795	(17,795)	0	0
SLSS - Phase I-D***	0	251	(251)	0	0
Mount Zion Memorial	24,173	156,811	(132,638)	14,119	(1,872,733,096)
Riviera Project-Residential	201,826	526,134	(324,308)	891	(289,052,680)
Ciudad Verde	50,268	67,479	(17,211)	.1,956	(33,662,754)
Villa Caceres	1,545	8,879	(7,334)	3,142	(23,041,201)
SLSS – Phase I-C/IC-A	18,499	26,445	(7,946)	1,179	(9,369,451)
Villa Toledo -TH	445	5,112	(4,667)	1,300	(6,067,100)
Sta. Rosa Homes Subdivision	201	980	(779)	3,091	(2,407,587)
SLSS – Phase I	765	2,334	(1,569)	1,015	(1,593,262)
The Orchard Project	3,630	34,561	(30,931)	47	(1,468,362)
North Matrixville Subdivision	100	2,584	(2,484)	472	(1,173,280)
SLSS - Phase I-E	264	330	(66)	2,601	(171,650)
Landbanking					
Riviera	2,453,733	1,318,686	1,135,047	665	755,314,499
Calamba (Tanauan)	1,615,133	588,678	1,026,455	273	280,160,037
General Santos City	49,421	34,191	15,230	11,373	173,213,660
Eastridge Golf Course and Subd. II	503,018	-0	503,018	209	105,355,868
San Lorenzo	435,997	330,932	105,065	551	57,926,255
Green Meadows Iloilo (Phase 1A)	22,970	1,580	21,390	2,213	47,339,566
Hermosa, Bataan	62,907	0	62,907	68	4,252,023

Forward

Project Name	Total Area Per Books (sqms/plots)	Total Area- Per TCTs Found in Vault*	Variance in Land Area	Cost Per sqm/plot	Equivalent Value/Cost
	(A)	(B)	(C) = (A – B)	(D)	(C x D)
Green Meadows Iloilo (Phase 1)	13,198	125,536	(112,338)	1,317	(147,927,841)
Sta. Rosa, Nueva Ecija	132,189	135,189	(3,000)	253	(757,712)
Net variance	**6,059,003**	**3,541,550**	**2,517,453**		**(P 651,924,943)**

*Net of properties under Installment Sale Contract with Installment Contract Receivable (ICR) as at December 31, 2018

**Available Inventory per IFMS

***No available cost per inventory

AFPRSBS uses the computed cost per square meter/plot/share as the basis for the unit cost of each lot/plot/share.

TCTs not in the name of AFPRSBS were not included

2.7 Foregoing considered, the unreconciled variance totaling 2,517,453 square meters with equivalent cost of P651.925 million, between the total land area per books and the physical inventory of TCTs in the vault casts doubt on the correctness and fair presentation of the Investment in Real Estate account as at December 31, 2020.

2.8 **We reiterated our recommendations that Management:**

a. **Reconcile the noted variance between the total land area per physical inventory of TCTs with those recorded under the Investment in Real Estate account to ensure correctness of the account balance; and**

b. **Accordingly adjust the books of accounts based on the result of reconciliation.**

2.9 **We further recommended that Management prioritize the submission of the updated reconciliation pertaining to Investments in Real Estate account for the Audit Team to validate and verify the nature of the variance in the land area totaling 2,517,453 square meters.**

2.10 Management commented that the reconciliation of the records per books with the TCTs in the vault is continuously done. Although some TCTs are not yet in the name of the AFPRSBS, the same were recorded in the books upon purchase. The Deeds of Sale signed by the sellers are the documents that would support the AFPRSBS' ownership over the properties.

3. Deficiencies were noted in the accounting treatment for transactions related to the foreclosed properties consisting of a parcel of land and 329 units in Royal Plaza Twin Tower amounting to P361 million.

A. A parcel of land and 329 units in Royal Plaza Twin Tower which were previously foreclosed by the AFPRSBS amounting to P361 million were recorded as part of Loans Receivable-Accounts under Litigation instead of Investment Property, contrary to paragraphs 5 and 16 of PAS 40, understating the Investment Property and Accumulated Depreciation

accounts as of December 31, 2020, and depreciation expense account for CY 2020.

3.1 This is a reiteration of prior years' audit observation as embodied in the CYs 2017 and 2019 AARs due to the non-implementation of the recommendations presented by the Audit Team.

3.2 Paragraph 5 of 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:*
>
> *(a) Use in the production or supply of goods or services of for administrative purposes; or*
>
> *(b) Sale in the ordinary course of business.*

3.3 Paragraph 16 of PAS 40 states that:

> *Investment property shall be recognized as an asset when, and only when:*
>
> *(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and*
>
> *(b) the cost of the investment property can be measured reliably.*

3.4 In the CY 2019 audit, the AFPRSBS commented that the foreclosed mortgaged property of the borrower is now the subject of a pending litigation before the Regional Trial Court (RTC) of Manila, Branch 21 filed by the borrower. In its Complaint, the borrower prayed for the annulment of the foreclosure sale for the issuance of a writ of preliminary injunction. However, after several hearings, the RTC denied the prayer for the issuance of the writ of preliminary injunction.

3.5 Relative thereto, in the case of Mahinay vs. Dura, the Court ruled that a pending action to annul the foreclosure sale does not toll the running of the one-year period of redemption under Act No. 3135. Therefore, although there is a pending case for annulment of extrajudicial foreclosure of real estate mortgage filed by the borrower against AFPRSBS, it would not stop nor delay the running of the period to redeem.

3.6 Considering that the TCTs have not yet been transferred to AFPRSBS, the said properties are considered properties under litigation and the Management disclosed that it will be reclassified from Accounts under Litigation to Acquired Assets once the titles are consolidated in the name of the AFPRSBS. However, titles were not consolidated yet in the name of the AFPRSBS due to the alleged deficiency capital gains tax (CGT) per Bureau of Internal Revenue (BIR) assessment arising from extra-judicial foreclosure of the land and 329 condominium units.

3.7 On August 10, 2017, the AFPRSBS received the Preliminary Assessment Notice (PAN) regarding the alleged deficiency taxes arising from the extra-judicial foreclosure of the land and 329 condominium units. As an immediate and initial step, the AFPRSBS filed a protest/opposition on August 18, 2017 to the PAN asserting that the AFPRSBS should not be liable to pay the alleged deficiency taxes, penalties, surcharges and that since June 17, 2013, a request for re-zonal or re-evaluation was already requested considering that the subject property was composed of finished and unfinished condominium units.

3.8 Moreover, the Audit Team also noted that the Management's comments on the issue as embodied in the CY 2019 AAR on AFPRSBS, included an assurance that if still there are no settlements until March of 2021, the deadline set for the borrower to finalize the negotiation, they will consider the COA recommendation of paying the deficiency tax assessment and cause the transfer of the titles of the foreclosed property in the name of AFPRSBS. However, to date, the AFPRSBS has not yet paid the said deficiency tax.

3.9 Furthermore, in a meeting with Management as regards the implementation of prior years' audit recommendations, Management explained that they are still negotiating with the borrower for other possible amicable settlement that would be more advantageous to the AFPRSBS and will pursue the consolidation and transfer of the titles of the condominium units, although AFPRSBS would have to incur additional expenses such as taxes, transfer fees and other charges.

3.10 The non-reclassification of the foreclosed property amounting to P361 million from the Accounts under litigation to Investment property account overstated the loans receivable account and understated the Investment Property Account. Accordingly, the property was not depreciated, thus, understating the depreciation expense for the period and the accumulated depreciation as of December 31, 2020.

B. The waived penalties amounting to P248.607 million on the restructured commercial loan account were not reinstated despite the borrower's failure to comply with the terms and conditions of the Amendment to Loan Agreement dated December 21, 2001, thus, understating the Loans receivable – Past Due Commercial Loan account and the related income account by the same amount.

3.11 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)

3.12 In CY 1996, the Board of Trustees of AFPRSBS approved a P350 million loan to a certain borrower, a corporation 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 Royal Plaza Twin Tower Project.

3.13 However, in CY 2001, the AFPRSBS had restructured its commercial loan to the borrower since the latter failed to comply with its contractual obligation to pay the loan amortization as they fall due amounting to P365,277,899.89. These were partially secured by an un-notarized Amendment to the Real Estate Mortgage over the unsold units of the Royal Plaza Twin Towers as well as the Joint and Several Suretyship (JSS) executed in CY 2002 by the key officers of the borrower. However, it failed again to perform its obligation on the restructured loan.

3.14 In accordance with the aforementioned provisions of the Amendment to Loan Agreement, the waived penalties of P248.607 million should have been reinstated and formed part of the restructured loan as a result of the borrower's failure to abide by the terms and conditions of the said agreement. Hence, the outstanding balance of the Loans Receivable Past due-commercial loan account should be valued at P353.056 million as computed in Table 4.

Table 4 – Outstanding Balance of the Past Due- Commercial Loan
As at December 31, 2020

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

3.15 Furthermore, the non-reinstatement of the waived penalties understated the related income account by P248.607 million for CY 2020.

3.16 **We reiterated our recommendations that Management:**

a. **Enforce collection of the adjusted balance of commercial loan to the spouses who are key officers of the Corporation in accordance with the Joint and Several Suretyship; and**

b. **Pay the deficiency capital gains tax assessments.**

3.17 **We further recommended that Management:**

a. **Reclassify in the books of the AFPRSBS the foreclosed properties consisting of a parcel of land and 329 units in Royal Plaza Twin Tower amounting to P361 million from Loans Receivable- Accounts Under Litigation to the Investment Property account;**

b. **Provide annual depreciation;**

c. **Cause the consolidation of the land title in the name of the AFPRSBS;**

d. **Finalize the terms of the amicable settlement with the borrower in relation to the annulment of foreclosure sale filed by the latter against AFPRSBS; and**

e. **Provide the Audit Team with a copy of the case filed by the borrower against the AFPRSBS including its current status.**

3.18 The Management commented that the reclassification of the account to Acquired Assets/Investment Property will be made once the titles are consolidated in the name of the AFPRSBS. This is also in consideration of the case filed by the borrower against the AFPRSBS, i.e. annulment of foreclosure sale.

3.19 Negotiations are being made by the Management for the settlement of the account by the borrower as this may be more beneficial to the AFPRSBS rather than spending for various expenses that will be incurred in the consolidation of titles in the name of the AFPRSBS and eventually selling the same again. It should be noted that the collaterals consist of incompletely developed condominium units, hence, salability could be an issue.

3.20 Furthermore, the payment of tax deficiency, possession of the units, and collection of the balance of the past-due loans are dependent on the resolution of the case and on the transfer of titles in the name of the AFPRSBS.

4. Various adjustments totaling P92.527 million in the Retained Earnings (RE) account were noted to be without the required supporting schedules and documents, contrary to Paragraph 15 of PAS 1 and Paragraphs 2.12-2.14 of the CFFR, thus, casting doubt on the accuracy of the balances reflected in the Financial Statement (FS) as at December 31, 2020.

4.1 Paragraph 15 of PAS 1 provides that:

> *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions…..xxx presumed to result in financial statements that achieve a fair presentation.*

4.2 In addition, Paragraphs 2.12 to 2.14 of the CFFR provide that:

Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. Xxx

To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximize those qualities to the extent possible.

A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For example, a complete depiction of a group of assets would include, at a minimum, a description of the nature of the assets in the group, a numerical depiction of all of the assets in the group, and a description of what the numerical depiction represents (for example, historical cost or fair value). For some items, a complete depiction may also entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction.

4.3 Audit of the AFPRSBS' Retained Earnings account disclosed that various adjustments totaling P92,527,191 were effected without schedules or documents to support the adjusting entries made. The details are presented in Table 5.

Table 5 - Adjustments to the Retained Earnings account Without Schedules or Documents
As at December 31, 2020

Date	Reference number	Accounts adjusted	Debit	Credit
02/29/20	RE-1011	Deferred credits (deposits and other liabilities)	P 20,000	P 912,833
09/30/20	RSBS-0034	Accrued interest expenses		200,402
11/30/20	RSBS-0030	AR- Trade equities	399,915	88,564
12/31/20	RE-1039	AP-Contractor	1,055,909	
12/31/20	RSBS-0044	Accounts payable, non-trade others/accounts payable trade/reserve for real estate development		89,003,852
12/31/20	RSBS-0068	Due to parent		845,716
			1,475,824	91,051,367
Total of debit and credit adjustments				**P 92,527,191**

4.4 In a meeting with Management on the implementation of prior years' audit recommendations, the Audit Team requested for the schedules and supporting documents of the adjustments made, however, they were not able to do so, precluding the Audit Team from verifying the validity of the above adjustments.

4.5 It should be emphasized that although PAS 8 allows certain adjustments to be directly charged to the RE for certain correction of prior period errors, the relevant accounting standard also requires fair presentation of the FS. Thus, it is important that the adjustments to the RE account must be valid and fully supported with schedules or documents.

4.6 **We recommended that Management facilitate the preparation of the related schedules of the adjustments made on RE account, and submit the same to the Audit Team together with the necessary supporting documents.**

4.7 Management commented that the adjustments made on February, September and November 2020 are those that are existing in the books for more than 10 years. There is difficulty in tracing the transactions in the IFMS due to the system crash that happened in 2012. The IFMS contains the transactions from December 2004 onwards. The adjustments were made in compliance with COA-DBM Joint Circular No. 99-6 dated November 13, 1999 as regards reversal of accounts payable that are outstanding for more than two years.

4.8 Furthermore, the accounts adjusted are being tallied with the SL/GL balances. Hence, adjustments made in the books were verified that it is for adjustment. Restatement of the FS for prior periods will be done accordingly.

4.9 As a rejoinder, we reiterate that Management submit the schedules of the adjustments made to the retained earnings for verification of the Audit Team.

5. The faithful representation of the balance of the Property and Equipment (PE) account with a carrying value of P32.940 million as at December 31, 2020 could not be ascertained due to the variance of P79.648 million between the GL balance and the Report on the Physical Count of Property, Plant and Equipment (RPCPPE), contrary to Paragraph 15 of the PAS 1. Likewise, the GL balances of the PPE accounts differed by P6.536 million from their SL balances, contrary to Section V, Item No. 4 of COA Circular No. 80-124 dated January 18, 1980.

Variance of P79.648 million between the GL balance and the RPCPPE

5.1 This is a reiteration of the prior years' audit observations as embodied in the CY 2018 AAR due to non-implementation of the recommendations presented by the Audit Team.

5.2 Paragraph 15 of PAS 1 – Fair Presentation and compliance with PFRS provides that:

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Conceptual Framework for Financial Reporting.

5.3 Section V of COA Circular No. 80-124 dated January 18, 1980 prescribes the guidelines for inventory-undertaking. Item No. 4 on inventory reports requires that:

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

5.4 The same COA Circular requires the proper reconciliation of the results of the actual inventory count of property with the accounting records and any deficiency/ies should be noted for appropriate action and/or investigation to settle the differences. Accordingly, the AD maintains the balances of its PE account based on the data or information provided in the SL that is traceable within the IFMS. Based on our inquiry with the Management, a portion of the amount reported in the GL was extracted from the said SL in IFMS as at December 31, 2012, the reckoning date of settling the account. Further, the transactions for the succeeding periods were manually recorded or maintained. As part of the operations of the AFPRSBS, the balances of the respective PE accounts were continuously reconciled by the concerned departments.

5.5 Review of the PE account and comparison made between the RPCPPE and the book balances as at December 31, 2020 disclosed a variance of P79.648 million. The substantial variances noted were mainly due to the decrease in the balances of the office machineries and equipment, office furniture and fixtures and transportation/motor vehicles amounting to P83.787 million P1.553 million and P5.635 million, respectively, as reported in the RPCPPE but not reflected in the accounting records. In the CY 2018 audit, it was already noted that the physical inventory report and accounting records of PE accounts were not reconciled. The details of the variances are presented in Table 6.

Table 6 – Total Variance between the RPCPPE and GL sub-account balances of PE account

Account name	Per RPCPPE	Per GL (at cost)	Variance
Office machineries and equipment	P 83,787,264	P 147,501,327	P 63,714,063
Buildings/structures	91,429,579	91,429,579	0
Office furniture and fixtures	1,552,812	14,837,994	13,285,182
Transportation/motor vehicles	5,635,013	8,283,853	2,648,840
	P182,404,668	**P 262,052,753**	**P 79,648,085**

5.6 The Audit Team was not able to determine the cause(s) of the above discrepancy because the items of Furniture, fixtures, books and equipment account in the submitted RPCPPE were collectively presented per Department of AFPRSBS instead of on a per category of PE. There is also no reconciliation report on the discrepancy between the GL and the RPCPPE provided to the Audit Team.

5.7 The importance of reconciliation is to ensure that the PE in the accounting records actually exist and that all PE in the RPCPPE are recorded in the books of accounts. Thus, any discrepancy that may arise between the accounting records and the result of physical count should be reconciled immediately by the concerned departments.

5.8 Furthermore, the Audit Team also noted that the AFPRSBS does not maintain PPE Ledger Cards (PPELCs) which shall be kept for each PE, and where the description, acquisition, transfer, disposal and other information about the PE must be recorded.

The GL balances of the PE differed by P6.536 million from the SL balances

5.9 Further, the Audit Team also noted that the GL balances of the PE totaling P262.053 million differed by P6.536 million from the balances of SL of P255.517 million. The details of the discrepancies are presented in Table 7.

Table 7 – Discrepancies between GL and SL balances of PE
As at December 31, 2020

Account name	**Per GL (at cost)**	**Per SL (IFMS)**	**Difference**
Office machineries and equipment	P 147,501,327	P 144,404,171	P 3,097,156
Buildings/structures	91,429,579	91,429,579	0
Office furniture and fixtures	14,837,994	13,911,446	926,548
Transportation/motor vehicles	8,283,853	5,771,690	2,512,163
	P 262,052,753	**P 255,516,886**	**P 6,535,867**

5.10 Due to the variances between the RPCPPE and the accounting records and the unreconciled balances of the GL and SL balances of the PE accounts amounting to P79.648 million and P6.536 million, respectively, as at December 31, 2020, the reliability and the fair presentation of the PE accounts in the FS with carrying value of P32.940 million could not be ascertained.

5.11 **We reiterated our recommendations that Management require the:**

a. AD and the General Services Department (GSD) to reconcile the discrepancy between the accounting records and the RPCPPE, which as at December 31, 2020 amounted to P79.648 million, and

prepare and submit a copy of the corresponding report to the Audit Team for its validation; and

b. AD to reconcile the variances between the GL and the SL balances amounting to P6.536 million as at December 31, 2020 and submit copies of the updated and reconciled SLs and GL to the Audit Team for verification.

5.12 **We further recommended that the:**

a. GSD prepare the RPCPPE, showing the results of physical inventory for each PE category instead of per Department to facilitate reconciliation of the PE account with the accounting records; and

b. AD to:

b.1 Effect the necessary adjusting entries, if any, to reflect the correct balance of the PE account in the FS; and

b.2 Maintain PPELCs to record the acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal and other information about the PE items.

5.13 The Management commented that the discrepancy noted was due to the non-inclusion of the cost of buildings in the inventory list and the use of the salvage value of P10 in the values of a lot of items in the Machinery and Equipment and Office furniture and fixtures classifications. There is an ongoing reconciliation being done by the AD and GSD, and the Inventory Committee. The reconciliation is targeted to be completed within CY 2021. Another reason for the discrepancy is that there were disposals of unserviceable properties in prior years that were not properly dropped from the books.

6. The FS of the AFPRSBS and that of its active subsidiaries where it has invested a total of P993.927 million were not consolidated. Accordingly, the parent and subsidiary reciprocal accounts were not eliminated, contrary to the pertinent provisions of PFRS 10 - Consolidated Financial Statements. Hence, the AFPRSBS FS do not present reliable and accurate financial condition and results of its operations as at and for the year ended December 31, 2020.

6.1 This is a reiteration of prior years' audit observation as embodied in the CY 2018 AAR due to the non-implementation of the recommendations presented by the Audit Team.

6.2 PFRS 10 – Consolidated FS sets the requirements for the preparation and presentation of consolidated FS, requiring entities to consolidate entities it controls provides:

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

a. *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;*

b. *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);*

c. *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*

d. *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:

a. *Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries;*

b. *Offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary; and*

c. *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.*

6.3 As at December 31, 2020, the AFPRSBS has a total investment of P1.714 billion in stocks of its subsidiaries and affiliates/controlled entities where the corresponding FS were not consolidated with the FS of AFPRSBS due to the non-submission of related reports from the majority of its subsidiaries which are already non-operating, while others are either subject to liquidation and/or for disposal. The details are presented in Table 8.

Table 8 - Schedule of AFPRSBS's Subsidiaries and Affiliates/ Controlled Entities
As at December 31, 2020

Subsidiaries and affiliates/ controlled entities	Percent of ownership	Status of Operation (Per AFPRSBS)	Cost of investment
Monterrosa Development Corporation (MDC)	100.00	Active	P 873,927,445
RSBS Investment House (RIH)	100.00	Ceased operations in 2004	92,972,103
Matrix Realty Development Corporation (MRDC)	100.00	Ceased operations in 2005	35,931,250
Fashion Link Corporation (FLC)	100.00	Ceased operations in 1998	20,100,000
Globan Fruits and Development Corporation (GFDC)	100.00	Ceased operations in 2003	10,000,000
RSBS Enterprises, Inc. (REI)	100.00	Ceased operations in 2004	2,500,000
RSBS Land, Inc. (RLI)	100.00	Ceased operations in 2004	994,170
Veterans Electronics Communications, Inc. (VECI)	90.65	Ceased operations in 1999	126,738,598
Goodfit Manufacturing Corporation (GMC)	79.99	Ceased operations in 2004	25,556,920
General Satellite Communications, Inc. (GSCI)	62.00	Never operated/for write off	2,906,238
Bay Resources Development Corporation (BRADCO)	50.00	Active	402,000,000
AFP Theater Enterprises, Inc. (ATEI)	50.00	Active	120,000,000
Total			**P1,713,626,724**

6.4 Listed in Table 9 are the remaining five subsidiaries with existing value as at December 31, 2020 which are still subject for the preparation of FS.

Table 9 – Subsidiaries with Existing Value Which are Still Subject for the Preparation of FS
As at December 31, 2020

Subsidiaries and Affiliates/Controlled Entities	Percent of Ownership	Cost of Investment	Carrying Value as at December 31, 2020
MDC	100%	P 873,927,444.95	P 353,721,248.00
RLI	100%	70,000,000.00	3,094,170.58
RIH	100%	300,000,000.00	2,772,455.03
BRADCO	50%	402,000,000.00	1,138,041,387.50
ATEI	50%	120,000,000.00	40,467,782.26
Total		**P 1,765,927,444.95**	**P 1,538,097,043.37**

6.5 Although there are only five subsidiaries accounted for as with existing value, all of these entities are still subject for consolidation until their registration with the Securities and Exchange Commission is cancelled and has undergone the process of liquidation. Consolidation is necessary to eliminate inter-company transactions in order to produce a more accurate representation of the entities' financial position.

6.6 As disclosed in Note 3.8 to the FS, investments in subsidiaries and associates are accounted for at carrying amounts equivalent to the percentage of the entities' net assets or equity since the AFPRSBS prepared separate financial statements from its subsidiaries and associates. The AFPRSBS recognized, in its statements of comprehensive income, its equity share in the net earnings or losses of subsidiaries and associates since the dates of acquisition. Dividends received were recognized in profit or loss section of the separate FS of the AFPRSBS when the right to receive the dividend has been established.

6.7 In the same note, it was also mentioned that consolidated FS were not prepared as required by PFRS since majority of the audited FS are no longer available as most of the AFPRSBS' subsidiaries were either closed or have ceased operations.

6.8 Furthermore, according to Management, the preparation of annual financial statements of the non-operational subsidiaries and affiliates/controlled entities is impractical at this point because of the non-availability of the relevant documents and the manpower to conduct such endeavor considering the mandate of Memorandum Order (MO) No. 90, directing the abolition of the AFPRSBS pursuant to Executive Order (EO) No. 590 (s. 2006) and EO No. 590-A (s. 2007), mandating the deactivation of AFPRSBS, including its winding down and liquidation. Further, the System may incur additional costs which may affect the on-going refund of contributions to the members of AFPRSBS.

6.9 However, the above conditions are not among those provided under paragraph 4 of PFRS 10 that will qualify the AFPRSBS for exemption from presenting the line by line consolidation of its FS with the FS of its subsidiaries.

6.10 Moreover, the preparation of Statements of Affairs and Statement of Realization and liquidation of the non-operating/closed subsidiaries must be pursued on the basis of the principles of accountability and transparency in the management of government funds until their registration with the SEC is cancelled and they have undergone the process of liquidation. Likewise, the dissolution of the corporate life and liquidation of the assets of these subsidiaries must be given consideration as part of the directive of MO No. 90.

6.11 In this regard, although the subsidiaries and affiliates/controlled entities of AFPRSBS do not meet all of the conditions under paragraph 4 of PFRS 10, and the requirement of paragraph 21 of the same PFRS prevents consolidation of the FS of most of the subsidiaries and affiliates/controlled entities of AFPRSBS due to the timing difference, which exceeds the three-month limitation between their available FS and the consolidated, we opined that the active subsidiaries, which are the Monterrosa Development Corporation (MDC) and AFP Theater Enterprises, Inc. (ATEI), with the latest audited FS as at December 31, 2020 shall be consolidated with the FS of AFPRSBS.

6.12 Lastly, since the AFPRSBS did not consolidate, the parent and subsidiary reciprocal account were not eliminated.

6.13 In view of the foregoing, the financial statements of the AFPRSBS do not present a true and reliable representation of its financial condition and the results of its operations as at and for the year ended December 31, 2020.

6.14 **We recommended that Management:**

a. Prepare the consolidated FS to include the assets, liabilities and results of operations of its active subsidiary in compliance with the provisions of PFRS 10; and

b. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation to ensure accurate presentation of the Investment in Subsidiary account in the financial statements.

6.15 The Management commented that one of the subsidiaries, Southern Utility Management and Services, Inc. (SUMSI), was already sold in August 2020. For ATEI, it is already for shortening of corporate life because of the termination of the lease contract with the landlord, the AFP, on May 25, 2020. With this, the AFPRSBS retains its position for non-consolidation of its FS.

6.16 While the Standard requires the consolidation of the FS and eliminate reciprocal accounts, the AFPRSBS has difficulty undertaking the elimination in the absence of the latest FS, trial balance, and corresponding FS schedules of some of the subsidiaries where the reciprocal accounts can be traced.

6.17 As a rejoinder, we agree with the Management's comment as to the non-consolidation of the financial statements of SUMSI with the AFPRSBS due to its privatization in August 2020. However, we refute Management's claim as to the non-consolidation of ATEI's financial statements due to the shortening of its corporate life as a result of the termination of the lease contract with AFP. The ATEI and MDC is still active and was able to prepare its CY 2020 financial statements, hence, AFPRSBS is still required to prepare consolidated financial statements.

B. Others

7. Revenue from the sale of real estate properties and real estate rentals amounting to P47.519 million and P131.664 million, respectively, were not subjected to Value-Added Tax (VAT), contrary to the pertinent provisions of the National Internal Revenue Code of 1997 (NIRC), as amended by Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion, and Revenue Regulation (RR) No. 16-2005, as amended by RR No. 13-2018, thus exposing the AFPRSBS to possible financial and legal consequences.

7.1 This is a reiteration of prior years' audit observation as embodied in the CY 2014 AAR due to the non-implementation of the recommendations presented by the Audit Team.

7.2 Section 105 of the NIRC provides that:

> *Any person who, in the course of trade or business, sells barters, exchanges, leases goods or properties, renders services, and any person who imports goods shall be subject to the value-added tax (VAT) imposed in Sections 106 to 108 of this Code.*
>
> *Xxx*
>
> *The phrase 'in the course of trade or business' means the regular conduct or pursuit of a commercial or an economic activity, including transactions incidental thereto, by any person regardless of whether or not the person engaged therein is a nonstock, nonprofit private organization (irrespective of the disposition of its net income and whether or not it sells exclusively to members or their guests), or government entity.*

7.3 In addition, Section 106 of the same NIRC provides that:

> *Rate and Base of Tax - There shall be levied, assessed and collected on every sale, barter or exchange of goods or properties, a value-added tax equivalent to twelve percent (12%) of the gross selling price or gross value in money of the goods or properties sold,*

bartered or exchanged, such tax to be paid by the seller or transferor.

(1) The term "goods" or "properties" shall mean all tangible and intangible objects which are capable of pecuniary estimation and shall include:

Real properties held primarily for sale to customers or held for lease in the ordinary course of trade or business;

Xxx

The term "gross selling price" means the total amount of money or its equivalent which the purchaser pays or is obligated to pay to the seller in consideration of the sale, barter or exchange of the goods or properties, excluding the value-added tax. The excise tax, if any, on such goods or properties shall form part of the gross selling price.

7.4 Moreover, Section 108 of the NIRC provides for the Value–added Tax on Sale of Services and Use or Lease of Properties and quoted as follows:

"Rate and Base of Tax. – There shall be levied, assessed and collected, a value-added tax equivalent to twelve percent (12%) of gross receipts derived from the sale or exchange of services, including the use or lease of properties.

7.5 Furthermore, amending certain provisions of RR No. 16-2005, Section 4.109-1 of RR No. 13-2018, which provides the VAT- Exempt Transactions as enumerated below:

Xxx

(1) Sale or lease of goods or properties or the performance of services of non-VAT-registered persons, other than the transactions mentioned in paragraphs (A) to (AA) of Sec. 09(1) of the Tax Code, the gross annual sales and/or receipts of which ***does not exceed the amount of Three Million Pesos (P3,000,000.00).***

7.6 Our audit of the Sale of Real Estate Properties and Rental Income accounts for the period January 1 to December 31, 2020 disclosed a total amount of P179,183,371. However, we noted that said revenues have not been subjected to VAT. Since the revenues collected from sales and rental income exceeded the P3,000,000 threshold set by law for an entity, it is mandatorily required to register under the VAT system. The AFPRSBS had collected and recorded sale of real estate properties for the year amounting to P47,519,184 and rental income amounting to P131,664,187.

7.7 It was noted in CY 2014 audit that the AFPRSBS' BIR Registration under OCN No. 3RC0000601748 did not include and/or was not registered under the VAT system. According to Management, all income derived from its various business operations are tax-exempt by virtue of the ruling issued by the BIR dated August 1, 2005, hence, the non-registration under VAT System.

7.8 However, it must be clarified that VAT is not an income tax, as the former is an indirect tax while the latter is a direct tax. Hence, the AFPRSBS can only be exempted from VAT if its transactions meet any of those listed in the NIRC. As of date, the Management has yet to submit a proof of exemption or a VAT Exemption Certificate (VEC) from the BIR to support their claim.

7.9 Further, the provisions of the NIRC, as amended, did not mention any exemption from VAT on sale/lease transactions of any government entity like, the AFPRSBS. A brief reading of the System's Charter under PD No. 361 as amended, also showed that no provision thereof specifically exempts the AFPRSBS from imposing and collecting any kind of taxes.

7.10 As at December 31, 2020, the AFPRSBS still remain a non-VAT registered, which may expose the AFPRSBS to possible administrative and criminal sanctions in addition to significant monetary penalties. While the Management believes that the registration under VAT system may be impractical on the part of the AFPRSBS because they are now in the process of liquidating its resources and winding-up its operations, we emphasize that AFPRSBS must still comply with existing applicable rules and regulations until the completion of the liquidation process.

7.11 **We reiterated our recommendation in our CY 2014 audit that Management register under the VAT system to comply with pertinent provisions of RA No. 8424, or request for VAT exemption from the BIR for the possible issuance of VAT Exemption Certificate.**

7.12 The Management commented that VAT registration is required for any person or entity who, *in the course of his trade or business*, sells, barters, exchanges, leases goods or properties and renders services subject to VAT. AFPRSBS has been abolished effective April 8, 2016 pursuant to MO No. 90. As such and as mandated by the said memorandum, the sale transactions being made by the AFPRSBS for its real estate properties are all for liquidation purposes and not anymore in the normal course of its business, hence, not subject to VAT anymore.

7.13 As a rejoinder, the Audit Team is not amenable with the Management's contention as emphasized in their comments. Nowhere in the NIRC of 1997, as amended by TRAIN Law, specifically in Section 109 thereof that the reason cited by Management was among those which exempts a person from paying the VAT. Even assuming arguendo that it is not anymore conducting its transactions in the normal course of business, the NIRC is clear particularly Section 106(B)(4), referring to transactions deemed sale which provides that retirement from or cessation of business with respect to inventories of taxable goods existing as of such retirement or cessation are still subject to the VAT. Hence, we maintain our recommendation that the

AFPRSBS register under the BIR VAT System or they can opt to request for exemption from the BIR thru Department of Finance (DOF).

8. The development of a 571,479 sq. m lot into a residential subdivision project was not completed, contrary to Article 1.3 of the Joint Venture Agreement (JVA) between the AFPRSBS and a certain Developer although the shares in the property were already transferred and titled in the name of the Developer. The termination of the JVA was not implemented in accordance with the AFPRSBS Board Approval Sheet Meeting No. 03-2014 dated March 31, 2014, thus, the property remained undeveloped and idle, which may adversely affect the sale of all the AFPRSBS real estate in line with its winding up activities.

8.1 This is a reiteration of prior years' audit observation as embodied in the CY 2016 AAR due to the non-implementation of the recommendations presented by the Audit Team.

8.2 Article I.3 of the Joint Venture Agreement – DEVELOPMENT WORKS, provides that:

Xxx

The Developer shall start the development work on the SUBDIVISION PROJECT upon issuance of the required clearance from the Department of Agrarian Reform (DAR) and development permit from the concerned government agency. The DEVELOPER undertakes to secure at his expense, the issuance of such clearance and development permit. Upon the issuance of the appropriate development permit and clearance, the DEVELOPER shall complete the development works and facilities therein within the development works schedule set herein below:

Phase	Area (hectares)	Period
Phase I	20	2003-2006
Phase II	11	2006-2008
Phase III	9	2008-2009
Phase IV	17	2009-2010

8.3 Moreover, Section II of the AFPRSBS Board Approval Sheet Meeting No. 03 - 2014 provides:

Approved per Minutes of the Board of Trustees Meeting No. 03-2014 dated March 31, 2014 is the formal termination of the Joint Venture Agreement with the Developer for the development of the AFPRSBS' property in Mexico, Pampanga.

8.4 On April 11, 2003, the AFPRSBS entered into a JVA with certain Developer to develop into a low-cost to medium cost residential subdivision, now identified and known as Benjamin 9 Northville Subdivision, a parcel of land in Pandacaqui, Mexico, Pampanga covering an area of 571,479 square meters covered by TCT No. 509405-R.

8.5 Under the JVA, the Developer has the full authority to develop and subdivide the property into a subdivision project subject to the terms and conditions specified therein. The Developer in consultation with the Owner may increase or decrease the area covered by each phase and may accelerate but not delay the scheduled development thereon.

8.6 The JVA also provides that the Developer shall subdivide and secure the individual titles and tax declarations for each lot. For and in consideration of the obligations and undertakings, the Developer shall be entitled to 55 per cent of the net saleable area of the developed property while the AFPRSBS shall be entitled to 45 per cent. Thereafter, each party shall be responsible for the payment of the realty taxes on the subdivided lots allocated to each party in accordance with the sharing indicated in the Deed of Partition.

8.7 However, review of the accounting records disclosed that the AFPRSBS' entitlement to 45 per cent of the net saleable area of the developed property was booked under the Investment in Real Estate – Landbanking account with a balance of P122,545,388 as at December 31, 2020.

8.8 Based on the Annual Audit Report for CY 2016, the inspection of the property and its corresponding deliverables was undertaken, however, the scheduled development works, as agreed upon in the JVA, was not complied with, as the roads connecting each phase were only partially constructed and that the construction phase remained unfinished. The Unnumbered Management Communication Journal dated February 11, 2008 re: Release of Titles to the Developer disclosed that only Phase 1A which represents 37.65 per cent of the total 1,516 saleable lots covering an area of 135,332 sq. meters with the resultant lots divided proportionately had already been accomplished when the Developer stopped the construction.

8.9 As mentioned earlier, the Board of Trustees (BOT) in its minutes of meeting dated March 17, 2014 approved the formal termination of the JVA with the Developer for the development of the AFPRSBS's property in Mexico, Pampanga. The formal termination of the JVA has been approved per board approval sheet dated March 31, 2014, after the Developer informed the AFPRSBS of its lack of funds as specified in the letters sent by the former to the latter dated November 15, 2012 and January 22, 2014.

8.10 On the other hand, although the Developer was officially notified of the contract termination, it has been continuously negotiating with the AFPRSBS. The Management is considering selling the Developer's Joint Venture (JV) share and collecting the proceeds with two possible options, either they continue the JV or the new JV partner buys out the AFPRSBS share from the JV.

8.11 Since the said JVA was executed during the previous administration, the new members of the then BOT are now continuously communicating with the Developer for a more advantageous disposal of the JV share for the benefit of the AFPRSBS and expecting that the Developer would come up with appropriate actions until the first quarter of the year 2021. Otherwise, the

Management will pursue a case against the developer for the breach of contract including damages. As of audit date, the Audit Team was informed of the scheduled meeting of the Management and the Developer for purposes of settling the issue.

8.12 **We reiterated our recommendation that Management implement the abrogation of the JVA as approved by the then BOT, or consider filing an action for damages against the Developer for breach of contract.**

8.13 **We further recommended that Management:**

a. Submit all the relevant documents such as letters and other means of communications to support the actions undertaken related to the termination of JVA; and

b. Since the System is already under liquidation, consider disposing the AFPRSBS' share through public bidding.

8.14 Management commented that the Developer was given up to end of April 2021 to work on the assignment of its rights to another entity. Otherwise, the AFPRSBS will implement the abrogation of the partnership and sell the property through public bidding. They will submit all relevant documents once the concerned personnel are able to report to office after the Enhanced Community Quarantine (ECQ). Prior to the ECQ, there was a lockdown imposed within Camp Aguinaldo, hence, the AFPRSBS' personnel were not able to report to office, thus, delaying compliance with this requirement.

8.15 Furthermore, the AFPRSBS is continuously negotiating with the Developer. There is already a move by the partner to introduce the AFPRSBS President to the representatives of another company that will possibly take the place of the Developer as a JV partner.

9. The approved Fidelity Bonds (FB) of the AFPRSBS's accountable officers (AOs) were not immediately renewed before the expiration of its effectivity date for two consecutive years, as required under Treasury Circular (TC) No. 2- 2009 dated August 6, 2009, thus, the AFPRSBS may not be indemnified in case of loss or on acts of fraud, dishonesty or irregularity during the period after the FB has expired. Moreover, the amount of bond of the Head Cashier is insufficient to cover the actual accountability based on her daily average collections, hence, exposes the AFPRSBS to risk of loss as it will not be fully indemnified in case of loss or on acts of fraud, dishonesty or irregularity.

9.1 Treasury Circular No. 2-2009 provides that:

> *4.9 When Considered Bonded – An accountable public officer shall be considered bonded/insured with the Fidelity Fund upon payment of the bond premium. X x x.*
>
> *4.10 Effect of Approved Bond - An approved fidelity bond shall be non-transferable and personal to the accountable public officer and*

shall remain valid and effective for one (1) year from the time of payment and receipt of the bond premium. ***The fidelity bond shall be*** *subject* ***to renewal yearly before the expiration of the present bond coverage*** *while the accountable public officer is holding such position for which he was bonded. Failure to renew shall consider such bond as automatically cancelled and shall have no legal effect.*

7.2 Renewal - The fidelity bond of an accountable public officer shall be renewed before the expiration of the bond. X x x.

9.0 Penal Clause - Unjustified failure of an accountable public officer to comply with the requirements to apply the Fidelity Bond pursuant to this Circular and the PBL shall subject the responsible official/employee to applicable criminal, and/or administrative liability under the Revised Penal Code and PD No. 1445.
(Emphasis supplied)

9.2 Review of the List of Bonded AOs disclosed that the employees assigned at the AFPRSBS' Treasury Office and those designated authorized signatories and counter signatories in the issuance of checks including custodian of accountable forms, cash accountable officers, special disbursing officers (SDO) and/or petty cash fund (PCF) custodian in other departments were not able to renew their fidelity bonds prior to its expiration or cancellation, thus, the AFPRSBS may not be indemnified in case of loss or on acts of fraud, dishonesty or irregularity during the period after the FB has expired. Based on the confirmation letters from the Bureau of the Treasury for CYs 2018 to 2019, there were lapses ranging from five to 35 days in the renewal of the fidelity bonds as summarized in Table 10.

Table 10 – Comparative Schedule of Number of Days without the Approved Fidelity Bond
Effective Date 2018 and 2019

Assignment/ Department	Maximum accounta-bility	Amount of bond	No. of days without bond effective date 2018	No. of days without bond effective date 2019
Investment Management Group	P 25,000	P 18,900	5	35
Real Estate Group	127,500	100,000	11	25
Corporate Service Group	150,000	100,000	11	25
Membership Group	50,000	37,500	11	25
Bids and Awards Committee	30,000	22,500	11	25
Iloilo Satellite Office	150,000	100,000	11	25
Salary for project hired employees	50,000	37,500	11	25
Corporate Planning Office	50,000	37,500	21	6
Treasury Office	P 1,000,000	P 500,000	5	5

9.3 The coverage of the bond is effective for one year from the date of issue and is automatically cancelled on the anniversary or expiration date. Pursuant to TC No. 2-2009, an accountable public officer shall be considered bonded/insured with the fidelity fund upon payment of the bond premium. Otherwise stated, the actual date of payment of the bond premium is the same with the date of the effectivity of the bond.

9.4 Review of the disbursement vouchers relative to the payments for the renewal of the fidelity bonds of the accountable officers in CY 2019 and CY 2020 disclosed that payments of the bond premiums were made after the expiration or cancellation date of the respective fidelity bond, hence, there were insurance period which were interrupted. Details for CY 2020 are summarized in Table 11.

Table 11 – Comparative Schedule presenting the date of expiration and renewal of fidelity bond in CY 2020

Assignment/ Department	Expiration date of fidelity bond	Renewal date of fidelity bond
Investment Management Group	4/24/20	5/29/20
Real Estate Group	8/14/20	9/8/20
Corporate Service Group	8/14/20	9/8/20
Membership Group	8/14/20	9/8/20
Bids and Awards Committee	8/14/20	9/8/20
Iloilo Satellite Office	8/14/20	9/8/20
Salary for project hired employees	8/14/20	9/8/20
Corporate Planning Office	1/10/20	1/6/20
Treasury Office	7/5/20	7/10/20

9.5 There were also lapses noted in the renewal of the fidelity bond of the officers of the AFPRSBS who were designated as authorized signatories and counter signatories in the issuance of checks and approval of disbursement vouchers.

9.6 Moreover, the Audit Team noted that the fidelity bond of the Head Cashier is insufficient to cover his actual accountability. The approved bond of the accountable officer is P500,000 with a corresponding maximum cash accountability of P1,000,000 as provided in the revised schedule of premium rates under TC No. 2- 2009. However, based on the extracted postings from the AFPRSBS' Cash Receipts Book with sample reference to the period without bond, the collections of the Treasury Office exceeded the required maximum cash accountability as presented in Table 12.

Table 12 – Comparative Schedule of Maximum Cash Accountability and Actual Collections
As at December 31, 2020

Date Collected	Total Cash Collections	Maximum Cash Accountability	Excess (not covered by bond)
7/6/2020	P 22,497,414	P1,000,000	P 21,497,414
7/8/2020	10,352,518	1,000,000	9,352,518
7/9/2020	391,072,853	1,000,000	390,072,853
Total	**P423,922,785**		**P420,922,785**

9.7 Failure to renew the fidelity bond coverage on time automatically cancels the bond coverage. Likewise, insufficient coverage of actual accountability exposes the AFPRSBS to risk of loss as it will not be fully indemnified in case of loss or on acts of fraud, dishonesty or irregularity.

9.8 **We recommended that Management:**

a. **Apply for the increase of the amount of the fidelity bond of the Head Cashier to cover the excess cash accountability based on its historical average daily collections; and**

b. **Strictly monitor the effectivity and expiry dates of fidelity bonds of the Accountable Officers of the AFPRSBS to ensure that renewal of the same is made prior to its expiration/cancellation.**

9.9 Management commented that the average daily collection/accountability of Head, Cash Management Branch (CMB) as computed by COA, includes the maturities or coupon payments from short-term and long-term placements which are directly deposited to the servicing bank as opposed to over-the-counter collection, thereby, minimizing the exposure of the AFPRSBS to any possible loss or fraud in cash handling. Furthermore, the Post-Dated Checks have minimal exposure to fraud because of the heightened security measures introduced by the Philippine Clearing House Corporation through the Check Imaging Clearing System.

9.10 As a rejoinder, we would like to emphasize the following:

a. The amount of bond shall be based on the total accountability (cash, property and accountable forms) of the accountable public officer as determined by the Head of Agency. Provided, the individual maximum accountability shall not exceed P100 million;

b. The Head of the Agency may assign to other public officers the excess accountability for which a separate Fidelity Bond shall be secured;

c. There are no distinctions of the accountable officer's accountability whether the collections are made over-the-counter or deposited directly in the bank; and

d. The objective of fidelity bond seeks to indemnify the agency in case of loss or on acts of fraud or dishonesty regardless of the degree of risk.

10. Cash advances totaling P1.396 million for current operating expenditures were granted to 13 employees who were not duly bonded, contrary to Section 101 of PD No. 1445, Item 7.1 of COA Circular No. 97-002 dated February 10, 1997 as amended by COA Circular No. 2006-005 dated July 13, 2006, and Section 4.1 of Treasury Circular No. 02-2009 dated August 6, 2009, thus, the AFPRSBS is not protected and would not be indemnified in case of loss or on acts of fraud, dishonesty or irregularity.

10.1 Items 1 and 2 of Section 101 of PD No. 1445 provide that:

> 1. *Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.*
>
> 2. ***Every accountable officer shall be properly bonded in accordance with law**.* (Emphasis supplied)

10.2 In addition, COA Circular No. 2006-005 dated July 13, 2006 issued and amended Item 7.1 of COA Circular No. 97-002 dated February 10, 1997 on the Granting, Utilization and Liquidation of Cash Advances, particularly citing the minimum amount of cash accountability which should be covered by the approved fidelity bond, which provides that:

> *Each accountable officer whose total cash accountability is **not less than P5,000 shall be bonded**. The amount of bond shall depend on the total accountability of the officer fixed by the Head of the Agency. An official or employee who has both money and property accountability shall be bonded only once to cover both accountabilities, but the amount of bond shall be in accordance with the Schedule issued by the Bureau of Treasury.* (Emphasis supplied)

10.3 Moreover, Section 4.1 of Treasury Circular No. 02-2009 dated August 6, 2009 provides that:

> *Every officer, agent, and employee of the Government of the Philippines or of the companies or corporations of which the majority of the stock is held by the National Government (NG), regardless of the status of their appointment shall, whenever the nature of the duties performed by such officer, agent or employee permits or requires the possession, custody or control of funds or properties for which he is accountable, be deemed a bondable officer and shall be bonded or bondable and his fidelity insured.*

10.4 Verification of the related Disbursement Vouchers showed that the cash advances for operating expenses which ranged from P5,000 to P246,500 or a total amount of P1,395,783 were granted to 13 employees who were not bonded, contrary to the above-mentioned provisions of law. The details of the cash advances granted are presented in Table 13.

Table 13 – Cash Advances Granted to Employees without Bond
As at December 31, 2020

No.	AO	Date Granted	Ref. no.	Purpose	Amount
1	A	1/27/20	NI 172226	CA for the monthly Divisional Allowance (January 2020)	P 44,800
		2/26/20	NI 175641	CA for the monthly Divisional Allowance (February 2020)	44,800
		4/28/20	NI 178575	CA for the monthly Divisional Allowance (March 2020)	44,800
		5/14/20	NI 180801	CA for the monthly Divisional Allowance (April and May 2020)	89,600
		6/19/20	NI 183169	CA for the monthly Divisional Allowance for the month of June 2020.	44,800
		7/20/20	NI 187784	CA for the monthly Divisional Allowance (July 2020)	44,800
		9/22/20	NI 192174	CA for the monthly Divisional Allowance (August and September 2020)	89,600
		10/29/20	NI 196862	CA for the monthly Divisional Allowance (October and November 2020)	89,600
2	B	12/16/20	NI 201013	CA for AFPRSBS' Christmas Celebration 2020	246,500
3	C	8/3/20	NI 188799	CA for the Publication of Invitation to Bid for the sale of St Michael International Tower via Public Bidding.	150,000
4	D	1/3/20	NI 170979	CA for 2020 New Year's Call	65,000
		2/10/20	NI 173908	CA for Employees Social Activity	50,000
		7/10/20	NI 186745	CA for Salamat Paalam Program	25,000
5	E	9/28/20	NI 192892	CA for the publication of Invitation to Bid for the sale of St. Michael International Tower via public bidding	100,000
6	F	9/21/20	NI 191582	CA to defray expenses for the solicitation of Proxy of RGCI Shareholders	85,000
7	G	2/10/20	NI 173610	CA re: Filing of the Petition for Recovery of Possession	25,000
		10/20/20	NI 194105	CA re: Filing/docket fees of the Petition for extra-judicial settlement	28,000

No.	AO	Date Granted	Ref. no.	Purpose	Amount
8	H	Not yet released	NI 199138	CA for contingency and overhead expenses	27,683
9	I	1/27/20	NI 170883	Cash advance for publication fee	25,000
10	J	2/26/20	NI 173043	CA re: Levying of Units of Royal Plaza Tower (Tower A)	21,500
		11/10/20	NI 197930	CA re: Filing Fees for the Complaint for Ejectment and Complaint for Recovery of Possession	20,000
11	K	6/22/20	NI 182248	CA for the annual registration of Toyota Avanza with Plate No. TWI-265	5,000
		9/28/20	NI 191909	CA for the annual registration of Toyota Avanza with Plate Nos. TID-328 and TID-278	10,000
12	L	11/11/20	NI 196588	CA to defray expenses for the security of titles of CSTI	14,300
13	M	11/18/20	NI 196847	CA for the registration of Toyota Avanza with Plate No. TNQ-590	5,000
TOTAL					**P1,395,783**

10.5 It is to be emphasized that it is a mandatory requirement for every accountable officer to be bonded as it serves as a control mechanism to safeguard the resources of the government in case of loss or on acts of fraud, dishonesty or irregularity.

10.6 Thus, the AFPRSBS is not protected and would not be indemnified by the Bureau of the Treasury in case of loss or acts of fraud, dishonesty or irregularity on the part of the concerned accountable officers.

10.7 **We recommended that Management:**

a. **Stop the practice of granting cash advances to employees without the approved fidelity bond;**

b. **Ensure that only duly designated and bonded AFPRSBS employees are authorized to perform the disbursing functions; and**

c. **Strictly comply with the regulations on the Granting, Utilization and Liquidation of Cash Advances as required under Section 101 of PD No. 1445 and other related issuances of the COA and the Bureau of the Treasury.**

10.8 Management commented that the primary duties of those employees granted with cash advances without fidelity bond do not require possession or custody of government funds. They were issued cash advances only for purposes of accomplishing specific tasks that require use of funds. The personnel are the ultimate users of the funds and not fund custodians. If all personnel who will be issued cash advances for a one-time activity will be bonded, this could tantamount to bonding majority, if not all, of the personnel of the AFPRSBS since there will always be a time that they will be issued cash advances.

10.9 Furthermore, the availment of individual cash advances is being resorted to since the funds being handled by the accountable officers who are bonded are not allowed to be used for transactions requiring funds of more than P15,000. The AFPRSBS is ensuring that funds managed by custodians are properly managed and that those comply with the regulations on the Granting, Utilization and Liquidation of Cash Advances.

10.10 As a rejoinder, we maintain our position that cash advances for current operating expenses shall be granted only to those personnel who are designated and with approved fidelity bond.

10.11 We would also like to emphasize that apart from the employees who are bonded because of their functions as petty cash fund custodian and/or special disbursing officers, there are other officers and employees of the AFPRSBS who are likewise bonded with sufficient cash accountability and may also qualify to receive cash advances for special purpose or event.

10.12 In addition, the subject rules and regulations on the granting of cash advance require that cash advances shall be granted only, except for travel, to those personnel who are properly bonded. In practice, the utilization thereof may be delegated to other employees whose primary functions are related to the purpose of granting cash advance like Christmas Party, Anniversary Celebration and other similar event.

11. The grant, utilization and liquidation of cash advances for the monthly divisional allowances totaling P492,800 were not in accordance with the provisions on the granting, utilization and liquidation of cash advances.

11.1 Section 89 of PD No. 1445 provides that:

> *No cash advance shall be given unless for a legally authorized specific purpose**. A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has served. No additional cash advance** shall be allowed to any officer or employee **unless the previous cash advance given to him is first settled or a proper accounting thereof is made.*** (Emphasis supplied)

11.2 COA Circular No. 97-002 prescribes the rules and regulations on the granting, utilization and liquidation of cash advances. It provides, among others, that:

4.1.2 No additional cash advances shall be allowed to any official or employee unless the previous cash advance given to him first settled or a proper accounting thereof is made;

4.1.3 A cash advances shall be reported on as soon as the purpose for which it was given has been served; and

5.8.0 All cash advances shall be fully liquidated at the end of the year. Except for petty cash fund, the AO shall refund any unexpected balance to the cashier/Collecting Officer who will issue the necessary official receipt.

11.3 The AFPRSBS has been providing all of its departments and/or offices monthly departmental or divisional allowances to cover the snacks being served to their respective clients. A particular employee was authorized to receive monthly cash advances which shall be distributed to the representatives of each department and/or office of the AFPRSBS. For CY 2020, the monthly divisional allowances budgeted and allocated to all departments and/or offices amounted to P44,800 per AFPRSBS Memorandum No. CPO-1259 dated January 8, 2020. The breakdown is presented in Table 14.

Table 14 - Breakdown of Monthly Divisional Allowance
For Calendar Year 2020

Department/Office	Approved Budget
Office of the President	P 3,000
Corporate Planning Office	600
Office of the Internal Audit	500
Office of the Executive Vice President/Chief Operating Office	2,500
Human Resource Office	800
Management Information System Office	800
Head, Real Estate Group	1,500
Property Management and Enhancement Department	2,800
Marketing Sales Department	2,400
Head, Investment Management Group	1,500
Equity Investment Management Department	800
Treasury Department	1,800
Head, Membership Group	1,500
Membership Records and Refund Department/ Membership Related Service Department	4,600
Accounting Department	3,200
(Forward)	
Legal Department	1,400
Head, Corporate Service Group	1,500
General Service Department	2,200
Service Personnel	1,400
Centralized Coffee Allocation	10,000
Total	**P44,800**

11.4 Verification of the related Journal Vouchers and Disbursements Vouchers including its supporting documents pertaining the granting, utilization and liquidation of cash advances for the monthly divisional allowances disclosed the following:

a. For CY 2020, the total amount of cash advances granted for divisional allowance of the AFPRSBS was P492,800, which were recorded in Other Assets - Advances for Operating Expenses account. Out of the said amount, a total of P89,900 remained unliquidated as at year-end. The cash advances granted and the liquidations made during the year are summarized in Table 15.

Table 15 - Schedule of Cash Advances Granted and Liquidations Made
For Calendar Year 2020

RVCP No.	Period Covered	Date Granted	Date Liquidated	Amount Granted
NI 172226	January	1/27/20	2/18/2020	P 44,800
NI 175641	February	2/26/20	3/13/2020	44,800
NI 178575	March	4/28/20	5/28/2020	44,800
NI 180801	April and May	5/14/20	7/09/2020	89,600
NI 183169	June	6/19/20	7/16/2020	44,800
NI 187784	July	7/20/20	9/10/2020	44,800
NI 192174	August and September	9/22/20	10/27/2020-	89,600
NI 196862	November and December	10/29/20	-	89,600
Total				**P492,800**

b. The divisional allowances for the months of April and May were granted in May 14, 2020 even the allowance for the month of March has not yet been liquidated. Likewise, the allowance for the month of June was granted on June 19, 2020 even without the liquidation of the previous cash advance granted on May 14, 2020.

c. It was also noted by the Audit Team that Official Receipts (ORs) attached to the liquidation reports of cash advances granted for the months of January, February, August and September 2020 were dated prior to the dates of the cash advances, and were made on reimbursement basis which were not in accordance with the guidelines on the Granting, Utilization and Liquidation of Cash Advances.

d. There were also some visible erasures on the ORs submitted which may give an impression that those ORs were tampered.

11.5 Accordingly, the above-enumerated lapses in the grant, utilization and liquidation of cash advances are not in accordance with the afore-cited provisions.

11.6 **We recommended that Management:**

a. Ensure the timely liquidation of all cash advances;

b. Refrain from granting additional cash advance without proper liquidation of the previous cash advance;

c. See to it that the Official Receipts submitted to support the liquidation reports have no erasures and must be dated within the period covered by the cash advance granted; and

d. Strictly comply with Section 89 of PD No. 1445 and pertinent Sections of COA Circular No. 97-002 on the granting, utilization and liquidation of cash advances to avoid possible audit suspension and/or disallowance.

11.7 Management commented that it has always been the policy of the AFPRSBS not to grant additional Cash advances (CAs) unless previous CAs are liquidated, i.e., at least submitted to the Office of the Internal Auditor. In the case of the CAs for divisional allowances, there was never a time that a CA was released without submitting the liquidation of the previous CA.

11.8 On the noted observation that CAs were released in the subsequent months, please note that those were during the time of the hard lockdowns. The NCR was in Enhanced Community Quarantine (ECQ) from March to mid-May 2020. In August 2020, the NCR was again reverted to Modified ECQ. The AFPRSBS was in an alternative work arrangement and the processing of the CAs were delayed. During the early days of the lockdown, advances were made by some units from their personal funds hence the earlier dates of the receipts/invoices than the date of the cash advance. The advances of the units were only reimbursed upon availability of funds. Management provided meals and snacks to personnel reporting for work and those who are stay-in during the lockdowns so that they need not get out of their offices to buy food.

11.9 As a rejoinder, we maintain our position that Management shall comply with the established rules and regulations of the government in the grant, utilization, and liquidation of cash advances.

11.10 The alternative use of cash advance system has been recognized as a facilitative tool in the financial operation of the government.

11.11 While we understand that the cause of delay in the liquidation of cash advances was due the community quarantine status, the issue on liquidation was already noted by the Audit Team even before the lockdown in March 2020.

11.12 As regards to the grant of cash advances during the ECQ period, Management could have resorted to disbursing the budgeted divisional allowance thru an approved disbursement voucher with corresponding check to reimburse the expenses advanced by the concerned employees and officers of each department.

12. Representation Allowance and Transportation Allowance (RATA) in the total amount of P0.876 million paid in CY 2016 to the lawyers of the Office of the Government Corporate Counsel (OGCC) in the guise of fixed monthly compensation/out-of-pocket expenses, which were considered irregular expenditures under COA Circular No. 2012-003 dated October 29, 2012, have not yet been properly documented nor refunded to the AFPRSBS, contrary to Item No. 4 of National Compensation Circular (NCC) No. 67 dated January 1, 1992.

12.1 This is a reiteration of prior years' audit recommendation embodied in the Annual Audit Report for CY 2016 due to the non-implementation of the recommendation presented by the Audit Team.

12.2 Item No. 4 of National Compensation Circular No. 67, dated January 1, 1992 provides that:

> *No one shall be allowed to collect RATA from more than one source*.

12.3 Under Section 3.1 of COA Circular No. 2012-2003 dated October 29, 2012, the term "irregular expenditure" signifies:

> *An expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws.* ***Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline.*** *There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrence of an irregular expenditure.* ***A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular****.* (Emphasis supplied)

12.4 Validation of prior years' audit recommendations showed that the CY 2016 audit recommendation on the refund of additional compensation paid to the OGCC lawyers were not yet implemented. It was also noted that aside from the allowable Special Counsel Allowance (SCA), the OGCC lawyers were receiving additional allowances in the performance of their duties, enumerated as follows:

a. Representation allowance – this allowance represents reimbursable meal expenses incurred during court attendance;

b. Travel lodging allowance – reimbursable hotel accommodation and lodging cost incurred in the performance of assigned tasks when the necessity arises;

c. Travel/transportation allowance – this includes roundtrip airfare and ferry tickets, taxi fare and toll fees, terminal fees and parking fees. Also, OGCC lawyers are granted reimbursable gasoline allowance in case the

AFPRSBS fails to provide transportation vehicle to enable the OGCC lawyers to go to the place of meeting or court hearing; and

d. Compensation/Out-of-pocket Expense - This represents extended monthly reimbursable allowance payable to the account of the OGCC lawyer.

12.5 Moreover, the Audit Team observed that the payments to OGCC lawyers pertaining to the monthly compensation/out-of-pocket expense amounting to P876,000 were made on top of the Special Counsel Allowance and other allowable reimbursable allowances. We also noted the following deficiencies on the payments to OGCC lawyers:

a. The Compensation/out-of-pocket expenses in the amount of P876,000 was recorded in the books as debit to Travel/transportation account. Inquiry with the Accounting Department disclosed that the nature of the allowance was similar to Transportation Allowance.

b. Disbursement Vouchers were not supported with official receipts and other documents which may prove that actual travels were undertaken and expenses for representation purposes were incurred.

c. Certifications issued and submitted by the OGCC lawyers signified that the claims pertained to reimbursement of necessary transportation and representation expenses incurred by the respective OGCC lawyer in rendering special legal services. However, confirmation with the OGCC revealed that the same lawyers were also receiving RATA from the OGCC for the same period.

12.6 The said practice is not in accordance with the pertinent provision of NCC No. 67, which states that:

> *In all cases, commutable and reimbursable RATA shall be paid from the amount appropriated for the purpose and other personal services of the agency or project from where the officials and employees covered under this Circular draw their salaries. No one shall be allowed to collect RATA from more than one source.*

12.7 The aforesaid provision seeks to prevent the collection of RATA by a public official from the budgets of more than one agency. It is also emphasized that the other source referred to in this particular provision pertains to another agency. The prohibition in NCC No. 67 is also applicable when a government official is on detail status with another government agency. The RATA should be availed from the mother agency and not from the agency where he is detailed.

12.8 According to Management, inasmuch as the OGCC is the principal and statutory law counsel of the AFPRSBS, the Memorandum of Agreement (MOA) was prepared and signed with an honest belief that there is nothing irregular in giving such allowance. However, the AFPRSBS already stopped the payment of the subject monthly allowances, taking into consideration the audit recommendation in CY 2016 on the refund of allowance paid to OGCC lawyers.

12.9 **We reiterated our recommendation that Management submit receipts and other documents which will prove that actual travels were undertaken and expenses for representation purposes were incurred to avoid audit suspension and/or disallowance.**

12.10 **We further recommended that Management require the concerned OGCC lawyers who are receiving representation and travel allowance from the AFPRSBS to refund the amount of P876,000 corresponding to an additional compensation.**

12.11 Management commented that they already informed the OGCC lawyers on the issue.

13. The AFPRSBS Bids and Awards Committee (BAC) Secretariat was not able to publish in the Government Procurement Policy Board (GPPB) online portal various procurements related to the response and recovery interventions to Corona Virus Disease 2019 (COVID-19) totaling P381,410, contrary to Section 4 (u) of the Bayanihan to Recover as One Act in relation to Section 4 (k) of Bayanihan to Heal As One Act and other pertinent sections of relevant GPPB issuances on the mandatory publication requirement, thus, affecting the reportorial requirements by the GPPB under the Bayanihan Acts and the non-achievement of the primary purpose of promoting accountability and transparency in the procurement of goods during the State of Public Health Emergency.

13.1 On March 8, 2020, Presidential Proclamation No. 922 was issued declaring a State of Public Health Emergency throughout the Philippines due to COVID-19. Accordingly, the Congress enacted Bayanihan to Heal as One Act and Bayanihan to Recover as One Act which were approved by the President on March 24, 2020 and September 11, 2020, respectively. The said Bayanihan Acts cover, among others, COVID-19 response and recovery interventions by different government agencies including government-owned and controlled corporations (GOCCs), such as the AFPRSBS.

13.2 As part of the COVID-19 response and recovery interventions, AFPRSBS made several procurements of goods and services under the allowable method of Negotiated Procurement which is either under Emergency Cases or Agency-to-Agency.

13.3 Relative to the procurement of goods and services, Section 4 (k) of Bayanihan to Heal as One Act, states that:

> *Undertake the procurement of the following as the need arises, in the most expeditious manner, as exemptions from the provisions of RA No. 9184 or the "Government Procurement Reform Act" and other relevant laws:*

*(1) **Goods**, which may include personal protective equipment such as gloves, gowns, masks, goggles, face shields; surgical equipment and supplies; laboratory equipment and its reagents; medical equipment and devises; support and maintenance for laboratory and medical equipment, surgical equipment and supplies; medical supplies, **tools** and consumables such as alcohol, sanitizers, tissue, thermometers, hand soap, detergent, sodium hydrochloride, cleaning materials, povidone iodine, common medicines (e.g., paracetamol tablet and suspension, mefenamic acid, vitamins tablet and suspension, hyoscine tablet and suspension, oral rehydration solution, and cetirizine tablet and suspension); **testing kits** and such other supplies or equipment as may be determined by the DOH and other relevant government agencies: Provided, That the DOH shall prioritize the allocation and distribution of the aforesaid goods, supplies and other resources to the following:*

i. Public health facilities in the regions, provinces, or cities, that are designated as COVID-19 referral hospitals, such as, but not limited to, Philippine General Hospital, Lung Center of the Philippines, and Dr. Jose N. Rodrigues Memorial Hospital;
ii. Private hospitals which have existing capacities to provide support care and treatment to COVID-19 patients; and
iii. Public and private laboratories that have existing capacities to test suspected COVID-19 patients.

(2) Goods and services for social amelioration measures in favour of affected communities;
(3) Lease of real property or venue for use to house health workers or serve as quarantine centers, medical relief and aid distribution locations, or temporary medical facilities;
(4) Establishment, construction and operation of temporary medical facilities;
(5) Utilities, telecommunications, and other critical services in relation to operation of quarantine centers, medical relied and aid distribution centers and temporary medical facilities; and
(6) Ancillary services related to the foregoing. (Emphasis supplied)

13.4 To promote accountability and transparency, Section 4 (u) of the Bayanihan to Recover as One Act on the required publication, provides:

*Procurement of the following as the need arises, in the most judicious, economical and expeditious manner, as exemptions from the provisions on bidding process required under RA No. 9184 and other relevant laws: **Provided, that the following information and documents related to the procurement shall be published in the Government Procurement Policy Board (GPPB) online portal,** the website of the procuring entity concerned, if available, and at any conspicuous place reserved for this purpose in the premises of* *the procuring entity within 7 working days from the date of acceptance of the award:*

(i) *Project name;*
(ii) *Approved budget for contract;*
(iii) *Contract period;*
(iv) *Name of winning supplier, distributor, manufacturer, contractor or consultant;*
(v) *Amount of contract awarded;*
(vi) *Notice of award;*
(vii) *Date of award and acceptance;*
(viii) *Contract or purchase order and*
(ix) *A certification stating that the procuring entity exerted all efforts to secure the most advantageous price to the government based on existing price data of the agency, the DTI or other relevant agencies or preliminary market scanning done by the agency showing prevailing market prices and practice.* (Emphasis supplied)

13.5 In the audit of the COVID-19 response and recovery interventions, the Audit Team noted that the BAC Secretariat was not able to publish in the GPPB online portal the AFPRSBS's purchase orders and other procurements thru their respective revolving fund with a total amount of P381,410. The details are presented Table 16.

Table 16 - Procurements Not Published in the GPPB Online Portal
As at December 31, 2020

Particular	Unit	Amount	Modes of Procurement	Published?*
1. Alcohol and sprayer of Alcohol	Bottles/ Gallons/ pieces	P 14,609	Emergency Procurement	No
		108,760	Small value procurement	No
2. Disinfectant Spray, Disinfectant Door Mat	Cans/ pieces	27,429	Emergency Procurement	No
		98,096	Small Value Procurement	No
3. Doormat, Foldable Mattress	Packs/ pieces	6,386	Emergency Procurement	No
		29,680	Small Value Procurement	No
4. Face masks, Face shield, Surgical Mask, Surgical Gloves	Boxes/ pieces	30,541	Small Value Procurement	No
		23,187	Emergency Procurement	No
5. Hand soap	Bottles/ pieces	2,474	Emergency Procurement	No

Particular	Unit	Amount	Modes of Procurement	Published?*
6. Overall Non Sterile Protective Medical Grade, Plastic Cover, G8 Jumbo	Rolls/ pieces	18,340	Small Value Procurement	No
7. Thermal scanner, Thermogun	Pieces	3,500	Emergency Procurement	No
		18,408	Small Value Procurement	No
Total unpublished		**P381,410**		

*https://gppbgovph.com/awardedcontracts.php as at January 27, 2021

13.6 Considering the foregoing, the non-publication of the aforesaid contracts in the GPPB Online Portal was not in accordance with Section 4 (u) of the Bayanihan to Recover as One Act in relation to Section 4 (k) of Bayanihan to Heal As One Act; Sections 3.6 and 9 of GPPB Circular 01-2020 as also mentioned in Annex A of GPPB Resolution No. 06-2020; Section 3 of GPPB Advisory 04-2020; and Sections 3 and 4 of GPPB Advisory 05-2020, thus, affecting the reportorial requirements under the Bayanihan Acts by the GPPB and its Technical Support Office (TSO) as the source of data or information, referring to the publication in the online portal, is incomplete.

13.7 Moreover, the objective of the mandatory publication in the GPPB online portal to ensure transparency and accountability in the implementation of the Bayanihan Acts, particularly in the government negotiated procurement during the State of Public Health Emergency, was not fully achieved.

13.8 **We recommended that Management require the BAC Chairperson to:**

a. **Immediately post unpublished procurements in the GPPB online portal; and**

b. **Strictly comply with Section 4 (u) of the Bayanihan to Recover as One Act in relation to Section 4 (k) of Bayanihan to Heal as One Act and relevant GPPB issuances on the mandatory publication requirement in the GPPB online portal in all succeeding COVID-19 related procurements to be entered into by the AFPRSBS**.

13.9 The Management commented that they attempted to publish the awarded contracts at the GPPB Online Portal, but cannot be accomplished at that time as the items were already procured and publication of the Notices of Award is precluded by the provisions of RA No. 9184.

13.10 Furthermore, out of the total P381,410 piecemeal procurements, the amount of P146,568 were procured from the Procurement Service of the Department of Budget and Management.

13.11 In all future procurements covered by special and other laws including the Bayanihan to Recover as One Act and Bayanihan to Heal as One Act, we shall conform to the prescribed publication and other rules of procurement.

13.12 As a rejoinder, we appreciate the positive response of the Management that it will conform to the requirement of publication under the Bayanihan to Recover as One Act and Bayanihan to Heal as One Act. However, we would like to emphasize the following:

a. Although the transactions were already consummated, the requirement of publication under the Bayanihan to Recover as One Act and Bayanihan to Heal as One Act seeks to promote accountability and transparency on the part of the government or any other government agency especially during the State of Public Health Emergency wherein procurement of goods and services are completed in expeditious manner.

b. Likewise, the publication of the completed procurement of goods and services may serve as price reference relative to the budget allocation by other concerned government agencies with respect to their procurement activities.

c. Further, while the publication is not required for small value procurement under RA No. 9184, the fact remains that the purpose of publication for government procurements is for accountability and transparency as required under RA No. 9184, Bayanihan to Heal as One Act and Bayanihan to Recover as One Act.

14. The AFPRSBS liquidation and winding down may be prolonged as planned due to: (a) non-transfer of the 1,365 TCTs in the name of AFPRSBS despite acquiring ownership over the assets; and (b) insufficiency of its liquid assets to fully cover its obligations to members, thus, affecting/delaying the prompt disposal of its properties at the highest recoverable value and to raise funds as part of their liquidation plan.

14.1 This is a reiteration of prior years' audit observation as embodied in the CY 2018 AAR due to the non-implementation of the recommendations presented by the Audit Team.

14.2 MO No. 90 dated April 8, 2016 directed the abolition of the AFPRSBS, privatization of its subsidiaries and other purposes.

14.3 Likewise, under Section 3 of the same Memorandum Order, the AFPRSBS Board shall act as of Board of Liquidators, subject to oversight by the Governance Commission and is hereby directed to:

Xxx

d. 4) Refund of AFP-RSBS member's contributions as they fall due;

Xxx

g. Pursue activities necessary to perfect the ownership of its real estate assets such as, but not limited to, Land Use Coversion, Comprehensive Agrarian Reform Program (CARP) Exemption, Reconveyance, Segregation, and Transfer of TCTs;

Xxx

14.4 Land title refers to the legal document conveying ownership to a property. It 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. To the purchaser, the only legal truth upon which he has to rely is that the land is registered in the name of the seller and that the title under the law is absolute and indefeasible (Registration of Land Titles and Deeds, Narciso Pena, 1982 edition).

14.5 As at December 31, 2020, the Audit Team noted that there are 1,365 TCTs not yet transferred in the name of the AFPRSBS. These are still in the name of the developers or owners, as presented in Table 17.

Table 17 - Schedule of TCTs not yet transferred in the name of the AFPRSBS
As at December 31, 2020

Project name	No. of TCTs	Area (sq.m.)	Registered owner	Amount
1. Benjamin 9, Pampanga	663	480,695	Benjamin Const. Equipment, Inc.	P 258,581,705
2. Eastridge Golf	60	38,794	Antipolo Properties, Inc.	39,160,035
Course and Subdivision I	47	35,821	First Countertrade Inc.	36,158,984
3. North Matrixville Subdivision	3	273	Name of individuals	128,973
4. Riviera Project-Residential	1	38,228	Riviera Golf Club, Inc.	34,072,258
5. Riviera Project-Commercial	4	99,322	Riviera Golf Club, Inc.	113,667,590
6. SLSS- Phase I	3	239	SLDC/AFPRSBS	242,696
7. Villa Caceres	69	86,221	AFPRSBS & Moldex Realty, Inc.	270,880,204
8. Sta. Rosa Homes Subdivision	3	1,005	21'st Century Resources and Development Corporation	3,106,066
9. Village East III Subdivision	440	234,959	Antipolo Properties Inc.	119,059,022
LANDBANKING				
10. Hermosa, Bataan	2	62,907	Name of individuals	4,252,023
11. Calamba (inner lots)	7	71,194	Name of individuals	6,383,234
12. Eastridge Golf Course and Subdivision II	63	492,546	Name of individuals	103,162,534
TOTAL	**1,365**	**1,642,204**		**P 988,855,324**

14.6 Some of the reasons for the delay in the consolidation of TCTs in favor of the AFRSBS are as follows:

a. legal issues on ownership;
b. deficiencies in the documentation;
c. encumbrances on the titles; and
d. Deeds of Absolute Sale (DAS) not notarized.

14.7 Thus, the AFPRSBS's interests over those assets are at risk of fraud, dispute and encroachment by trespassers over the boundaries. Ultimately, the abolition of the AFPRSBS as directed by the President of the Philippines under MO No. 90, s. 2016, may not be fully achieved as planned and the payment for retirement benefits of military personnel may not be fully funded.

14.8 The Management, during the meeting regarding the implementation of prior years' audit recommendations, mentioned that some of the TCTs need to be reconstructed and/or re-documented to enable them to address the issue. However, they were not permitted by the Department Agrarian Reform (DAR) and Department of Environment and Natural Resources (DENR) to do so because the AFPRSBS is undergoing liquidation and their request for conversion of the parcels of land were also denied by the DAR/DENR for the same reason that the AFPRSBS is already under the process of liquidation.

14.9 The Audit Team has already requested for the copies of the communications between the Management and the officials of the DAR and DENR. However, to date, the Management has not yet provided the said documents for evaluation.

14.10 As provided in the AFPRSBS's winding down and liquidation plan, the objective is to raise P16 billion to refund all the members' contributions. One of the strategies pursued by the AFPRSBS to achieve the objective is to dispose all assets, including real estate, at the highest recoverable value. On November 6, 2017, the Governance Commission for GOCCs (GCG) approved the divestment of equity shares, such as Monterrosa Development Corporation (MDC) and Southern Utility Management and Services, Inc. (SUMSI) and real estate properties, such as, lots 6B/6C/6D/6E at Aseana City (Roxas Boulevard, Paranaque City); lots 1979-I and 1981-A (Sta. Rosa City, Laguna); Calubcob property (Silang City, Cavite); and Phase 2 of Green Meadows Iloilo Project. All the Real Estate Projects, except for the Calubcob property were successfully bidded-out in CY 2018.

14.11 Furthermore, the AFPRSBS' Board of Liquidators approved the award of sale of the properties with a total contract price of P6.396 billion on March 22, 2018 to the highest complying bidders. The sold assets will be payable in cash within 30 days except for Green Meadows Iloilo which will be payable in three years at an interest rate of four per cent per annum. By the end of 2018, the AFPRSBS has sold a total of 171 retail real estate inventories which resulted in the total of P203.628 million sales net of discount. During CY 2020, the AFPRSBS also successfully divested its equity shares in SUMSI to PAMANA Water Corporation for P151.780 million, thereby, raising the additional funds available for refund to members.

14.12 In addition, it was observed that as at December 31, 2020, the AFPRSBS's liquid assets are not sufficient enough to fully cover its obligations to the members as illustrated in Table 18. An asset to be considered liquid must be easy to sell or convert into cash without any loss in its value.

Table 18 - Computation of Cash Deficiency to Pay Members Contributions and Interest
As at December 31, 2020

Particulars	**Amount**
Liquid assets	
Cash and cash equivalents	P 46,126,714
Short-term investments – net	2,095,000,000
Investment in bonds and commercial paper (current)	2,099,717,469
Receivables – net	745,919,339
Total	4,986,763,522
MC payable and interest	5,753,108,390
Cash deficit	**P 766,344,868**

14.13 Foregoing considered, the AFPRSBS' winding down and liquidation plan is prolonged as planned and their objective to dispose the properties at the highest recoverable value and to raise funds available to cover its obligations to members is hindered.

14.14 **We reiterated our recommendation that Management require the department/division concerned to expedite the process of consolidating the titles of various properties in favor of the AFPRSBS to safeguard its ownership and facilitate its disposal in pursuance to its winding down and liquidation plan;**

14.15 **We further recommended that Management:**

a. **Submit copies of the communications between the Management and the officials of the DAR and DENR for evaluation of the Audit Team;**

b. **Make a representation and appeal with the DAR and DENR to consider the continuous conversion of the remaining acquired agricultural lands until such time that the issues on the TCTs are properly addressed to facilitate the land transfer to AFPRSBS; and**

c. **Maintain enough liquid assets such as cash, cash equivalents, short-term investments, and receivables to fully cover its obligations to members.**

14.16 Management commented that, since the AFPRSBS is already assured of the availability of funds for all its obligations (refund of members' contributions and various payables), the intention now is to hold on to most of its real estate investments and turnover the same to the entity who will be identified to receive the residual assets of the AFPRSBS. The AFPRSBS has created already a task force that is now handling the accounting of the remaining real estate inventories. The AFPRSBS will ensure that the properties will be properly accounted prior to turnover.

14.17 Most of the variances noted by the auditors can be traced to titles that are not yet in the name of the AFPRSBS. The titles are properly classified in the vault as pertaining to each of the projects.

14.18 Furthermore, the DAR and DENR did not allow the conversion of properties by virtue of the abolition of the AFPRSBS. The same, however, were only relayed to the AFPRSBS verbally. This is despite the fact that MO No. 90 allows the AFPRSBS to pursue activities necessary to perfect the ownership of its real estate assets.

14.19 In relation thereto, a Technical Working Group was created by the Department of National Defense (DND) to review the Winding Down Plan of AFPRSBS and the drafting of the EO in relation to the turnover of the assets of the AFPRSBS to the DND. The AFPRSBS will request for inclusion in the said EO an authority to process the titling of the real estate assets in its name.

14.20 Furthermore, on the required funding to fully pay the MCs, the AFPRSBS has total funds available of P910,872,945 as at December 31, 2020 as presented below.

Particulars	**Amount**
Cash and cash equivalents	P 46,126,714
Short-term investments – net	2,095,000,000
Receivables – net	742,365,950
Long-term investments	4,474,471,120
Total	7,357,963,784
Less:	
Accounts payable	693,982,449
MC payable and interest	5,753,108,390
	6,447,090,839
Funds available/excess	**P 910,872,945**

14.21 As a rejoinder, we refute Management's claim that it has sufficient funds available to refund Members contribution and interests thereon on the basis of adding the long-term investments to determine its liquidity. We reiterate that an asset to be considered liquid must be easy to sell or convert into cash without any loss in its value. Thus, the long-term investments should be excluded from the computation of liquid assets as its realization cannot be made within one year after the close of the calendar or fiscal period.

15. The Certificate of Sale (COS) for the 329 units of Royal Plaza Twin Tower was already registered in the Registry of Deeds (RD) on March 14, 2013. However, the transfer of the said properties to AFPRSBS was not yet effected to date, thus, depriving the AFPRSBS of their right and interest over the property as well as the actual possession of the same.

15.1 Section 6 of Act No. 3135 - An Act to Regulate the Sale of Property Under Special Powers Inserted in or Annexed to Real-Estate Mortgages, expressly mandates that:

> *In all cases in which the extrajudicial sale is made under the special power hereinbefore referred to, the debtor, his successors in interest, or any judicial creditor or judgment creditor of said debtor, or any person having a lien on the property subsequent to the mortgage or deed of trust under which the property is sold, may redeem the same at any time within the term of one year from and after the date of sale; and such redemption shall be governed by the provisions of sections 464 to 466 inclusive, of the Code of Civil Procedure, insofar as these are not inconsistent with the provisions of this Act.*

15.2 The Supreme Court in the case of Garcia vs. Ocampo explained that the "date of the sale" under Section 6 of Act No. 3135, as amended, is the date the certificate of sale is registered with the Register of Deeds since the sale of registered land does not take effect as a conveyance, or bind the land until it is registered. Likewise, in the same case, Supreme Court held that failure to register the certificate of sale violates the provisions of said law.

15.3 On the other hand, Article 428 of the Civil Code provides that:

> *The **owner has the right to enjoy and dispose of a thing, without other limitations than those established by law**. The owner has also a right of action against the holder and possessor of the thing in order to recover it. (348a)* (Emphasis Supplied)

15.4 Moreover, the Certificate of Sale (COS) dated February 28, 2013 states that:

> *The period of redemption of the real properties foreclosed will expire one (1) year from and after the date of registration of the COS with the corresponding Register of Deeds.*

15.5 On November 23, 2012, the 329 properties of the borrower were extra-judicially foreclosed for the sum of P361,072,389.60 in favor of AFPRSBS 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. It is stated in the said COS that "*the period of redemption of real property will expire one year from and after the date of registration of the certificate of sale with the corresponding Register of Deeds".*

15.6 Records disclosed that the COS has been duly registered with the Register of Deeds for the City of Manila and that the redemption period has already lapsed.

15.7 The foreclosed properties from the borrower include a parcel of land, commercial, residential and accessory units of the hotel and condominium as well as the parking area. The property has two towers located at Remedios St., Malate Manila.

15.8 During the ocular inspection of the property on February 13, 2020, the Audit Team observed the following:

a. The office space unit 1001A located at the 10th floor of Tower A with area of 963.77 sq.m. is being rented by IMS Philippine Maritime Corporation (lessee) for a period of five years. Per inquiry with the President of the lessee, they started leasing the subject office space on November 11, 2019;

b. The parking area located at the third floor is also being leased to various lessees

c. There were improvements being introduced by the previous owner in the 10th, 11th, 12th and 14th floors of Tower B; and

d. The properties in Tower A were already finished units while the properties in Tower B were neither finished nor ready for occupancy.

15.9 Foregoing considered, the delay in the transfer of the said properties deprived the AFPRSBS of its rights and interest over the property, the actual possession thereof, and the earnings from said property such as but not limited to income from rental on its office space and parking area.

15.10 **We recommended that Management expedite the transfer to the possession of the AFPRSBS the 329 units of Royal Plaza Twin Tower because the redemption period has already lapsed for almost seven years.**

15.11 Management commented that the AFPRSBS requested the OGCC to implement the possession of the property, but this was not considered by the Sheriff since the title in the name of the AFPRSBS is a pre-requisite in the implementation.

16. Status of Audit Suspensions, Disallowances and Charges

16.1 As at year-end, the balance of audit disallowances amounted to P248,529,715, while there are no balances for audit suspensions or charges. Details are presented in Table 19 as follows:

Table 19 – Status of Audit Suspensions, Disallowance and Charges
As at December 31, 2020

Audit Action	Beginning Balance 01/01/2020	Issued	Settlement	Ending balance 12/31/2020
Suspensions	P 0	0	P 0	P 0
Disallowances	249,342,211	0	812,496	248,529,715
Charges	0	0	0	0
	P249,342,211	**0**	**P812,496**	**P248,529,715**

16.2 In CY 2020, ND No. 16-002-AFPRSBS(13) amounting to P20,000 which pertains to the disallowance on loyalty award granted in excess of the authorized rates provided under Civil Service Commission Memorandum Circular No. 6, s. 2002 was settled. The payment was substantiated by Official Receipt No. 061165A dated February 6, 2020 and the settlement was documented thru the issuance of Notice of Settlement of Suspension/Disallowance/Charge (NSSDC) No. 20-001 dated July 8, 2020.

16.3 The Notice of Disallowance (ND) No. 2010-07-084(1996) on the overpriced land acquisition by the AFPRSBS in the amount of P250.318 million and the corresponding Notice of Charge (NC) No. 2010-07-001(1996) on the deficiency taxes on the overpriced land amounting to P16.271 million were affirmed by the Commission Proper (CP) under COA Decision Nos. 2012-188 and 2012-139 dated November 5, 2012 and September 13, 2012, respectively. Moreover, the Motion for Reconsideration (MR) filed by the AFPRSBS on the COA Decisions was denied under CP En Banc Resolution dated February 27, 2015. Accordingly, Notice of Finality of Decision (NFD) and COA Order of Execution (COE) were issued.

16.4 Furthermore, the Supreme Court (SC) promulgated its Decision under G.R. No. 217948 dated January 12, 2016 on the Petition for Certiorari for the ND on the overpriced land acquisition affirming COA Decision No. 2012-188 dated November 5, 2012. The AFPRSBS has collected a total of P792,496 from the persons liable for the current year, thereby partially settling the disallowance in a cumulative amount of P2,957,991 as at December 31, 2020. The ND 2010-07-084(1996) has unsettled balance of P247,360,209 as of reporting date.

16.5 The NC numbered N.C. No. 2010-07-001 in CY 1996 is considered as settled under NSSDC No. 18-001 dated June 27, 2018 due to the SC decision under G.R. No. 213716 which states that *"we find incongruent to disallow the difference of P250.318 million but, at the same time, charge P16.271 million against the petitioner for the alleged underpaid taxes. Considering that the amount of P91.023 million is being held as the correct purchase price of the sale, the correct taxes in the amount of P5.917 million have already been settled. To demand more on the ground that all income from whatever sources is taxable would unjustly enrich the government."*

16.6 The details of the other disallowances that were issued in CY 2016 in the total amount of P1.170 million includes: (a) disallowances awaiting decision of the CP on gasoline withdrawn from AFP Commissary and Exchange Services (AFPCES) using private vehicles, granting of rice subsidy in excess of the allowable P1,500 per sack, and granting of monthly cell card subsidy to a postpaid plan holder and claims for communication allowance while on official travel amounting to P534,132, P236,656 and P27,720, respectively; (b) granting of cash gift amounting to P325,999; and (c) granting of loyalty award to two AFPRSBS employees amounting to P45,000.