

OBSERVATIONS AND RECOMMENDATIONS

1. Various deviations from the Philippine Conceptual Framework for Financial Reporting (PCFFR) and Philippine Accounting Standards (PAS) resulted in the net overstatement of the total assets as at year-end by P2.625 billion in 2015 and P2.522 billion in 2014. Consequently, as at December 31, 2015 and 2014, the liabilities were overstated and understated by P10.631 billion and P3.486 million, respectively, while the equity accounts were overstated by P13.256 billion and P2.525 billion, respectively.

1.1 The PCFFR, which sets out the concepts that underlie the preparation and presentation of financial statements for external users, provides that:

*“If financial information is to be useful, **it must be relevant and faithfully represent what it purports to represent.** The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.*

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*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 phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. **It would be complete, neutral and free from error.**” (Emphasis ours)*

1.2 Further, Paragraph 17 of PAS 1 – Presentation of Financial Statements states that in virtually all circumstances, an entity achieves a fair presentation by compliance with applicable PFRSs. A fair presentation also requires an entity to select and apply accounting policies in accordance with PAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

1.3 Contrary to said framework and standard, examination of the financial statements and verification of the general and subsidiary ledgers of the AFPRSBS disclosed deficiencies/errors in the recording of transactions which adversely affected the presentation of the account balances, summarized as follows:

Accounts Affected	Understatement (Overstatement) In Million Pesos	
	2015	2014
Assets		
Investment in shares of stocks	(2,546.784)	(2,546.784)
Advances to subsidiaries	(9.986)	(10.828)
Installment contracts receivable (ICR)	(88.526)	9.224
ICR Past due (See Observation No. 3)	23.635	-
ICR Past due (See Observation No. 6)	20.702	20.702

Accounts Affected	Understatement (Overstatement) In Million Pesos	
	2015	2014
Investment in real estate (RE)	(19.178)	(3.968)
Prepaid commission	(5.959)	-
Accounts receivable (AR) – Trade, Lessees	(0.989)	7.670
Cash in bank	1.513	1.513
Stock investment	0.732	0.732
Prepaid repairs and maintenance	-	(0.037)
Net Effect on Assets	(2,624.840)	(2,521.776)
Liabilities and Equity		
Members' contributions (MCs)	(11,566.558)	(1.513)
Members' refund (<i>Contra/clearing account</i>)	817.841	-
Accounts payable	(0.002)	-
Buyers' deposit (BD)	117.504	-
VAT payable	-	(0.886)
Accounts payable, Real estate brokers	-	(1.330)
Due to parent	-	0.243
Net Effect on Liabilities	(10,631.215)	(3.486)
MCs	12,011.426	-
Members' refund (<i>Contra/clearing account</i>)	(1,264.222)	-
Equity	2,556.770	2,557.612
Retained earnings	(45.256)	(35.013)
Other comprehensive income	(2.663)	2.663
Net Effect on Equity	13,256.055	2,525.262
Net Effect on Liabilities and Equity	2,624.840	2,521.776

1.4 As shown in the above table, the net overstatement in assets of P2.625 billion and P2.522 billion as of December 31, 2015 and 2014, respectively, was primarily due to the following:

a. The AFPRSBS' financial statements were not consolidated with the financial statements of its subsidiaries and controlled entities where it has invested a total of P2.547 billion recognized under Investment in shares of stocks account as at December 31, 2015 and 2014. Moreover, the Advances to subsidiaries account is overstated by P9.986 million and P10.828 million as of December 31, 2015 and 2014 due to failure to eliminate reciprocal accounts. The total equity, therefore, is overstated by P2.557 billion as at end of both years;

b. Net understatement of assets by P5.256 million (understatement of ICR by P9.224 million and overstatement of Investment in RE by P3.968 million) in 2014 due to unrecognized Sales revenue, Cost of real estate sales and Sales discounts. On the other hand, the liability and equity accounts were understated by P5.256 million.

For 2015, the net assets was overstated by P90.027 million (overstatement of ICR by P64.891 million, Investment in RE by P19.178 million and Prepaid commission by P5.959 million) due to the recording of monthly amortization payments by buyers under BD account and non-recognition of sale despite full down payment. Thus, the total liabilities was overstated by P117.504 million and Retained earnings was overstated by P27.477 million.

The Sales and other related transactions are recognized only upon remittance of the proceeds and not upon collection by the Marketing Manager/agents and brokers. Reports on the collection are not submitted to the Marketing and Sales Department (MSD) and the Controllership Department (CD) for recording as required under the Marketing Agreement dated September 24, 2013;

c. Understatement of AR – Trade, Lessees and the Retained earnings by P7.670 million as of December 31, 2014 due to non-recognition and non-accrual of rental income based on the straight-line basis method as mandated by Paragraphs 50 and 51 of PAS 17 – Leases. For 2015, the account was overstated by P0.989 million due to various errors, thereby understating both the total liability by P0.002 million and the Retained earnings by P0.987 million;

d. The MCs, net of Members' refund, amounting to P10.747 billion were treated as equity instead of liabilities thereby overstating the equity account and understating the liabilities by said amount as of December 31, 2015; and

e. The understatement of ICR Past Due and Retained earnings due to unremitted collections and/or unreported sales cancellations of a Joint Venture (JV) partner totaling to P20.702 million. This observation and the corresponding recommendations are further discussed in Observation No. 6.

1.5 We reiterated our prior years' recommendations that Management:

For the Investment in Shares of Stocks

a. Prepare the consolidated financial statements to include the assets, liabilities and results of operation of its subsidiaries;

b. Eliminate all parent and subsidiary reciprocal account balances during the process of consolidation; and

c. Prepare the Statement of Affairs and Statement of Realization and Liquidation and submit them for COA Audit until all its assets are realized; all its liabilities are settled; and the concerned subsidiaries and affiliates are fully liquidated/dissolved in accordance with the pertinent rules and regulations of SEC in compliance with EO No. 590, as amended.

For the ICR and Investment in RE and the recognition of BD

d. Establish and maintain necessary control activities to ensure proper recording of real estate sale transactions, including but not limited to:

- i. Recognizing the real estate sales when payments are received by the Marketing Manager and other agents/brokers and the corresponding due from said Marketing Manager and agents/brokers until they are remitted to the AFPRSBS;**
- ii. Enforcing compliance by the Marketing Manager and other agents/brokers to timely report sales for proper recording and remit payments from buyers within the period specified in the Marketing Agreement including contractually agreed penalties on late remittances; and**
- iii. Performing sales cut-off tests and monthly reconciliations of sales summaries and records to discover any error in the reports submitted by the Marketing Manager/agents and brokers.**

For the non-recognition and non-accrual of Rental Income

- e. Fully adopt the straight-line basis of recognizing rental income from operating leases as mandated by PAS 17 – Leases; and**
- f. Produce/retrieve the details of the rental income for 2012 and 2013 and then establish the effect of the non-compliance with PAS 17 – Leases in said years on the year-end balance of AR – Trade, Lessees account**

1.6 We further recommended that Management:

For the ICR and BD

- a. Stop crediting the BD accounts for monthly amortization payments by buyers and instead post the same directly to their respective ICR buyers' subsidiary ledgers;**
- b. Prioritize the posting of the monthly amortizations to their respective ICR buyers' ledgers; create new ones if there are none yet. In the meantime, transfer the amount noted to a contra-ICR account to properly report the BD and ICR balances; and**
- c. Investigate and reconcile the negative balances noted in the BD and adjust the accounts, where warranted.**

For the MCs

- d. Reclassify the MCs from equity account to a liability account to show the AFPRSBS' liquidity and solvency in meeting short and long-term obligations; and**
- e. Present the interest on MCs as part of the expenditures incurred by the AFPRSBS in the Statement of Comprehensive Income and present the adjusted income or loss.**

1.7 Finally, we recommended that Management prepare and record the necessary adjusting entries to correct the deficiencies noted in the table presented in Paragraph 1.3 to fairly present the financial statements in accordance with the pertinent accounting and reporting standards.

2. The balances of MCs amounting to P11.565 billion and the interest on MCs of P3.925 billion cannot be relied upon due to the unreconciled difference of P4.914 billion with the subsidiary ledgers (SLs) maintained at the Integrated Financial Management System (IFMS). The absence of reliable members' individual SLs will not facilitate the return of the payment of the member's claim upon implementation of EO Nos. 590 and 590-A and Memorandum Order (MO) No. 90.

2.1 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, MO No. 90 directed the abolition, winding down and liquidation of the AFPRSBS to include, among others, the cessation of collecting MCs and accrual of interest thereon.

2.2 Examination disclosed that MCs and refund thereof are recognized under equity, the details of which are recorded in the IFMS. Comparison of the data per books and the IFMS disclosed a difference of P4.914 billion computed as follows:

Particulars	Amount
Balance per books, July 31, 2015	10,866,091,376
Balance per IFMS, July 31, 2015	15,780,353,369
Difference	4,914,261,993

2.3 Verification of SLs of the CD disclosed that P35.877 million out of the P258.979 million refunds for July 2015 sample month was not reflected in the IFMS record consisting of the following:

Particulars	Amount
Refund by members not deducted from IFMS record	33,713,145
Refund made to members' relatives not deducted from IFMS record	2,153,840
Refund made to members who are not included in the IFMS record	10,018
Total	35,877,003

2.4 The AFPRSBS records the refund of MCs in the Refund of MCs Payable account which is a contra account to MCs, thus, deducted at year-end from the balance of MCs. It failed to update the records of the members' individual SLs, thus, the correct amount of MCs that should be transferred to the GFI, as Trustee, cannot be determined and the implementation of EO Nos. 590 and 590-A and MO No. 90 on the transfer of MCs to the GFI Trustee cannot be facilitated.

2.5 **We recommended that Management update and reconcile the SLs of the IFMS with the books of accounts maintained by the CD in preparation for the transfer of the records of MCs to the GFI Trustee in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.**

2.6 Management commented that one of the reasons for the discrepancy that was identified is that there are contributions that were already refunded to the members but are still included in the summary. The next step that will be done by the AFPRSBS is to extract again the data using different filtering criteria to be able to extract more reliable data. Moreover, the AFPRSBS will exert best efforts to secure from the AFP a complete list of active and inactive members with the corresponding statuses.

2.7 The Refund of MCs Payable account is usually being adjusted at the end of each year; however, due to lack of time, the same was not adjusted in 2015. The adjustment made was reflected only in the January 2016 interim financial statements.

3. The presentation and measurement of ICR are not in accordance with the pertinent provisions of PAS and Philippine Financial Reporting Standards (PFRS). The AFPRSBS has not maintained an updated Subsidiary Buyers' Ledger (SBLs) contrary to Section 114 (2) of PD No. 1445, thus, casting doubt on the reliability and fair presentation of the ICR balance and other ICR-related accounts in the financial statements as of and for the year ended December 31, 2015.

3.1 To expedite the sale of its properties, the AFPRSBS sold some of its properties on installment basis to give buyers the option to allocate payments over a period, normally ranging from two to ten years. Upon full payment of the required down payment, an ICR is established for the buyer and monthly amortization payments are subsequently charged thereon.

3.2 Item 3.A.3 of the AFPRSBS' Policy on Classification of Defaulting Accounts dated March 15, 1994 provides that for purposes of financial statement presentation, the outstanding balance of accounts receivable on installment shall be considered past due in accordance with the following schedule:

Mode of Payment	Minimum Number of Installments in Arrears
Monthly	6
Quarterly	2
Semestrally	1
Annually	1

3.3 As at December 31, 2015, the ICR of the AFPRSBS stood at P448,423,221, consisting of 1,387 buyers' accounts. Our audit of the SBLs for 218 sample buyers' accounts totaling to P117,866,917 and our review of the ICR control account schedule revealed the following deficiencies in the recording and measurement of the ICR, as well as in the maintenance of the records thereof:

a. No SBLs were provided for 75 out of the 218 chosen sample accounts. The CD informed that they have not yet prepared or are still in the process of preparing the SBLs for said accounts. We also noted that out of the 142 accounts with SBLs, 65 accounts have balances that do not match their balances as reflected in the ICR control account. Thus, the propriety of items composing the ICR as well as the reliability of the reported ICR in the Statement of Financial Position as of year-end is doubtful. Proper and effective monitoring of the accounts is also adversely affected contrary to Section 114 (2) of PD No. 1445 which requires that subsidiary records shall be kept where necessary.

b. Penalty for 49 delinquent accounts and interest income for 50 accounts were not accrued as of December 31, 2015. Likewise, the non-maintenance of SBLs for some accounts resulted in the non-accrual of any earned interest and penalty on the accounts. The AFPRSBS' interest and penalty income are, therefore, both understated by an undetermined amount.

c. The AFPRSBS measures all of its ICRs at face value despite the fact that some of its accounts are non-interest bearing either for a portion of or for the whole duration of their terms. Out of the 218 sample accounts, 77 accounts should have been measured at amortized cost. Thus, the ICR account is overstated and the AFPRSBS' interest income is understated, both of an undetermined amount. Said practice runs counter to the amortized cost measurement requirement of PFRS 9 – Financial Instruments which states that:

*“A financial asset **shall be measured at amortized cost** if both of the following conditions are met:*

- a. The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.*
- b. The contractual terms of the financial asset give rise on specified dates to **cash flows that are solely payments of principal and interest on the principal amount outstanding**. xxx” (Emphasis ours)*

d. Review of the ICR control account schedule disclosed that a total of 76 accounts reported negative balances aggregating to P1,678,460 as of year-end, thus, casting doubt as to the reliability of the reported ICR. Further, verification with the MSD and the Accounts Management Department (AMD) disclosed that Transfer Certificates of Title (TCTs) were released to 18 buyers of said accounts and for 12 accounts with positive balances as of year-end.

The AMD and the CD did not verify the records and balances for said accounts, thus, discrepancies were not resolved before the release of the TCTs. Further, the accounts have not been closed/removed from the ICR upon full payment by buyer or release of the TCT.

3.4 The AFPRSBS also failed to assess at the end of each reporting period whether there is any objective evidence that its ICRs are impaired and record any impairment

loss thereon contrary to the requirements of Paragraphs 58, 59 and 65 of PAS 39 – Financial Instruments: Recognition and Measurement which states that:

“58. An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If any such evidence exists, the entity shall apply Paragraph 63 to determine the amount of any impairment loss.

*59. A financial asset or a group of financial assets is impaired and **impairment losses are incurred if, and only if, there is objective evidence of impairment** as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. xxx Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events: xxx*

*b. **a breach of contract**, such as a default or delinquency in interest or principal payments; xxx*

*65. **If, in a subsequent period, the amount of the impairment loss decreases** and the decrease can be related objectively to an event occurring after the impairment was recognized xxx, **the previously recognized impairment loss shall be reversed** either directly or by adjusting an allowance account. xxx The amount of the reversal shall be recognized in profit or loss.” (Emphasis ours)*

3.5 Considering that there are a significant number of defaulting accounts, the probability of impairment loss is high. Records revealed that the last provision for impairment was recognized in 2009. No annual assessment was made to verify whether the previously recognized impairment has to be reversed based on new events/information.

3.6 Contributory to the non-impairment of the ICRs is the failure of the AFPRSBS to prepare an aging schedule of its ICRs that shows the time intervals they are acquired. The schedule is a vital tool in analyzing the quality of a company’s receivables. It reveals patterns of delinquency and shows where collection efforts should be concentrated. Moreover, it helps in evaluating the sufficiency of the provision for bad debt/impairment.

3.7 The current and non-current portions of the ICR are also not separately presented in its Statement of Financial Position as at year-end contrary to Paragraphs 66 and 68 of PAS 1 – Presentation of Financial Statements which provides that:

“66. An entity shall classify an asset as current when:

a. it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

- b. *it holds the asset primarily for the purpose of trading;*
- c. ***it expects to realize the asset within twelve months after the reporting period; or***
- d. *the asset is cash or a cash equivalent (as defined in PAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.*

An entity shall classify all other assets as non-current. xxx

68. *xxx Current assets include assets xxx that are sold, consumed or realized as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting period. **Current assets also include** assets held primarily for the purpose of trading xxx and **the current portion of non-current financial assets.**"*
(Emphasis ours)

3.8 **We reiterated our previous year's recommendation that Management:**

- a. **Maintain periodically both hard and soft copies of SBLs as said documents are useful in determining the outstanding receivable balance of buyers for Management and government regulatory agencies' requirements/use;**
- b. **Update regularly the posting to the SBLs supporting the ICR general ledger control account for proper accounting control to ensure the accuracy of the amounts presented in the financial statements and in compliance with the provisions of Section 114 (2) of PD No. 1445; and**
- c. **Formulate policies and procedures for the safekeeping and control of the ICR accounts. Likewise, improve the filing system and properly safekeep SBLs and other related supporting documents.**

3.9 **Further, we recommended that Management:**

- d. **Accrue regularly any interest and penalty income already earned on the accounts;**
- e. **Strictly observe the measurement of ICRs at amortized cost in conformance with the requirements of PAS 39 – Financial Instruments: Recognition and Measurement. For this purpose, all zero-interest bearing accounts, at least for a portion of the payment term, should be remeasured at the present value of the remaining expected payments as of year-end date;**
- f. **Investigate and reconcile the negative balances noted in the ICR and adjust the accounts, where warranted;**

- g. Install procedures to ensure that the SBLs/accounts are verified, discrepancy resolved and the same removed in the ICR general control account before the release of the TCTs are authorized;**
- h. Pursuant to PFRS 9 – Financial Instruments, assess at the end of each reporting period, whether (i) there is any objective evidence that the ICR accounts are impaired and recognize any impairment loss; and (ii) the previously recognized impairment loss shall be reversed;**
- i. Prepare the ICR aging schedule on a periodic basis to facilitate monitoring and evaluation of the accounts, indicating the status thereof to come up with adequate provision for bad debts; and**
- j. Observe the current/non-current presentation of the ICRs as mandated by Paragraphs 66 and 68 of PAS 1 – Presentation of Financial Statements.**

3.10 Management commented as follows:

- a. AMD and CD maintain soft copies of SBLs for those projects that are manually prepared using the MS Excel for monitoring of buyers' payments. Hard copies of SBLs are being kept and updated regularly.
- b. Efforts are already being done by said Departments to update the SBLs. From the 75 accounts that were identified, 48 are already with SBLs and the others are being reconciled;
- c. Management will formulate policies and procedures for the safekeeping and control of the ICR accounts and likewise, improve the filing system and properly safekeep SBLs and other related supporting documents;
- d. The accrual of penalties and interest for the ICR accounts are being done only for those maintained in the Legacy System while for those maintained in the IFMS and those that are manually prepared, the accrual will be done once the SBLs are already updated.
- e. Management will consider in 2016 the measurement of ICRs at amortized cost in conformance with the requirements of PAS 39 – Financial Instruments: Recognition and Measurement;
- f. On the accounts with no payments since June 2015, the Loans Administration Branch of the AMD will transfer the 10 past due accounts to the Remedial Management Branch of the same Department for classification to the ICR defaulting accounts;
- g. The AFPRSBS already has an installed system wherein an SBL showing that the account is fully paid is required prior to release of the TCTs. All TCT releases for fully paid accounts are supported by the same. There are instances where there are still balances in the ICR accounts but the TCTs were already

released to the buyers since the reconciliation will take some time. This will be addressed in the on-going reconciliation of the BD and the ICR accounts.

h. Management is not considering providing for impairment loss on Past Due ICRs since the accounts can be cancelled in case of default. Once cancelled, the AFPRSBS can resell the inventories at current market prices. Forfeitures will be made on some of the payments if refunded.

i. CD has already prepared an aging schedule as of December 31, 2015. This will be done on a regular basis together with the updating of the schedule of the accounts.

j. On the current/non-current presentation of the ICRs as mandated by PAS 1 – Presentation of Financial Statements, this will be done once the SBLs are already updated.

4. The provisions of EO Nos. 590 and 590-A on the winding down, liquidation and abolition of the AFPRSBS was not implemented. The AFPRSBS continues to report on a going concern basis instead of preparing the Statement of Affairs and Statement of Realization and Liquidation resulting in the continuous depletion of the Retained earnings from P1.999 billion in 2011 to P657 million in 2015 (a decrease of 67.13 per cent) due to the payment of the mandated six percent interest on MCs.

4.1 Section 2 of EO No. 590-A provides for the creation of a Cabinet Oversight Committee (COC) composed of the Secretary of National Defense, the Secretary of Finance, the Secretary of Budget and Management and a representative from the Office of the President, which shall exercise oversight function on the liquidation of assets and liabilities of the AFPRSBS, the winding-down of its operations, and the retirement and separation of its personnel.

4.2 Section 3.2 of EO No. 590-A provides that preparatory to the liquidation and winding down of the AFPRSBS and upon determination of its net asset value and that of its subsidiaries, all of the assets of the AFPRSBS and that of its subsidiaries shall be transferred to a GFI determined by the COC for programmed liquidation as necessary until all the assets are exhausted. Meanwhile, Section 3.3 of said EO provides that the proceeds of the sale or liquidation of the transferred assets and other existing funds of the AFPRSBS and its subsidiaries shall, together with all the mandatory contributions of military personnel collected by the AFP as prescribed under Section 4 of PD No. 361 consisting of five per cent of their monthly base pay shall be remitted to a Trust Account to be established by the GFI Trustee for the purpose. Further, Section 3.5 of the same EO provides for the return of MCs plus interest of six per cent upon the retirement of the members to be paid from the funds in the Trust Account.

4.3 However, said provisions of EO No. 590-A on the winding down and liquidation of the AFPRSBS were still not implemented. The AFPRSBS continued to operate on a going concern basis instead of preparing the Statement of Affairs and Statement of Realization and Liquidation. It continued to collect MCs and pay the mandatory six

percent interest resulting in the continuous depletion of the Retained earnings, as presented below (in million pesos):

	2011	2012	2013	2014	2015
Retained earnings, end	1,999	1,807	1,417	997	657
Decrease in amount	-	192	390	420	340
Percentage decrease	-	9.60%	21.58%	29.64%	34.10%

4.4 As shown in the above table, the Retained earnings is continuously depleting from P1.999 billion in 2011 to P657 million in 2015 or a decrease of 67.13 per cent due to the payment of the mandated six percent interest on MCs.

4.5 In 2006, the balances of MCs and the interest on MCs were P5,464,129,560 and P1,601,640,279, respectively. In a span of nine years from 2006 to 2015, the amount of MCs increased to P11,001,269,444 while the interest on MCs increased to P3,925,080,979.

4.6 **We reiterated our prior year's recommendation that the AFPRSBS prepare the Statement of Affairs and the Statement of Realization and Liquidation and submit them for COA audit until all its assets are realized, all the liabilities are settled, and the concerned subsidiaries and affiliates are fully liquidated/dissolved in accordance with the pertinent rules and regulations of the SEC.**

4.7 **We further recommended that Management coordinate with the created COC for the final liquidation of the assets and liabilities of the AFPRSBS, the winding-down of its operations, and the retirement and separation of its personnel.**

4.8 The present Management had proposed/recommended measures to arrest the losses and depletion of the Retained earnings of the AFPRSBS to include the reduction of interest on members' contribution and adjustment of the same to a more economically sustainable rate. However, the recommendation was not favorably acted upon by the Board of Trustees (BOT) because the six per cent interest on MCs was specifically provided for in EO Nos. 590 and 590-A which ordered the deactivation of the AFPRSBS effective December 31, 2006.

4.9 Management made representations with the GCG and proposed for the stoppage of MCs and the six per cent interest on refund of MCs. However, on January 8, 2016, GCG replied that it does not have the legal authority to complete the deactivation of the AFPRSBS in view of the latter's legislative charter, and that the process requires presidential approval. GCG further stated that it has submitted a memorandum to the President recommending the abolition of the AFPRSBS. Management is waiting for the decision from the Office of the President regarding the matter.

4.10 As a rejoinder, we noted that MO No. 90 dated April 8, 2016 directed the abolition of the AFPRSBS, privatization of its subsidiaries and for other purposes. We therefore recommend that all the measures indicated therein should be implemented to include, among others, the cessation of collecting MCs and accrual of interest thereon.

5. The validity, accuracy and reliability of the recorded Investment in RE – Landbanking totaling to P3.295 billion representing 49 per cent of the total Investment in RE of P6.727 billion as at December 31, 2015 cannot be ascertained as to ownership, thereby, adversely affecting the ability of the AFPRSBS to implement the realization of its assets to comply with EO Nos. 590 and 590-A and MO No. 90.

5.1 As mentioned earlier, Section 3.2 of EO No. 590-A provides that preparatory to the liquidation and winding down of the AFPRSBS and upon determination of its net asset value and that of its subsidiaries, all of the assets of the AFPRSBS and that of its subsidiaries shall be transferred to a GFI determined by the COC for programmed liquidation as necessary until all the assets are exhausted.

5.2 As at December 31, 2015, the total Investment in RE – Landbanking of the AFPRSBS is P3,294,976,850 representing 49 per cent of the total Investment in RE of P6,727,364,027 and 20 per cent of the total assets of P16,834,051,531.

5.3 The AFPRSBS engages in various profit-earning activities including participation in real estate projects. In the early 1990s, it acquired more or less 300,000 sqm. of properties in Silang, Cavite and developed the same into the Riviera Residential Estates, Riviera Golf Club, Inc. and the Riviera Sports and Country Club, Inc. (herein collectively referred to as The Riviera). The mixed-use real estate project was designed to include two 18-hole world-class golf courses, a sports and country club complete with facilities and amenities and an exclusive, first-class fully developed residential community.

5.4 Believing in its potential, the AFPRSBS decided to expand The Riviera. The BOT, in its meetings on November 26, 1996 and September 4, 1997, approved the acquisition of 2,902,976 sqm, more or less, of raw lands located in Barangays Batas, Biluso and Calubcob, all in the Municipality of Silang, Cavite and Barangay Langkaan in the Municipality of Dasmarinas, Cavite, all adjacent to The Riviera.

5.5 However, the planned expansion of The Riviera did not materialize citing the 1998 Asian financial crisis and the issuance of EO Nos. 590 and 590-A as reasons therefor. To date, the properties remain idle and undeveloped. As of year-end, said properties are carried in the books at P1,619,083,805 consisting of the original acquisition cost of P1,084,637,044 and other capitalized subsequent costs of P534,446,761, details as follows:

Location (Barangay)	Area (sqm.)	Acquisition Cost	Other Capitalized Cost	Total Investment in Landbanking
Batas	2,036,343	786,368,104	374,894,871	1,161,262,975
Biluso	65,612	137,066,255	54,735,373	191,801,628
Calubcob	297,310	30,716,510	12,082,302	42,798,812
Langkaan	503,711	130,486,175	92,734,215	223,220,390
Total	2,902,976	1,084,637,044	534,446,761	1,619,083,805

5.6 Our examination of relevant documents revealed that 1,974,804 sqm of raw lands with book value of P1,021,817,366 have titling and documentation issues casting

doubt as to the ownership by the AFPRSBS of said lands. Moreover, land titles to 862,227 sqm with book value of P457,116,284, though in the custody of the AFPRSBS, are still under the name of the previous owners. Meanwhile, land titles and other similar documents evidencing ownership are still in the name and under the custody of previous owners/Certificate of Land Ownership Award (CLOA) holders despite payments made for said lands by the AFPRSBS.

5.7 Other discrepancies/deficiencies noted relative to the Riviera raw lands in Batas, Silang, Cavite with TCTs neither in the name nor in the custody of the AFPRSBS follows:

a. For Lot Nos. 15 and 16, the acquisitions are evidenced by unnotarized Deeds of Absolute Sale (DAS). This is also the case with the Biluso and Langkaan lots. Unnotarized DAS cannot be registered with the Register of Deeds, thus, conveyances subsequent thereto do not affect or bind the land.

Registration of documents/instruments is the operative act that transmits or transfers title. Unless registration is performed said deed does not serve as a deed of conveyance and cannot bind the property, it follows that until then, the registered right of the owner on record exists.

b. Our ocular inspection of the subject lands revealed the presence of informal settlers and illegal occupants in the Batas, Biluso and Langkaan raw lands. The presence of said occupants can dissuade possible buyers from purchasing said lands. Considering the winding down status of the AFPRSBS, it is imperative that the assets of the AFPRSBS are free of informal settlers to be easily disposed of.

5.8 The other landbanking properties of the AFPRSBS also have similar titling problems but due to lack of data/documents and time to audit the same, the team was not able to determine the extent of the deficiencies to warrant inclusion in this observation.

5.9 Further, the Notes to the Financial Statements relative to the Investment in RE – Landbanking states that said assets are offered for sale to the public. However, with the current titling problems that the AFPRSBS is facing, it will be difficult to dispose of said assets and get the best price in case of sale.

5.10 Undeniably, said deficiencies expose the AFPRSBS to: (a) possible loss of ownership to some of the lots; (b) delay, difficulties and additional costs in transferring the title to the land in its name; and (c) ultimately and most importantly, immediate realization of said assets through sale to be able to return the MCs and the corresponding interest thereon to comply with the directives under EO No. 590, as amended.

5.11 We recommended that Management complete the documentation of all landbanking properties of the AFPRSBS to facilitate the implementation of the plan to immediately sell/dispose said real estate properties to qualified buyers, and avail of the income that may be derived from the proceeds of the sale and ultimately implement the realization of assets as mandated by EO No. 590, as amended.

5.12 Management commented that the updating and/or completion of the documentation of all landbanking properties is on-going. With the issuance of MO No. 90, the disposal of said landbanking properties will be pursued. Moreover, the AFPRSBS will conduct its fact-finding investigation to determine who will be held liable for the deterioration of the value and/or non-compliance with the required documentation and processes to perfect ownership of said assets.

6. A JV partner has unremitted collections and/or unreported sales cancellations amounting to P74.560 million under a JV Agreement. The recorded balance of ICR Past Due and Retained Earnings was understated by P20.702 million as at December 31, 2015.

6.1 On June 29, 1990, the BOT of the AFPRSBS approved the investment in a JV project with a JV partner to acquire and develop into a residential subdivision, now identified and known as Village East III (VE III), parcels of land in Angono and Binangonan, Rizal with an approximate area of 200 to 300 hectares. Accordingly, the AFPRSBS and the JV partner executed a JV Agreement and a Development Agreement on September 25, 1990.

6.2 In the JV Agreement, the parties agreed that the AFPRSBS shall purchase from the JV partner 50 per cent pro-indiviso basis the subject parcels of land which the JV partner shall develop and that each of the parties shall be entitled to 50 per cent of the proceeds of the sale of residential lots allotted for sale by the Project Committee formed for such purpose. The agreement further provided that all of the gross proceeds of sale of lots generated from the project shall be deposited to an account mutually agreed by the parties whose signatories shall be any one or all of the signatories nominated by the AFPRSBS therein, jointly with any one or all of the signatories nominated by the JV partner.

6.3 Several JV lots were thereafter sold from the project. However, in 1998, the BOT approved the divestment from all JV Agreement projects with the JV partner. This was after JV partner's acquisition for itself of certain VE III JV lots of over 21 hectares in 1996 and mortgaging the same to the Philippine National Bank and the Export Industry Bank to secure its P205.000 million loan. Subsequently, a fire gutted the JV office at the Agora Complex in San Juan, destroying all documents of the JV. Reconciliation of said documents proceeded resulting in engaging the services of an auditing firm in an Agreed Upon Procedures (AUP) engagement to help reconcile records.

6.4 Consequently, the parties agreed to apportion between themselves the unsold VE III JV lots without prejudice to the stipulation in the JV Agreement regarding the sharing or distribution of sales proceeds from those lots already sold. In two Deeds of Assignment, a total of 9.8057 hectares of unsold and unencumbered VE III JV lots were ceded, transferred and conveyed to the AFPRSBS as its proportionate share.

6.5 Our examination of the available records relative to the JV lots already sold pursuant to the JV Agreement revealed the following:

- a. As at December 31, 1999, the JV has a total receivable from buyers of P193,628,468 per AUP Report of the auditing firm engaged for the purpose. This

amount has decreased to P27,297,658 as of December 31, 2010 per the last ICR Balance (ICRB) report, submitted by the JV personnel. Details follow:

Particulars	Balances as of 12/31/1999 per AUP Report	Assumed Unremitted Collections by JV Partner and/or Unreported Sales Cancellation	Balances as of 12/31/2010 per ICRB Report
Principal	117,538,259	97,617,963	19,920,296
Interest	76,090,209	68,712,847	7,377,362
Total	193,628,468	166,330,810	27,297,658
Share of the JV Partner (50%)	(96,814,234)	(83,165,405)	13,648,829
Share of the AFPRSBS (50%)	96,814,234	83,165,405	13,648,829
Remittance of JV Partner from 2000 to 2010	(8,605,639)	(8,605,639)	-
Balance of receivable from JV Partner	88,208,595	74,559,766	13,648,829
Less: Balance per books	(67,506,982)		
Understatement	20,701,613		

b. No report summarizing the remaining outstanding ICR balance of the JV was received from the JV partner subsequent to December 31, 2010.

c. As of December 31, 2015, the AFPRSBS has a total recorded receivable of P67,506,982 relative to the JV Agreement recorded under the Past Due ICR account.

d. Verification through the IFMS of total receipts from the JV partner for the period January 1, 2000 to December 31, 2015 disclosed that the latter's remittances for said period totaled to P8,605,639 only with the last remittance received on June 6, 2007.

6.6 Taking into consideration the above information and the fact that the proceeds from the sale of JV lots are shared on a 50-50 basis, the following discrepancies are apparent:

a. An unaccounted difference of P74,559,766 exists when the share of the AFPRSBS in the decrease in total receivable of JV from buyers from 2000 to 2010 are compared with the total remittances of and receivable from the JV partner during the same period.

b. The total recorded receivable relative to the JV Agreement as of December 31, 2015 is understated by P20,701,613, as shown in the table in Paragraph 6.5.

c. The difference can be attributed to (a) unremitted collections by the JV partner due to the AFPRSBS; (b) cancellation of sales unreported by the former to the latter; or (c) both. The AFPRSBS has not provided us with complete data stating the number and amount of accounts collected and the number and amount of cancelled sales.

6.7 Thus, the recorded Village East III Past Due ICR of the AFPRSBS is doubtful. Moreover, the non-submission of reports by the JV partner and its probable non-remittance of collections from JV lot buyers are prejudicial to the interest of the AFPRSBS. The AFPRSBS is a government entity and its funds, which came from the National Government and the AFP military personnel, are public in nature. Exercise of due diligence is expected in the pursuit of its mandated functions, as well as by its officers and employees in the performance of their duties and responsibilities.

6.8 We recommended that Management:

- a. Require the JV partner to produce a report highlighting the remaining outstanding ICR balances as of December 31, 2015 complete with all buyers' information, total payments made by buyers from January 1, 2000 until December 31, 2015 and all cancellations of contracts to sell;**
- b. Demand copies of bank statements/passbooks for all relevant periods pertaining to the mutually agreed account by the JV partner and the AFPRSBS which is under the signature of both;**
- c. Investigate/reconcile the unaccounted difference of P74.560 million and the understatement of ICR Past Due and Retained Earnings of P20.702 million and depending upon the result of such examination:
 - i. Adjust the books and records to reflect cancellations made by buyers and any other discrepancies noted; and/or**
 - ii. Demand from the JV partner any unremitted collections with the appropriate penalties, interests and/or sanctions;****
- d. Ensure thereafter the effective monitoring of the remaining accounts and the timely remittance and reporting by the JV partner of amounts due to the AFPRSBS; and**
- e. Institute proper legal action against the JV partner should it withhold the requested documents without legal and reasonable grounds.**

6.9 Management, with their JV partner, has agreed to hire a JV staff to undertake the reconciliation of the outstanding ICR from the available source documents and the effective monitoring of the remaining accounts.

7. The amount of P45.657 million was withdrawn from the account of the AFPRSBS in one of its depository banks in the fulfillment of a writ of execution on garnishment without the necessary filing of money claims with the Commission on Audit (COA) contrary to Sections 4 and 26 of PD No. 1445 and COA Circular No. 2001-002 citing Supreme Court Administrative Circular No. 10-2000 issued on October 25, 2000.

7.1 Matrix Realty Development Corporation (MRDC), a 100 per cent subsidiary of the AFPRSBS, entered into a Development Agreement with a certain Developer for the

development of a piece of real property with a land area of 94,966 sqm into a first class agro-industrial subdivision named Bulacan Agro-Industrial Subdivision. However, MRDC was sued by the latter due to the delay and/or non-performance of its deliverables under the Development Agreement. The case was filed before the Quezon City (QC0 Regional Trial Court (RTC) Branch 93 which decided in favor of said Developer under its Decision dated December 19, 2008.

7.2 MRDC ceased operations in 2005 and its assets were transferred to the AFPRSBS. In view thereof, the QC RTC Branch 93 issued a Court Order dated May 7, 2015 whereby the “veil of corporate fiction” of the AFPRSBS and the defendant MRDC was deemed pierced and revealed. Thus, the AFPRSBS was held liable for the judgment obligations of its subsidiary in the amount of P46,633,345 as of December 31, 2014.

7.3 A Notice of Garnishment and/or Order of Delivery of Money dated January 11, 2016 was also issued by the RTC’s Sheriff and sent to the various depository banks and financial institution of the AFPRSBS.

7.4 On January 22, 2016, the Branch Manager of the Aurora Boulevard – Notre Dame, Quezon City Branch, one of the AFPRSBS’ depository banks, issued Manager’s Check No. 0008443 in the amount of P45,656,843.29 in favor of the complainant Developer as full satisfaction of the Alias Writ of Execution without the filing of money claim with the COA.

7.5 The release of the amount of P45,656,843.29 by the concerned depository bank constitutes an illegal disbursement of funds in view of Section 3 of COA Circular No. 2001-002 dated July 31, 2001 which states that:

“It is settled jurisprudence that upon determination of State liability, the prosecution, enforcement or satisfaction thereof must still be pursued in accordance with the rules and procedures laid down in PD No. 1445, otherwise known as the Government Auditing Code of the Philippines. All money claims against the Government must first be filed with the Commission on Audit which must act upon it within sixty days. Rejection of the claim will authorize the claimant to elevate the matter to the Supreme Court on certiorari and in effect sue the State thereby.” (Emphasis supplied)

7.6 Said release is also violative of Sections 4 and 26 of PD No. 1445 which provides that:

“Section 4. Fundamental principles. Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder, to wit: xxx

(5) Disbursements or disposition of government funds or property shall invariably bear the approval of the proper officials.

(6) Claims against government funds shall be supported with complete documentation. xxx

Section 26. *General jurisdiction. The authority and powers of the Commission shall extend to and comprehend all matters relating to auditing procedures, systems and controls, the keeping of the general accounts of the Government, the preservation of vouchers pertaining thereto for a period of ten years, the examination and inspection of the books, records, and papers relating to those accounts; and the audit and settlement of the accounts of all persons respecting funds or property received or held by them in an accountable capacity, as well as the examination, audit, and settlement of all debts and claims of any sort due from or owing to the Government or any of its subdivisions, agencies and instrumentalities. The said jurisdiction extends to all government-owned or controlled corporations, including their subsidiaries xxx*" (Emphasis ours)

7.7 We recommended that Management pursue legal remedies available in order to recover the P45.657 million withdrawn from the subject bank account without filing the necessary money claims with COA.

7.8 Management, in coordination with the Office of the Government Corporate Counsel, will closely monitor and follow up the early resolution of the Petition for Review before the Court of Appeals questioning the Order dated May 7, 2015 issued by QC RTC Branch 93 and praying for the said Order to be annulled and set aside.

8. Cash in bank (CIB) account balances per books as at December 31, 2015 are P15.472 million and P18.352 million more than the balances confirmed by the depository banks and other financial institutions, and the Investible Fund Report (IFR) balances maintained by the Treasury Department (TD), respectively, while the IFR balances were P2.880 million less than the confirmed balances. Bank reconciliation is not regularly done contrary to sound internal control procedures, thereby casting doubt on the accuracy of the CIB balances totaling to P104.030 million as at December 31, 2015.

8.1 Confirmation of bank balances of the AFPRSBS as at December 31, 2015 showed the following:

Bank/Accounts	Cash in Bank			Variance		
	Per CD	Per TD (IFR)	Per Bank	CD vs. Bank	CD vs. TD	TD vs. Bank
PNB	1,902,750	1,849,512	1,701,556	201,194	53,238	147,956
BDO CASA	3,953,718	3,558,408	3,878,589	75,129	395,310	(320,181)
BDO SSA	50,000,839	50,000,000	50,026,546	(25,707)	839	(26,546)
BDO CASA New	18,736,740	2,577,771	3,514,629	15,222,111	16,158,969	(936,857)
AFPSLAI SA	9,837,879	9,763,595	9,838,449	(570)	74,285	(74,854)
LBP	11,118,128	9,308,619	11,118,128	-	1,809,509	(1,809,509)
DBP	8,479,922	8,620,076	8,479,922	-	(140,154)	140,154
Total	104,029,976	85,677,981	88,557,819	15,472,157	18,351,995	(2,879,838)

8.2 Verification of the subject bank accounts revealed the following:

- a. The CD and the TD did not conduct periodic reconciliation to establish accurate account balances. Likewise, the TD did not reconcile its bank balances with the banks on a regular basis; and
- b. The latest bank reconciliation statement (BRS) for the BDO accounts was for year-end of 2008, hence, required adjusting entries cannot be effected to reflect correct balances.

8.3 **We recommended that Management:**

- a. **Prepare regular monthly BRS for all bank accounts to determine the causes of the discrepancies between the book and the bank balances to reflect accurate account balances;**
- b. **Reconcile the CIB account of CD and TD on a monthly basis and determine causes for unreconciled amounts; and**
- c. **File appropriate charges in case of loss and adjust the book balances, where necessary.**

8.4 Management commented that the CD had already reconciled the discrepancies noted for the PNB Ali Mall, AFPSLAI, BDO SSA and BDO DRF accounts and were adjusted in the January 2016 interim financial statements. CD is still exerting its best effort to complete the reconciliation of the BDO SA/CA account. As of end of 2015, the reconciliation of transactions for the month of October 2015 has been completed. The adjustments pertaining to the account will be made simultaneous to the completion of the reconciliation for the prior years.

8.5 In an effort to reconcile CD, TD and the bank records, CD provided TD with copies of the bank reconciliations that were made in 2015 and prior years to serve as reference by TD in reconciling the records with CD and the bank, as necessary. Discrepancies between the CIB balance per CD and the CIB balance per TD's IFR once identified through the bank reconciliation will be adjusted accordingly.

9. Non-execution of lease contracts and non-compliance with certain provisions of existing lease contracts by some lessees are contrary to Article 1403 of Republic Act (RA) No. 386 or the New Civil Code of the Philippines and COA Circular No. 88-282A dated March 3, 1988. This resulted in the delay in payment of monthly rentals and management dues, thus, lost opportunity to immediately use the funds, to the detriment of the AFPRSBS.

9.1 Article 1403 of RA No. 386, otherwise known as the New Civil Code of the Philippines provides that:

“Article 1403. The following contracts are unenforceable unless they are ratified: xxx

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

(e) *An agreement for the leasing for a longer period than one year, or for the sale of real property or of an interest therein; xxx.”*

9.2 Meanwhile, Section 2 of COA Circular No. 88-282A dated March 3, 1988 on Uniform Standards/Guidelines to Determine the Reasonableness of the Terms and Rental Rates of Lease Contracts for Private or Government provides further that:

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

9.3 The Industrial Park of the AFPRSBS, located in Taguig City, was acquired through a land grant by virtue of Proclamation No. 1218 dated May 8, 1998 issued by then President Fidel V. Ramos. The property consists of three parcels of land with a total area of 90,249 sqm, which the AFPRSBS leases.

9.4 The list of tenants as of December 31, 2015 provided by the Property Management and Enhancement Department (PMED) showed that there are 30 occupied facilities. Review of the lease contracts on the 30 facilities disclosed the following:

a. Cavallino, Inc. did not renew its lease contracts on the 250 sqm office facility and the 288 sqm commissary, however, the company pays the monthly rentals based on the old rate. Previous contracts with said facilities expired on February 2014 and April 2015, respectively, inclusive of the “one-time” one-year automatic extension of the lease terms.

b. In addition, Cavallino, Inc., was also able to occupy a 34.69 sqm facility without executing a lease contract with the AFPRSBS for four months from November 2014 until February 2015 at P3,469.00 per month.

c. Likewise, Concrete Masters, Inc. leased a 1,316.56 sqm open space facility for three months starting October 2015 at a monthly rental of P105,324.80. However, said lessee still occupies and pays for the facility even after the lapse of said period.

Hence, the subject leases are unenforceable pursuant to Article 1403, Chapter 8 of the New Civil Code of the Philippines.

9.5 Verification with the PMED and CD disclosed that the execution of new/renewal of lease contracts are on hold due to an on-going negotiation with another party seeking to lease out the entire park. However, such cannot negate the execution of new/renewal of lease contracts. To be able to better protect its interest, i.e. impose appropriate sanctions and reduce collection efforts, it is imperative that the AFPRSBS execute lease contracts whenever it enters into lease agreements with third parties.

9.6 Meanwhile, Section 3.3.2 of the lease contracts requires that payment of monthly rentals should be made at or before noon of the 5th regular business day of the month. Relative thereto, Section 3.3.3 of the lease contracts provides that any delayed payment of rentals shall be subject to penalties by way of interest computed at 2½ per cent per month of the total sums due and unpaid as of the day of delay.

9.7 Some lessees, however, incurred delays in the payment of monthly rentals and management dues aggregating to P2,112,299.91 as of December 31, 2015, as follows:

Lessee	Rent Receivable as of 12/31/2015	Dues Receivable as of 12/31/2015	Total
High Performance Solutions, Inc.	P1,720,328.46	P 69,300.00	P1,720,328.46
Men In Blue Security Services, Inc.	216,944.47	18,528.00	216,944.47
Excellent People's Multi-purpose Cooperative	46,698.98	-	46,698.98
Bakemasters, Inc.	-	40,500.00	40,500.00
Total	P1,983,971.91	P128,328.00	P2,112,299.91

9.8 Verification revealed that penalties for delayed payments were not accrued nor collected for the current year as provided under Sec. 3.3.2 of the lease contract, thus, understating the income and receivable account. Also, there is no provision on the penalty imposable on the delay in payment of management dues in the contract, thus, depriving the Management on the use of funds.

9.9 Finally, the AFPRSBS is totally dependent upon the Summary of Sales Report (SSR) provided by one of its lessees, PSMT Philippines, Inc. in computing the percentage rent due to it under Section 3.03(C) of their lease contract dated 31 January 2001. Sound internal control dictates that said report should be audited and/or examined by the concerned departments at regular intervals to ensure the propriety and correctness of the percentage rent collected. Relative thereto, Section 3.04(C) of the lease contract provides that:

“Landlord shall have the right from time to time, by its accountants or representatives, upon ten (10) days prior notice, to audit all statements of Retail Sales xxx Tenant shall make all such records readily available for such examination. xxx” (Emphasis ours)

9.10 **We recommended that Management exercise its right under Section 3.04(C) of the lease contract to audit the SSR provided by PSMT Philippines, Inc., to ensure the propriety and correctness of the percentage rent collected.**

9.11 **We further reiterated our previous recommendations that Management require the PMED to:**

- a. **Execute a duly signed and notarized lease contract before turning over the property to a lessee in compliance with Article 1403 of RA No. 386 and COA Circular No. 88-282A;**
- b. **Ensure that for renewals of lease contracts, a new contract should be executed either with the existing lessee or a new tenant prior to the expiration of the lease term with the former;**
- c. **Improve coordination between the PMED and CD to avoid discrepancies in billing and accruing monthly rentals;**

- d. **Strictly monitor the observance and implementation of the stipulations in the lease contracts for the benefit of the AFPRSBS;**
- e. **Impose and accrue on time the agreed penalty and interest on the delayed remittance of the three lessees; and**
- f. **Incorporate in subsequent lease contracts the date and time of payment of the monthly management dues and the imposition of penalties for any delay in the payment thereof.**

9.12 Management commented as follows:

- a. The AFPRSBS allows a lessee to occupy the property before the execution of the lease contract but the lessee has to sign a conforme letter containing the terms and conditions of the lease. The lease contract will be signed by the contracting parties after the document is prepared and reviewed.
- b. PMED prepares notice of expiration of contract of lease addressed to the lessee at least 60 days prior to end of term. New contracts are executed for the renewal or for new lessees.
- c. Monthly collection reports as well as copies of all lease contracts are submitted by the PMED to CD regularly.
- d. The imposition of penalties is applied for late payments as stipulated in the contract and is reflected in the Statement of Account/Billing of tenants. Further, escalation clause is strictly observed through monitoring of contracts.
- e. Men in Blue Security Services, Inc., Excellent Peoples' Multi-Purpose Cooperative, and Bakemasters, Inc. were already collected of arrearages.
- f. Provisions for the date and time of payment of the monthly dues and the imposition of penalties for any delay in payment of the same were already incorporated in the new contracts.

10. Accountable Officers (AOs) were not bonded in violation of Section 101 of PD No. 1445 and Item 10, Chapter II of COA Memorandum No. 2013-004 dated July 9, 2013, thus, the AFPRSBS is not indemnified/safeguarded in case of loss and/or if the AOs abscond from duty.

10.1 Section 101 of PD No. 1445 on Accountable officers and Bond Requirement provides 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 ours)

10.2 Meanwhile, COA Memorandum No. 2013-004 on Prescribing the Use of the Revised Cash Examination Manual, Item 10, Chapter II on Laws and Rules Relevant in Cash Examinations states that:

“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. Every AO shall be properly bonded in accordance with law.

The fidelity bonds covering government accountability and responsibility of AOs shall be in accordance with the regulations issued by the Bureau of the Treasury (BTr).” (Emphasis ours)

10.3 The minimum cash accountability to be bonded has been increased from P2,001 to P5,001 per COA Circular No. 2013-001 dated January 10, 2013. The amount of bond shall depend on the total accountability of the officer as 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 the bond shall be in accordance with the schedule set forth under Treasury Circular No. 02-2009 dated August 6, 2009.

10.4 Verification revealed that the AFPRSBS has three revolving fund AOs representing various management groups who are not bonded, namely:

Purpose of Cash Advance	Amount of Cash Advance
For the Real Estate Group	P 120,000
For the Office of the President	50,000
For the Iloilo Satellite Office	50,000

10.5 Likewise, the Head of the Internal Records Management Department (IRMD) who is primarily the custodian of the securities is also not bonded, contrary to the cited PD and COA Memorandum.

10.6 During the year, special cash advances amounting to P1,366,951 representing operational expenses were granted to officers and employees.

10.7 Management’s request for bonding of its AOs has been approved by the BTr through Confirmation Letter No. DIIB 15-03-0186 effective March 18, 2015 to March 18, 2016 and Confirmation Letter No. DIIB 15-05-0408 effective May 28, 2015 to May 28, 2016. However, Management failed to cover all of their AOs.

10.8 Hence, failure of Management to comply with the bonding requirement for all of the AOs handling revolving, petty cash and property accountabilities and special cash advances frustrates the required safeguard and indemnification in case of loss or shortage and if the AOs abscond.

10.9 We recommended that Management secure fidelity bonds for all the AOs handling revolving and petty cash funds to include those AOs of special cash advances and with property and securities accountability to ensure safeguard and indemnification in case of loss of its assets or if the AOs abscond from office. In case an employee has both money and property accountabilities, only one bond enough to cover both accountabilities should be procured.

10.10 On the observation that some personnel who handled special cash advances were not bonded, Management commented that securing fidelity bond for said employees may not be practical since it also takes a while to complete the process of securing a fidelity bond. By the time the bond is approved, the activity is already done, hence, the AFPRSBS will end up spending for something which is no longer necessary. At present, cash advance is secured by requiring employees to liquidate within five days from completion of project, otherwise, the amount will be deducted from their salary.

10.11 On the bonding of the Head of the IRMD, Management will comply with the fidelity bonding. Renewal of the fidelity bonds of the other fund custodians will be done in May 2016.

11. Unserviceable assets of undetermined value located at the Iloilo Satellite Office are still included in the Property and Equipment (PE) account contrary to Section 79 of PD No. 1445 and PAS 16 – Property, Plant and Equipment, thus, the PE account and its related Accumulated Depreciation, cannot be relied upon.

11.1 Section 79 of PD No. 1445 on the Destruction or Sale of Unserviceable Property provides that:

“When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at a public auction to the highest bidder under the supervision of the proper committee on award to similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or of not less than three consecutive days in any newspaper of general circulation, or xxx” (Emphasis ours)

11.2 Paragraph 67 of PAS 16 – Property, Plant and Equipment also provides for the derecognition of the carrying amount of an item of PE upon disposal or when no future economic benefit is expected from its use or disposal.

11.3 COA Circular No. 89-296 dated January 17, 1989, meanwhile, provides the audit guidelines on the divestment or disposal of property and other assets of national government agencies including government-owned or controlled corporations and their subsidiaries. Included therein are the manners/modes of disposal and COA’s role during the disposal.

11.4 An ocular inspection was conducted from November 11 to 12, 2015 on the properties of the AFPRSBS in Iloilo including the conduct of inventory of the property and equipment at the satellite office. The Physical Inventory Report provided by Management and the results of our inspection showed the following:

Particulars	Per Inventory Report	Per Ocular Inspection	Variance
Serviceable	52	43	9
Defective/unserviceable	15	24	(9)
Total	67	67	-

11.5 Interview with the AO disclosed that he failed to inform the Head Office of disposals of some unserviceable/defective properties and he did not secure an application/approval for such disposal which is contrary to Section 79 of PD No. 1445. Further, he did not prepare an Inspection and Inventory Report of Unserviceable Property (IIRUP) as required under COA Circular No. 88-569 dated August 12, 1988. The defective units were replaced with his personal properties. Moreover, some of the defective office equipment inspected were found to be stored in the residence of the AO due to limited space in the Satellite Office.

11.6 **We recommended that Management:**

- a. **Strictly comply with Section 79 of PD No. 1445 and COA Circular No. 89-296 on the proper disposal of unserviceable property;**
- b. **Require the AO to prepare the IIRUP as required under COA Circular No. 88-569; and**
- c. **Pending the disposal of the unserviceable properties, transfer their remaining book values from PE account to the Other Asset account and derecognize the value of the unserviceable property only upon proper disposal of the property to reflect the accurate balance of the account.**

11.7 Management informed that the General Services Department (GSD) had already coordinated with the personnel assigned in Iloilo to provide it with the list of the defective/unserviceable properties in order to reconcile the items with the List of PE of the GSD and to identify the book values of the same.

11.8 The Disposal Committee of the AFPRSBS will propose the creation of a sub-committee who will undertake the disposal of the defective/unserviceable properties. The items located at the Iloilo Sattelite Office are already considered as scrap items, thus, said items can be disposed off without undergoing public bidding. The proceeds of the sale will eventually be remitted to the Head Office. The derecognition of the assets will be done afterwards.

11.9 As audit rejoinder, the disposal should be in accordance with Section 79 of PD No. 1445 particularly on the inspection of the Head of Agency or his duly authorized representative or the Auditor. We further recommended that Management submit to

COA the requirements for the disposal of the unserviceable PE as required under COA Circular No. 88-569.

12. Status of Suspensions, Disallowances and Charges

12.1 Notice of Disallowance (ND) No. 2010-07-084-(1996) on the overpriced land acquisition by the AFPRSBS and Notice of Charge (NC) No. 2010-07-001-(1996) on the deficiency taxes on said overpriced acquisition in the amount of P250,318,200 and P16,270,683, respectively, were issued on July 28, 2010. The appeals on said ND and NC by the persons responsible were denied by the Commission Proper (CP) under COA Decision Nos. 2012-139 and 2012-188 dated September 13, 2012 and November 5, 2012, respectively. The Motion for Reconsideration on the latter Decision was denied under CP *En Banc* Resolution dated February 27, 2015. Accordingly, a Notice of Finality of Decision dated September 22, 2015 and COA Order of Execution No. 2015-227 dated October 16, 2015 were issued for the enforcement of COA Decision No. 2012-188 dated November 5, 2012 which affirmed ND No. 2010-07-084-(1996).

12.2 The Supreme Court also promulgated its Decision under GR No. 217948 dated January 12, 2016 on the Petition for Certiorari for ND No. 2010-07-084-(1996) affirming COA Decision No. 2012-188 dated November 5, 2012.