

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 58 audit recommendations embodied in the prior years' Annual Audit Reports, three were implemented, four were not implemented, 51 were partially implemented, two of which were reiterated in this report, while 12 similar observations were combined to shorten presentation. The fully implemented recommendations are no longer included in the discussions below.

OBSERVATIONS AND RECOMMENDATIONS

ACTIONS TAKEN

2013

1. The System's Net worth of P10.477 billion as of December 31, 2013 may not be sufficient to comply with the provisions of Executive Order (EO) No. 590, as amended, deactivating the System and directing the transfer of its assets in trust to a Government Financial Institution. Moreover, the Governance Commission on Government-Owned or Controlled Corporation (GCG), per Memorandum Order No.2013-26 dated May, 2013, classified the System as dissolved/ liquidated/ inactive.

We recommended that Management immediately comply with the provisions of EO 590 and 590-A to put into action the winding down of the System.

2. The System's Financial Statements are not consolidated with the financial statements of its subsidiaries and controlled entities where it has invested a total of P2.546 billion. Hence, the said financial statements do not present reliable and accurate financial conditions and the results of its operations as of and for the year ended December 31, 2013, contrary to pertinent provisions of Philippine Accounting Standard (PAS) 27.

We recommended that Management:

Consolidate financial statements of AFPRSBS with that of its subsidiaries to include its assets, liabilities, equity and results of operations;

Partially Implemented

Management agreed with our recommendation to comply with EO 590 and 590-A. They have coordinated with proper authorities for the winding down and dissolution of the System. Management, however, has not received a reply on their requests for dissolution.

Moreover, the Cabinet Oversight Committee (COC) that is tasked to oversee the final liquidation of assets and liabilities, winding down of operations, separation of personnel, as well as, the guidelines set forth in the EO has not yet acted on the dissolution of the System.

Partially Implemented

Reiterated per Observation No. 1 of this report. The criteria used were updated to conform to new relevant issuances.

OBSERVATIONS AND RECOMMENDATIONS

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

Disclose the status of the financial standing of said subsidiaries and its investment thereon;

Comply with all the disclosure requirements of PAS 27 relative to investments in subsidiaries and affiliates; and

Evaluate whether the system has significant influence over the subject entities, and accordingly adjust the investment and affected accounts, if the significant influence is lost.

We further recommended that the System 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 its liabilities are settled; and the concerned subsidiaries and affiliates are fully liquidated/dissolved in accordance with the pertinent rules and regulations of SEC.

3. Valuation and appraisal of assets worth P10.094 billion are not undertaken regularly, as required under the pertinent provisions of PAS 36 and 39 to determine the adequacy and correctness of the allowance for decline in investment value amounting to P1.031 billion as at year-end.

We recommended that Management:

Conduct a valuation and appraisal of all its subsidiaries and affiliates to determine whether there is an increase in value or an indication of impairment thereof, as required under the pertinent provision of PAS 36 and 39;

Submit the details of the allowance for the decline in the value of investment and their corresponding application to each investment account resulting from the valuation/appraisal to be made to provide basis for determining the correctness and adequacy of the amount recognized; and

ACTIONS TAKEN

Partially Implemented

The System has already made a valuation of more than 50 per cent of its real estate assets either thru in-house appraisal or through determination of the net realizable values.

The remaining real estate properties are programmed to be appraised within 2015. Large tracts of land are prioritized for external appraisal as well as those that are projected to be sold/bidder out. All the others will be initially appraised by the in-house appraiser.

OBSERVATIONS AND RECOMMENDATIONS

Adjust the balance of the allowance for the decline in value of the assets and/or recognized the impairment loss, if any, to reflect the correct value of the Investment in stocks as at year-end.

4. The Supreme Court's decision declaring the 16 lots located in General Santos City with a book value of P174.175 million as part of the Magsaysay Public Park is a big loss to the System and to the AFP military personnel, who are the rightful owners/beneficiaries of the AFPRSBS funds.

We recommended that Management:

Conduct an investigation on the officers and employees who failed to exercise the degree of diligence required in the performance and discharge of their duties as stated in Section 4 (a) and (b) of Republic Act (RA) No. 6713;

Institute appropriate legal actions or impose sanctions on erring officers and employees in conformity with paragraph (a) of Section 11 of R.A. 6713; and

Make available all documents pertaining to the purchase of subject lots for post-audit purposes and for issuance of Notice of Disallowance, if necessary.

5. Unserviceable assets are still included in the Property and Equipment (PE) account contrary to Section 79 of Presidential Decree (PD) No. 1445 and PAS 16 – Property, Plant and Equipment and other pertinent rules and regulations, thus overstating the PE account by P2.361 million and its related Accumulated Depreciation by an undetermined amount.

We recommended Management to:

Comply with Section 79 of PD No. 1445, COA Circular No. 89-296 and COA Memorandum No. 88-569 on the disposal of unserviceable property so that Management can decongest its storage areas/bodega of obsolete/unserviceable assets and at the

ACTIONS TAKEN

Partially Implemented

The Officers and other personnel of AFPRSBS involved in the transaction pertaining to the acquisition of Lot X are not anymore connected with the System.

24 consolidated cases has been filed and are now pending before the 4th Division of the Sandiganbayan, for violation of Section 3(e) of RA No. 3019 and for falsification of public documents.

Partially Implemented

While Management has disposed PE valued at P0.350 million, the value of unserviceable assets has increased to P3.670 million as of 2014.

We therefore reiterated all the recommendation for the disposal of the unserviceable asset.

Management commented that for CY 2014, the disposal of the unserviceable properties and equipment was not undertaken since the Controllership Department (CD), in coordination with the General

OBSERVATIONS AND RECOMMENDATIONS

same time get the best price upon its sale;

Include in the yearly plans/activities the manner in which to dispose the unserviceable assets for the fair presentation of the balance of the PE accounts in the financial statements; and

Pending disposal of the above-stated property, we suggest that Management cause the appraisal of all its property and the items for disposal be recorded under Other assets account.

6. The System did not conduct the physical inventory of all its property hence, reconciliation with accounting records was not made during the year as required under COA Circular 80-124 dated 18 January 1980.

Further, total insurance coverage of P100.744 million for the System's property at the main office and at the Industrial Park as required under RA No. 656 has no clear basis in the absence of correct book value of the property.

We recommended that Management:

Strictly adhere with the provisions of COA Circular 80-124 regarding the conduct of physical inventory of government property and the submission of inventory report within the prescribed period; and

Determine the correct book value of the System's property and equipment which will serve as the basis for the amount of insurance to be applied for with GSIS.

7. Cash in bank (CIB) account balance per book differed by P14.669 million against the balances confirmed by the concerned banks and financial institution. Bank reconciliation is not regularly done thereby creating doubt on the accuracy of the account balance totaling P89.199 million.

ACTIONS TAKEN

Services Department (GSD), are still identifying the acquisition costs of the items that were included in the list for disposal. CD has difficulty in tracing the acquisition cost of the majority of the items since these were procured/acquired prior to 1995. Likewise, the items that were purchased on a per set basis on different acquisition dates as in the case of the computer units are now listed on a per part or itemized basis, thus, making it even more difficult to identify the original costs of the items.

Partially Implemented

Management conducted the physical inventory of all its property and submitted the resulting inventory report. However, a difference of P1.293 million was noted between the balance per book and the balance per inventory report as of December 31, 2014.

The System insured its property with the Government Service Insurance System (GSIS), pursuant to RA No. 656, not based on the recorded net book value nor Inventory Report balance, thus, may not be advantageous to the System.

We therefore reiterated our recommendations contained in the previous year audit report.

Partially Implemented

The difference between the balance per book and the balance per bank remain at P14.699 million. The CD is exerting its best efforts to reconcile the balances of all RSBS

OBSERVATIONS AND RECOMMENDATIONS

We recommended that Management:

Regularly prepare monthly bank reconciliation statements (BRS) for all its bank accounts to determine the causes of the discrepancy between the book and bank balances at the earliest possible time;

Regularly reconcile the cash in bank account of CD and TD since they are both in the same agency.

Similar observations were raised in prior years audit where we recommended to Management the following in addition to the above (2012 – c to e; 2011 – f to g):

Submit copies of monthly bank reconciliation statement to COA for audit purposes as required under Section 74 of PD No. 1445;

Coordinate with the LBP for copies of the credit advices so that the CD can make the necessary adjustments. Likewise, coordinate also with the Union Bank for any information on the closure of the bank account so that adjustments can be made in the books of the System; and

Close the inactive bank accounts and transfer its balances to the other active accounts to avoid incurring bank charges on dormant accounts and eventually deplete the fund balance.

Investigate the causes of the discrepancy of the balances in the book against the results of confirmation of balances disclosed by the bank and the BRS;

Monitor the transactions of each bank account, prepare the adjustments and update the CIB account.

ACTIONS TAKEN

bank accounts with the book balances.

The CD has already prepared the required bank reconciliations for all the depository banks as of December 31, 2014 with the exception of Banco de Oro (BDO) CA No. 002828006550 and SA No. 002820045037.

The Treasury Department and CD are regularly reconciling the accounts in order to determine the source of the noted discrepancy.

For the LBP account, the CD has already adjusted the unrecorded fund transfer to the account from BDO based on the documents that were secured from the bank.

Lastly, the System already closed three inactive bank accounts.

OBSERVATIONS AND RECOMMENDATIONS

8. A total of 311 unclaimed/stale checks in the aggregate amount of P3.527 million representing refund of members contributions and other payments have not been canceled, thus, understating the Cash in bank and Accounts payable account by the same amount.

We recommended that the Cashier report the stale checks in the List of Unclaimed Checks as cancelled and for the CD to prepare the necessary adjusting entries to take up the cancellation of the stale checks in the books of accounts.

9. The deposit/placement of the System's resources in private banks and financial institutions is contrary to Department of Finance (DoF) Order No. 27-05.

We recommended that Management:

Secure DoF approval on its deposits with private bank;

Pending approval of the same, the System has to transfer its funds from the current depository private commercial banks to government banks.

10. Accountable Officers (AOs) handling cash and property accountabilities were not bonded in violation of Section 101 of PD No. 1445 and Section 7 of COA Circular No. 97-002.

ACTIONS TAKEN

Partially Implemented

Of the total 311 unclaimed/stale checks in the aggregate amount of P3.527 million, a total of 276 with a value of P1.513 million remain as of 2014.

We reiterated our recommendation that the remaining stale checks be adjusted in the books of accounts.

Partially Implemented

The DoF in a letter dated September 30, 2014 denied the request of the System to continue maintaining depository accounts with private banks and the System was advised to take necessary steps to wind down deposits with private banks and allow the two major GFIs, namely, Land Bank of the Philippines and Development Bank of the Philippines, to handle depository requirements and other banking needs of the System.

The System has already complied with the DoF recommendation by shifting its portfolio.

Further, beginning January 2015, the System will be servicing its payroll thru the DBP.

Partially Implemented

The System bonded four AOs and staff of the Investment Management Group (IMG) through a Destruction, Disappearance and Dishonesty (DDD) insurance policy covering the period March 18, 2014 to March 18, 2015 with the GSIS in compliance

OBSERVATIONS AND RECOMMENDATIONS

We recommended that Management:

Submit to the Bureau of Treasury, with the application for bonding, the GCG declaration that the System is a government entity;

In the meantime, comply with the recommendation of the COA's Legal Services Sector to file the bonding application for its accountable officers with the GSIS, if no fidelity bond application has been filed/approved by the AFP General Insurance Company.

11. Transfer Certificate of Titles (TCTs) are not yet consolidated in the name of the System to safeguard its interest and of its members. The System is co-owner to two land titles as indicated in TCTs Nos. 488658 and 488675.

We recommended that Management:

Prioritize the registration of titles in the name of the System;

Initiate subdividing the two lots shared with the other owners and register for sole ownership; and

Ensure that the inventory list is always updated.

Similar observation was raised in CY 2012 where we recommended to Management to cease/refrain from using open deed of sale to protect the interest of the System in addition to the above.

12. Leniency in the implementation of the System's Employees Salary Loan resulted in unpaid loan of P0.268 million of six employees of the System who were separated from the service.

ACTIONS TAKEN

with Treasury Circular No. 02-209 dated August 6, 2009.

However, the System failed to secure bond for its revolving fund and petty cash custodians, whose cash advances range from P7,500 to P150,000, in violation of COA Circular No. 2013-001 dated January 10, 2013.

We therefore recommended and Management concurred to secure bonds for the AOs handling revolving and petty cash funds to ensure safeguard and indemnification in case of loss of its assets or if the AOs abscond from office.

Partially Implemented

Reiterated per Observation No. 12 of this report.

Partially Implemented

Human Resources Office (HRO) has already prepared the initial draft of the letters, however, there is a need

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We recommended that Management:

Exert effort to collect the unpaid loans of P267,656 from the separated employees;

Review the System's loan policy to include a co-maker for each borrower. Include also the provision and the number of times he can act as such; and

Set-up an allowance for probable loss corresponding to the unpaid loan amount.

13. No Contract of Lease was executed by a lessee with the Industrial Park Management Office (IPMO) contrary to COA Circular No. 88-282A, thus prejudicial to the interest of the System. Moreover, three lessees did not comply with Sections 3.3.2 and 3.3.3 of the Contract of Lease on the remittance of rental payment resulting in opportunity loss to immediately use the funds for other purposes.

We recommended that Management:

Execute a lease contract duly notarized, before turning over the property to the lessee in compliance with COA Circular No. 88-282A and the provision of the Civil Code of the Philippines;

Require JADGCHI to sign and return the contract of lease to the System, otherwise, terminate the lease on the date specified on the signed documents with conforme;

ACTIONS TAKEN

(a) to update the amount of the outstanding obligations of the concerned employees and (b) to determine the new mailing addresses of the resigned employees.

HRO is now in the process of securing clearances for these employees to determine if there are other obligations of the employees that need to be settled. Any unsettled obligations will be offset against receivables of the employees from the System. Any balance after offsetting shall be subject to legal remedies.

Since the GCG has already mandated that RSBS should already be deactivated by 2016, and that about 90 per cent of the 83 regular employees had already availed of the employee salary loan facility, extending of salary loan is now on a case to case basis.

Partially Implemented

Related observation is discussed in Observation No. 2 of this report.

A lease contract with JADGCHI is no longer necessary considering that the lease has already expired and filing a case for the collection of sum of money is in the pipeline.

OBSERVATIONS AND RECOMMENDATIONS

Strictly impose and monitor the stipulations in the contracts of lease for the benefit of the system and its members; and

Impose penalty on the delayed remittance of the three lessees.

Similar observation was raised in the CY 2011 audit where we recommended to Management the following in addition to (a) and (c) above:

Revisit the provisions of the contract of lease which are contradicting, hence, prejudicial to the funds of the public and the members; and

Use the straight line method in recording the lease income in compliance with PAS 17.

14. Asset foreclosed in 2009 with a book value of P254.702 million, covering 213 Condominium Certificate of Titles (CCTs) and the TCT of the land where the condominium stands, has not been disposed of, thus, the System has not recovered its investment. Moreover, the System continues to incur expenses pertaining to the real property tax on the lot.

We recommended Management to exert effort to immediately dispose its acquired asset to recover its investment.

Similarly, other Acquired Assets with aggregate book value of P271.264 million (as observed in the CY 2012 audit) remained undisposed for a long period of time resulting in additional expenses and depriving the System of investible funds necessary in its lending and investment operations.

We previously recommended Management to:

Enhance and/or update the existing policy/guidelines on the disposal of its acquired assets guided by practices of other government agencies in the same field as the System, after which, dispose immediately

ACTIONS TAKEN

Partially Implemented

The undisposed Acquired Assets of the System currently has a total book value of P422.724 million.

Management commented that all owners of the SMIT (RSBS, LKG Group of Companies and St Michael Corporation) were able to agree on selling the building as a whole. They will engage the services of a consultant – *Tan, Frankum and Associates* for disposition advisory which will commence on the first quarter of 2015 with a term of three months renewable upon mutual agreement of the Owners. Fee is three per cent of the selling price.

For CY 2014, five foreclosed accounts were sold/disposed by the Marketing and Sales Department (MSD) for P6.752 million. The other assets are in various stages of cleansing and are not part of MSD's inventory. Hence, they are not available for sale.

OBSERVATIONS AND RECOMMENDATIONS

acquired assets especially those which are held for more than five years to recover its loan exposure; and

Develop strategies to expedite the disposition of non-performing assets to prevent accumulation thereof.

15. The allowances and benefits totalling to P0.688 granted to employees, as well as per diem and research allowance granted to the members of the Board of Trustees (BOT) totaling to P0.919 million were not in accordance with authorized rate prescribed under the Department of Budget and Management (DBM) Budget Circular No. 2010-1 dated 28 April 2010 and other rules and regulations.

We recommended that Management require:

The six employees to refund the total amount of P125,000 representing the service loyalty cash incentive bonus in excess over the amount prescribed under CSC Memorandum Circular No. 6, series of 2002.

The officials and employees to refund cash gift received in excess of the authorized rate prescribed under the DBM Budget Circular No. 2010-1.

For the rice subsidy, comply with the requirement of EO No. 51 on the purchase of rice from the National Food Authority to save on bidding expenses and maintain the P1,500.00 limit of rice subsidy; and

Refund of the amount of P236,656 representing the amount in excess of the P1,500 granted to all employees of AFPRSBS.

16. Withdrawal of gasoline by private vehicles from the AFP Commissary and Exchange Services (AFPCES) totaling P0.205 million is contrary to Section 4(2) of PD No. 1445 and Section 7 of COA Circular No. 77-61

ACTIONS TAKEN

MSD shall recommend marketing strategies/sales terms and conditions for each acquired asset that is transferred to that department after verifying the completeness of documents and obtaining a recent appraisal report for each property.

Partially Implemented

Starting August 31, 2014, the P1,500 per month rice subsidy is already given in cash and released as part of the monthly salary and allowances of each employee.

Partially Implemented

The System has already stopped the withdrawal of gasoline from the AFPCES for the use of private

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dated September 26, 1977, hence considered irregular expenses, as defined under Section 3 of COA Circular 2012-003 dated 29 October 2012.

We recommended Management to:

Stop the practice of withdrawing gasoline from AFPCES Depot for use of private vehicles;

Cause the immediate refund of the equivalent cost of gasoline withdrawn by private vehicles since these are irregular expenditures; and

Include in the Corporate Operating Budget (COB) submitted to DBM the Transportation Allowance to officers of the System entitled thereto.

17. The System's hard disk server crashed and untested data back-up and restore procedures after crash affected the master data records resulting in data loss, inaccurate processing/computation of borrowers' loan balances, interest charges and fines; and further affecting the integrity of data, which may result in the generation of unreliable information and over or under statement of financial records.

In relation thereto, the reliability and accuracy of account balances, which include among others, the four accounts totaling P11.804 billion (as observed in the CY 2012 audit) cannot be ascertained in the absence of supporting detailed schedule and subsidiary ledgers (SLs) of the different accounts due to the AFPRSBS management information system's failure in February 2012 and the System's inability to maintain backup and recovery plans and procedures.

Relative to the crash of the hard disk server, we recommended that Management:

Fast-track the re-encoding of the OR data that were affected by the hard disks crash;

ACTIONS TAKEN

vehicles.

The Transportation Allowances of the entitled personnel were already included in the 2014 budget.

Partially Implemented

A full-time programmer was hired to help the Management Information System Office (MISO) in addressing IFMS2 problems such as the updating of the SLs and manually prepared transactions during the system downtime in 2012 aside from the refinement of the Members' Contribution Financing loan program.

There is no policy/procedure on file with the Corporate Planning Office (CPO) regarding Business Disaster, Recovery and Contingency procedure. Coordination meeting will be set with MISO to discuss the enhancement/drafting of the required procedure in line with the Winding Down Plan of the System.

MISO has coordinated with Head, Real Estate Group and IPMO Officers with regards to COA's recommendation of relocating the storage facility outside MIS Office. As of January 2015, the safety vault,

OBSERVATIONS AND RECOMMENDATIONS

Study the possibility of outsourcing computer programmer who can enhance the program procedures/routines on how to re-compute ORs issued from start of payment until the application of last payment;

Examine the existence of OR amounts with negative values and effect immediate corrections; and

Ensure that a complete check routine on mandatory fields where these fields must be populated with valid entries and not to accept blank and null entries, particularly, in the OR numbers, OR dates and OR amounts;

Update and formulate policies and procedures on Business Disaster, Recovery and Contingency procedures;

Re-locate the Offsite backup data storage facility to a more strategic location outside the proximity of the main processing center; and

Test and improve the data backup and restore procedures.

As to the reliability and accuracy of account balances, we recommended Management to:

Exert effort to establish correct account balances, taking prior year balances as starting point or at the time prior to the hard disk crash. Reconcile with the current transactions bridging the gap between two periods, considering that hard copies of supporting documents are on hand;

Conduct a feasibility study on the benefits of acquiring a new Information System vis-à-vis the cost to rehabilitate the existing system considering that the System is in the process of winding down its business operations;

Review conditions of the contract with Oracle Philippines Inc. and determine courses of action that is advantageous to the System. Study the offers of Oracle as to financial, as

ACTIONS TAKEN

presently being used as storage of the backup data which was previously located at the CD's Office was transferred to IPMO. Thus, all backup data/file were conveyed daily.

The migration project of transferring the data from Sunfire server to IBM servers was successfully done and made running last August 2014. The separation of the production and test server allows MISO to test/update/validate/correct errors without hampering the day to day business transactions of RSBS.

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well as operational advantages; and

Consider hiring IT experts to undertake the restoration of the IFMS database and recovery of data, identify problem areas even before the crash for enhancement, adoptability and suitability to the System.

2012

18. The System's total assets of P14.339 billion as at year-end is short by P47.291 billion against the estimated funding requirements of P61.63 billion based on GSIS actuarial study. The absence of a clear policy, procedure and guidelines approved by the Board of Trustees in setting up the estimated liabilities on Membership Contribution might affect the future payment of benefits of the retiring members as provided for under the mandate of the System.

We recommended Management to:

Prepare policies, procedures and guidelines on the Reserve and Actuarial setting;

Coordinate with the Finance Center of the AFP re: submission of a complete list/inventory of active military personnel to include among others, the correct full name of the member, date of birth, name/s of beneficiaries, updated salary, years in services, contributions paid and more importantly the retirement dates;

Input the gathered data to be programmed in the IFMS Membership Group so that at any given point in time, the CD will know how many are retiring so that they can have an accurate computation of the amount that will be set up as membership refund for the coming years;

The amount that should be set up should not be good only for a year but study the possibility of setting up a reserve up to maturity/annuity which should form part of the

ACTIONS TAKEN

Partially Implemented

The System is continuously exerting efforts to facilitate the completion and cleansing of membership records. Since most of the members with unposted contributions are from the Philippine Army, the Membership Group (MG) made representations with the Finance Center, Philippine Army (FCPA) for RSBS to extract electronic data on FCPA remittances to RSBS for 1992 to 2002.

On March 10, 2015, the FCPA provided the System with extracted electronic data on monthly remittances of the FCPA for the period 1997 to 2014. Considering that the electronic data extracted from the FCPA represents Payroll Data and are therefore confidential in nature and to preserve the integrity of the said database, MISO was requested to create a stand-alone mini system/computer application that will enable users from the MG to retrieve, view and print the individual contribution ledger of a specific member but will restrict any modification/changes in the database and will not allow viewing, copying and printing of the entire FCPA Payroll Database.

The MG is also considering the possibility of obtaining records of remittances directly from the various

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policies, procedures and guidelines;

Provide an actuarial reserve not just a set-up of annual estimated liability on member's contribution to cover the year's funding requirement if only to assure its members of the System's capabilities to pay off its obligations when and as it falls due; and

The System should review its investment and asset disposal policies so that funds will be available for more revenue generating activities that will fund the obligations to members. Likewise, we suggest that the System comply with the GSIS recommendation that the actuarial studies they conducted be reviewed and certified by an accredited Fellow of the Actuarial Society of the Philippines.

19. The reliability of the receivables totaling P1.978 billion and the adequacy of the recognized Allowance for Doubtful Accounts (ADA) totaling P588.175 million as at 31 December 2012 cannot be ascertained due to the absence of SLs and an updated and clear basis for the setting up of the allowance for doubtful accounts, contrary to Paragraphs 58, 59 and 63 of PAS 39, as well as Sections 111 and 114 of PD No. 1445.

We recommended that Management submit:

Updated accounting policy or implementing rules to II – Policy on Term Loans that would best reflect the provisioning for ADA to establish the recoverable amounts of the receivables;

Approved BOT Resolutions showing the annual provisions for ADA in accordance with II.A.1 of Office Policy No. 7-2-87, if any;

Require the Operating Divisions of the System including the CD to coordinate and maintain the required SL for all receivables and its related accounts;

ACTIONS TAKEN

Finance Servicing Units though these are located all over the country.

With the winding down status of the System, efforts of the management are now geared towards the disposal of its assets/properties in order to meet its obligations to the members when and as it falls due. Thus, the formulation of new policies, procedures and guidelines on the Reserve and Actuarial setting may not be practical anymore.

Partially Implemented

From 2012 to 2014, the subject receivables decreased by P0.018 billion (from P1.978 billion to P1.960 billion) and the ADA decreased by P0.212 million (from P588.175 million to P587.963 million).

Management has already drafted the policy on ADA and has presented it to the Senior Management Committee, said policy will be finalized after incorporating the enhancement required by the Management.

No approved BOT resolutions submitted because this will depend on the outcome of recommendation in letter a.

Recommendations in letters c to i are not yet implemented and therefore reiterated in this report.

OBSERVATIONS AND RECOMMENDATIONS

Prioritize the printing of the hard copy of the Customer's SLs;

Comply with Section 114 of PD 1445 relative to the maintenance of SL and with Paragraphs 58, 59 and 63 of the Philippine Accounting Standard (PAS) 39 on the recognition of ADA;

Prepare the aging schedule on a periodic basis to facilitate monitoring and evaluation of the accounts, indicating the status thereof to come up with adequate ADA;

Regularly back up customers files to protect files and make information readily available on demand for the proper monitoring of the receivables of the System;

Review and reconcile the accounts affected by the System's process to come up with the correct balances for fair presentation in the financial statements; and

Revisit the organizational structure and enhance functional chart to pinpoint responsibilities among departments.

20. Valuation and appraisal of assets worth P10.643 billion are not undertaken regularly, as required under the pertinent PAS 36 and 39 to determine the sufficiency and correctness of the allowance for decline in investment value amounting to P1.108 billion as at year-end.

We recommended Management to:

Conduct a valuation and appraisal of all its subsidiaries and affiliates to determine increase in appropriate value or impairment loss thereof; as required under the pertinent provision of PAS 36 and 39;

Adjust the balance of the allowance for the decline in value of the assets and/or recognized the impairment loss, if any, to reflect the correct value of the Investment in

ACTIONS TAKEN

Partially Implemented

The System has already made a valuation of more than 50 per cent of its real estate assets either thru in-house appraisal or through determination of the net realizable values.

The remaining real estate properties are programmed to be appraised within 2015. Large tracts of land are prioritized for external appraisal as well as those that are projected to be sold/bid out. All the others will be initially appraised by the in-house appraiser for the updated market values.

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stocks as at year-end;

Submit the details of the allowance for the decline in the value of investment and their corresponding application to each investment account to provide basis for determining the correctness and adequacy of the amount recognized;

Revisit and re-assess the System's valuation policy and strictly adhere to the provisions of IAS 36 specifically in setting up the Allowance for Impairment Loss; and

Comply with SOP Paragraph III-D of AFPRSBS SOP No. 98-02 on the periodic appraisal of its assets.

21. The correctness of the book balance of the PE and its related Allowance for Depreciation with a book value of P268.763 million and P238.195 million, respectively or a net book value of P30.568 million as at 31 December 2012 is doubtful due to the unreconciled difference of P5.687 million between the results of the annual physical inventory taking and the accounting and property records.

Memorandum Receipts (MRs), now Acknowledgement Receipt for Equipment (ARE), are issued to a Responsible Supply Officer (RSO) instead of an individual employee as required in Section 492 of the Government Accounting and Auditing Manual (GAAM).

The System's transportation/motor vehicles were insured with three different private insurance companies instead of GSIS, contrary to Section 5 of RA No. 656, an act known as Property Insurance Law. Moreover, all of the new vehicles have private plate numbers, hence not marked "For official use only".

ACTIONS TAKEN

Partially Implemented

Related observations are contained in Item 5 and 6 of this Status of Implementation.

Management commented that the reconciliation of the accounting records with the physical count was already initiated by coming up with the list of properties that were recorded in the PPE account from 1995 to 2004 then extracting those recorded from the implementation of the IFMS. These will then be matched against the results of the physical count.

All the System's vehicles are now insured with the Government Service Insurance System.

The GSD is working on the registration of the System's vehicles for issuance of red plates and mark "For official use only".

On the disposal of unserviceable assets, this is already programmed in 2015 in accordance with COA

OBSERVATIONS AND RECOMMENDATIONS

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Unserviceable assets are still included in the PE account contrary to PAS 16, thus overstating the account by P0.872 million and its related Accumulated Depreciation by an undetermined amount. rules.

Various official documents from the System's different departments dating as early as 1980s were still stored in the 2nd floor of the padlocked storage room.

We recommended Management to:

Enforce compliance with COA Circular No. 80-124 to reconcile the accounting records with the GSD's physical count to establish integrity of property custodianship and reliability of account balances;

Maintain updated PE ledgers with complete information, to support account balances appearing in the books of account;

Prepare a lapsing schedule for the computation of depreciation expense;

Revisit the System's accounting policies with regards to the building/structures guided by the provisions of PAS 16 – Property, Plant and Equipment. Likewise, determine the reason for its negative book balance;

Impose the issuance of ARE (previously MR) to each individual user instead of assigning it to a single RSO. Recall the assignment of the vehicle to the Riviera Sports and Country Club, Inc., otherwise, issue ARE in their name;

Comply with the provision of RA No. 656 on the insurance of property, particularly the motor vehicles, with the GSIS;

Have the vehicles registered as government property for issuance of red plates and mark "For official use only";

OBSERVATIONS AND RECOMMENDATIONS

Include in its yearly plans/activities the disposal of its unserviceable assets;

Comply with the guidelines on the disposal of Property and Equipment (COA Circular No. 89-296 dated 27 January 1989 and COA Memorandum No. 88-569 dated 12 August 1988) so that Management can decongest its storage areas/bodega of obsolete/unserviceable assets and at the same time get the best price upon its sale;

Pending disposal of the above-stated property, we suggest that the items for disposal be recorded under the Other assets account; and

For the valueless documents, Management can consider disposing its valueless documents guided by the provisions of NAP Circular. This can be a source of income for the System through sale by public bidding and will also decongest the storage room, which can be utilized for other purpose.

22. The accuracy, reliability and validity of the Accounts Payable-Trade and Non-trade accounts totaling P179.698 million cannot be ascertained due to the absence of documents, SLs and schedules to substantiate the account balance and support the claims of creditors against the System, contrary to Section 40, Book VI of the 1987 Administrative Code. Construction Contract Payable account totaling P24.138 million remained in the books from four to 17 years contrary to Section 98 of PD No. 1445.

Unaccounted abnormal balances of P51.688 million (as observed in the CY 2011 audit) were included in the Accounts Payable-Trade without supporting documents, rendering the balances of affected accounts doubtful, contrary to Section 59 of PD No. 1445 and the principles of faithful presentation and verifiability of the Conceptual Framework for Financial Reporting.

ACTIONS TAKEN

Partially Implemented

From 2012 to 2014, the total balance of the accounts decreased by P2.655 million (from P179.698 million to P177.043 million). The corresponding adjustments, if any, will be taken up in the books based on the result of the validation made by the concerned unit.

CD provided the PMED of the reconciled schedules together with the SLs for the determination of the validity of the recorded liabilities.

The CD was able to come up with the Schedule of the Reserve for RE development including the SLs for each contractor totaling to P7.620 million net of the negative balance of P0.180 million.

OBSERVATIONS AND RECOMMENDATIONS

We recommended Management to:

Establish validity of outstanding obligations and determine whether these were perfected transactions/contracts or just a result of errors in recording;

Coordinate with and send letters to creditors requiring the submission of documents to prove their claims from the System;

Immediately revert to proper accounts any Payable not supported with valid claims to reflect the correct balance as at 31 December 2012, as necessary; and

Prepare schedule and maintain SLs for each creditor to substantiate the balance of all payable accounts.

Relative to the unaccounted abnormal balances, we previously recommended Management to:

Prepare adjusting entries to correct the balances of the affected accounts and monitor the proper accounting of journal entries to check that there will be no accumulation of payments lodged in the AP-contractors and AP-trade, others.

23. The payment of advance commission to brokers is contrary to Section 88 of PD No. 1445 – The State Audit Code of the Philippines.

We recommended that Management comply with the provisions of Section 88 of PD No. 1445 prohibiting advance payment and/or submit legal basis to support prepayments of commission to brokers.

ACTIONS TAKEN

The CD will exert best efforts to reconcile all the payable accounts to include the unaccounted abnormal balances. Corresponding adjustments will be adjusted once the accounts will be reconciled.

Partially Implemented

The contract with REBAP expired in April 2013 and the System has no plans of renewing it or entering into a similar one with the same group. With this, advance commission is rarely paid out via deducting proceeds of the reservation fee or down payment since majority of our buyers pay in check. Advance commission is therefore billed by the broker and this is paid out by the System through the preparation of vouchers for disbursement

OBSERVATIONS AND RECOMMENDATIONS

ACTIONS TAKEN

Advance commission is paid upon completion of a service by the broker, to wit – reservation or full down payment by their buyer. If these and the accompanying documentation requirements are not completed, there will be no partial commission released.

As such, advance commission upon reservation is not disadvantageous to the System since the reservation fee is forfeited if the sale does not push through.

2011

24. Investments in Stocks – Held for Trading with costs totaling P23.931 million were purchased contrary to the provisions of the System's Policies and Procedures for Investment/Divestment in the System's Stock Market Portfolio.

Management should comply with the System's Policies and Procedures for Investment/Divestment in the System's Stock Market Portfolio to prevent further losses and revisit the existing policies to identify the applicable procedures to be followed by the Fund Management Branch for the effective handling and monitoring of the System's investments.

25. Unreconciled general and SL balances of Installment Contract Receivable (ICR) – Active Accounts rendered the balance of P354.997 million doubtful.

We recommended Management to:

Update regularly the posting to the SLs supporting the ICR general ledger control account for proper accounting control to ensure the accuracy of the amount and, in compliance with the provisions stated in Sections 111 and 114 of the PD No. 1445 and the 2010 IFRS Conceptual Framework; and

Partially Implemented

The Treasury Department (TD) has already started disposing some of the stocks to further lessen the loss that may occur as a result of the further decline in value of some of the stocks. In addition, TD is in the process of reviewing the existing policy and procedures relative to the investment/divestment in traded stocks to see if it is still relevant.

Partially Implemented

The System has already created a committee for the Moldex Joint Venture Project to reconcile the remittances and the inventories owned by RSBS.

Further, CD is constantly updating the individual SLs of buyers for the various projects. As of March 2015, a total of 534 SLs have been updated out of the 1,041 accounts. To address also the backlog in the issuance of SOAs and/or SLs, the

OBSERVATIONS AND RECOMMENDATIONS

Maintain hard copies of SLs periodically as these documents are useful in determining the loan outstanding balance of AFPRSBS buyers for Management and/or regulatory agencies' requirements/use.

26. The AFPRSBS did not exercise its right to cancel/rescind the Contracts to Sell (CTS) of delinquent buyers, hence, the System was deprived of an opportunity to re-sell the property to other interested buyers.

ACTIONS TAKEN

personnel assigned at the Iloilo Satellite Office are already preparing the individual SLs of the buyers in order to immediately address the queries/concerns of the buyers. The manner of penalty computation, however, is still to be finalized. The sample computations and the recommendation will be routed for comments prior to approval by the management.

The CD has already worked on the reconciliation of the accounts and only about P556.09M remains to be reconciled. Further, the CD has already (a) adjusted the accounts whose SLs were already updated and (b) recognized the corresponding interest income and decrease in the outstanding balances of the accounts.

For the aging schedule, the ICR accounts that are still being maintained in the Legacy System, a system-generated report can be generated from the Old System. However, for accounts that were being prepared using MS Excel, this will be done manually for the list that was prepared/reconciled by CD.

The customer-related files/schedules, and other vital documents were being backed-up regularly by CD so as to protect the files and make information readily available.

Partially Implemented

For CY 2014, the Accounts Management Department (AMD) enhanced its efforts at pursuing delinquent buyers and cancelling long past due accounts. The Remedial Management Branch

OBSERVATIONS AND RECOMMENDATIONS

We recommended Management to:

Formulate policies and procedures for the safekeeping and control of the ICR accounts. Likewise, improve the filing system and properly safe-keep buyer's loan folders/documents;

Send required notices to delinquent buyers to fast track the cancellation process;

Implement a proactive approach in the management of the delinquent accounts by considering the following courses of action;

Develop an adequate information system to track, monitor and account for all the ICR past due accounts; and

Require management reports, such as delinquent accounts with or without refund, status of the properties involved whether the properties are occupied by the delinquent buyer or other person and, other information necessary for management decision-making to effectively manage the accounts.

27. Unearned interest income of P117.267 million pertaining to restructured loan that has become dormant for more than ten years has remained in the books under the IFMS resulting in the overstatement of the account and understatement of affected accounts and contrary to Paragraph 19 of PAS 18 and the recognition criterion for liability.

We recommended Management to:

Prepare adjusting entry to reclassify and correct the balance of the unearned interest income, interest receivable, loans receivable-long term to capitalize the unearned interest income as provided under the approved restructuring agreement since the loan account has become past due and the AFPRSB has not collected any advance payment from the borrower-corporation; and

ACTIONS TAKEN

(RMB) was able to send 83 Notices of Delinquency and 32 Notices of Cancellation to various buyers. Also, a total of 32 letters were drafted to be sent out to delinquent buyers of the Villa Segovia Estate. Meanwhile, a total of 11 accounts were cancelled out of the 182 past due accounts.

Continuous review is being done on the past due accounts to ensure recovery or cancellation of the accounts

Partially Implemented

The CD is still awaiting the results of the possible redemption of the collateral for the PAPC account before adjusting the unearned interest income.

OBSERVATIONS AND RECOMMENDATIONS

Ensure that the recorded transactions are valid and supported with appropriate documentations.

28. Inadequate supervision, monitoring and accounting of the ICR and Investment in Real Estate (RE) accounts covered by Joint Venture Agreement (JVA) with a JV partner for the Villa Caceres Project resulted in several lapses, and the balance of the ICR of the JV partner cannot be established, which exposes the System's funds to risks and runs counter to sound internal control.

We recommended Management to:

Management should Improve oversight function/supervision and monitoring on the ICR and IRE covered by JVA in the Villa Caceres Project by considering the following courses of action;

Require the Project Management Committee to perform their duties and responsibilities in the monitoring of the conduct and status of the development of the Project and the marketing and sales of the inventories therein;

Reconcile the unaccounted discrepancy in the balance of the area between the JVA and the Deed of Partition;

Monitor the timely submission by the JV partner of the required monthly reports to AFPRSBS particularly the aging and status of all sales transactions and cancellations of reservations because these are necessary in the conduct of AFPRSBS decision making;

Require the JV partner to submit the amount of outstanding balance of the ICR in the Villa Caceres Project as of December 31, 2011 and record the amount in the AFPRSBS books for monitoring and fair presentation of the ICR account in the financial statements;

ACTIONS TAKEN

Partially Implemented

The Project Committee for the Villa Caceres was already revived in CY 2013 and coordination with the JV partner has been continuous. Per latest Project Committee meeting, it was agreed that Moldex will be furnishing the System with a final list of inventory sold under RSBS' name. Once this is submitted, reconciliation with the System's records will be done, after which, the final ICR balance may be ascertained.

The reconciliation by PMED of the JVA and the Deed of Partition is ongoing. Some of the documents were already gathered by the PMED staff and are currently being reviewed.

OBSERVATIONS AND RECOMMENDATIONS

ACTIONS TAKEN

Conduct regular inspection, examination, validation of entries in the books maintained by the JV partner against the monthly report submitted to AFPRSBS to ensure the accuracy of the report;

Monitor the sequential numbering of issued Provisional Receipts in the collection report to detect unremitted or delayed collections. Any delayed remittance shall be penalized in accordance with the JVA; and

Check the accuracy of the remitted amount for possible forfeited receipts due to cancelled contracts as well as the accuracy of sharing computation of the forfeited amount.

29. The balance of the Accounts Receivable –Others pertaining to Antipolo Properties Inc. (API) now Prime East Properties (PEP), a JV partner, amounting to P75.990 million could not be ascertained due to inadequate supporting documents contrary to the principle of verifiability and faithful presentation of the Conceptual Framework for Financial Reporting 2010.

Partially Implemented

The management already created a Task Force that will handle the reconciliation of the said account. The task force will also handle the disposal of the other properties with the same joint-venture partner.

We recommended Management to:

Conduct inventory of the files/records/reports left behind by the former JV employee in the presence of representatives of AFPRSBS and API/PEP;

Retrieve and reconstruct records pertaining to the JV agreement with API/PEP;

Coordinate and reconcile the account balances with that of the JV partner and send confirmation letters to the buyers of the membership and lots to facilitate reconciliation of the accounts and correct the account balances and enforce collection. Determine the account for reclassification affected by the discrepancies of records between JV partners; and

Intensify collection efforts on the receivable

OBSERVATIONS AND RECOMMENDATIONS

ACTIONS TAKEN

account from API/PEP.

2010, 2009, 2008, 2007

30. The balance of Investment in RE is doubtful due to unaccounted discrepancy of P0.112 million between the GL and the SL balances, negative balances totaling P3.447 million, existence of 81 lots in the inventory for sale despite absence of project balance in the control account, and misclassified project amounting to P1,154.285 million.

Not Implemented

The CD is still tracing the discrepancy between the GL and the SL amounting to P112,256. The tracing that will be done will be for the prior years' transactions.

We recommended Management to:

Reconcile the balance of SLs and GL and effect the necessary adjustments to reflect the correct balance of Investment in RE;

Re-compute the cost of sale of the projects already sold and adjust the investment in RE account and other affected accounts to ensure accuracy of the amount of income/loss on sale on the financial statements amount;

Reclassify to appropriate accounts the Greenland Antipolo and the Morong, Bataan projects to correct the balance of the Investment in RE and other affected accounts; and

Reclassify from Landbanking to Commercial and Residential subdivision project the cost of investment of the 175 properties located at Ciudad Verde-Calamba project in accordance with the classification prescribed by the AFPRSBS.

31. Depreciation was not taken up for CY 2010 on properties located at the AFPRSBS – IPMO with a book value of P108.050 million and accumulated depreciation of P107.862 million due to failure to conduct reappraisal thereat resulting to unreliable valuation and balances of the Investment Property and related accounts contrary to AFPRSBS Standing Operating Procedures (SOP) No. 98-02 and Section 58 of PD No. 1445 and

Partially Implemented

AFPRSBS is currently evaluating the appraisal that was made on the property before adjustment is made.

The System is also considering the winding down plan in adjusting the values of the property considering that the System has not yet secured

OBSERVATIONS AND RECOMMENDATIONS

Paragraphs 31 and 33 of the FPPFS.

We recommended Management to:

Conduct re-appraisal of all properties of the AFPRSBS-IPMO in accordance with existing policies;

Study the valuation and propriety of the depreciation expense in connection with COA Circular 2003-0078 dated December 11, 2003; and

Prepare the necessary adjusting entries and restate prior years' financial statements in accordance with the PAS 8 for fair presentation of the account in the financial statements.

32. Absence of policies on due dates of the remittance of members contribution and imposition of penalties caused undue burden to the System, hence despite delayed remittance, interest is being accrued/computed on the period covered and not on the actual date of remittance without any penalties thereon.

We recommended Management to:

Formulate a policy relative to remittance due dates and the corresponding imposition of penalties for delayed remittance of members' contributions. Likewise, prepare a policy monitoring scheme to determine the appropriate action to take in cases of delayed remittance;

Address the issue of invalid data to avoid if not to lessen the hassle in the validation and/or processing of refund of contributions or any claims of members with the System; and

Present to the Board of Trustees the importance of a complete set of data base of members for the protection of both the members and the System in cases of claims and other future actions; and forge an

ACTIONS TAKEN

its title to the property.

Not Implemented

The System will address the issue by changing the computation of interest from the month covered by the remittance to the date the remittance is actually received by the System. An enhancement of the existing program will be needed or the new computation will be incorporated in the enhancement of the computerized system. This will be considered by the IT Task Force created by Management.

OBSERVATIONS AND RECOMMENDATIONS

agreement with the Armed Forces of the Philippines for assistance in getting the vital and correct information of all members of the AFP as members of the AFPRSBS.

33. In spite of the restructuring, the loan account of a borrower-corporation with a book balance of P465.521 million has become past due resulting to a total outstanding balance of P3.194 billion per statement of accounts as of December 31, 2010, which exposed the AFPRSBS to the risk of not recovering its investments to the detriment of the public/members' fund.

We recommended Management to:

Pursue appropriate legal action against borrower-Corporation for failure to comply with the terms and conditions agreed upon by the parties as well as on the repayments of the restructured loan;

Initiate foreclosure proceedings on the unsold mortgaged condominiums in accordance with Act No. 3135 as amended by Act No. 4118 and in connection with A.M. 99-10-05-0 August 7, 2001 issued by the Supreme Court. In relation thereto, prioritize the allocation of funds to expedite the foreclosure, registrations and consolidations of mortgaged properties to recover the loan exposure;

Prepare a marketing plan on the disposition of the Royal Plaza Towers considering the best possible marketing strategies in order to recoup the funds which was deprived to the AFPRSBS and its members for many years;

Undertake a study in determining the possibility to still compel PAPC to immediately secure a written approval to mortgage the unsold condominiums from HLURB as required under PD 9257 to protect the interest of the System; and

ACTIONS TAKEN

Partially Implemented

A fact-finding committee was created by the Management in 2011 to determine the circumstances leading to the failure to manage and monitor the PAPC account by concerned RSBS personnel. The Committee submitted its report to the management in January 2013.

OBSERVATIONS AND RECOMMENDATIONS

ACTIONS TAKEN

Conduct an investigation on the officers and employees who failed to exercise the degree of diligence required in the performance and discharge of their duties as stated in Section 4 (a) and (b) of RA No. 6713 in the evaluation, monitoring and enforcement of the terms and conditions of PAPC's loan account and institute appropriate legal actions or impose sanctions on erring officers and employees in conformity with paragraph (a) of Section 11 of RA No. 6713.

34. The non-consolidation of titles of 26 CCTs and the non-registration with the Register of Deeds of 35 certificates of parking lots acquired through dacion en pago from a borrower-corporation in the aggregate amount of P133.185 million deprived the System of the opportunity to earn income/gain from either selling or leasing of these properties, thus, prejudicial to the public funds and members contribution.

We recommended Management to:

Consolidate under the name of AFPRSBS the titles of the 26 CCTs acquired through dacion en pago and register to the Register of Deeds the 35 pieces of certificate of parking lots to protect the interest of the AFPRSBS;

Transfer the records of the subject properties from the AMD to the Real Estate Management Department (REMD) for proper monitoring thereof and for appropriate sale or for lease to avoid incurrence of opportunity cost and other cost to maintain the said properties; and

Prepare a marketing plan for these properties to ascertain the best possible strategies beneficial to AFPRSBS.

35. Properties amounting to P140.074 million acquired by AFPRSBS through dacion en pago from a borrower-Corporation were not insured against fire and/or other perils.

Partially Implemented

The System has included in its foreclosure the properties that were subject of the dacion en pago agreement which was not notarized.

Not Implemented

The System is still waiting for the expiry of the redemption period of the properties that were included in the foreclosure before consolidating

OBSERVATIONS AND RECOMMENDATIONS

We recommended for Management to insure the subject properties against fire or any insurable risk to protect the System from loss in cases of contemplated perils.

36. Delayed appropriate legal actions and/or non-foreclosure of mortgage on small business loans with a book value of P7.064 million that had become past due with ages ranging from 9 to 16 years deprived the System of funds which could have been utilized to a more viable undertaking.

We recommended Management to:

Take appropriate legal actions to collect/recover the outstanding balances against six defaulting borrowers;

Initiate foreclosure proceedings on the mortgages condominiums in accordance with Act No. 3135 as amended by Act No. 4118 and in connection with A.M. 99-10-05-0 August 7, 2001 issued by Supreme Court. In relation thereto, prioritize the allocation of funds to expedite the foreclosure, registration an consolidation of mortgaged properties to recover the loan exposure; and

Conduct investigation on erring personnel and officers of the System who failed to perform their duties resulting in the incurrence of opportunity cost or deprivation of the System to make use of the funds in a more viable and high yielding endeavor. Thereafter, impose appropriate sanctions depending on the gravity of the act/offense committed.

37. AFPRSBS is faced with risk of loss and non-recovery on the car loans due to non-registration with the Land Transportation Office (LTO) and the Register of Deeds (RD) of the chattel mortgage executed by the employees-borrower for and in behalf of AFPRSBS, contrary to Article 2140 of the Chattel Mortgage Law and is prejudicial to the funds of the System.

ACTIONS TAKEN

the properties. Once consolidated, the properties will be insured.

Partially Implemented

Out of a total of 20 small business loans, ten accounts were acted upon in CY 2014, specifically: two accounts were transferred to the marketing and Sales Department for resale; one account was redeemed for P2.289 million; six accounts were evaluated for recommendation to be written-off; one account was processed for transfer to MSD. The other ten accounts are still with the LD for foreclosure and consolidation.

Partially Implemented

The System's Legal Department (LD) prioritized the filing of cases against the accounts that has the highest sums to be collected from.

In CY 2014, the System received P538,971.78 and P567,199.26 for the compromise of cases AFPRSBS

OBSERVATIONS AND RECOMMENDATIONS

The account has become past due for over three to 20 years and the department concerned has not made any appropriate legal action to run after the defaulting borrowers, to the disadvantage of the System.

The provision of the Personnel Policy on the availment of car loan was not enforced on 17 separated employees including three employees on AWOL status who availed of the car loan program of the System and the non-observance of the existing policies on the sending of collection/demand letters.

We recommended Management to:

Take appropriate legal actions to collect/recover the outstanding balances against defaulting borrowers;

Conduct an investigation on the officers and employees who failed to exercise the degree of diligence required in the performance and discharge of their duties with the highest degree of excellence, professionalism, intelligence, and skill as stated in Section 4 (a) and (b) of RA No. 6713 in monitoring of Past Due Employees Car Loans and institute appropriate legal action or impose sanctions on erring officers and employees in conformity with Section 11(a) of RA No. 6713; and

Register the chattel mortgages to protect the interest of the AFPRSBS.

38. Ocular inspection of various properties of the AFPRSBS disclosed several lapses in internal control and in the performance of the duties and responsibilities of the concerned department exposing the AFPRSBS to risk of loss and incurrence of additional monetary burden.

We recommended Management to:

Expedite the disposal of all the AFPRSBS acquired assets to avoid additional expenses in the maintenance and/or restoration or repair

ACTIONS TAKEN

vs Asperin, Civil Case No. Q-12-71176, RTC-QC Br 87 and AFPRSBS vs Bondoc, Civil Case No. Q-12-71177, RTC-QC Br 92, respectively.

Review of the remaining accounts revealed that the minute amounts to be collected in the event the System files cases against the persons involved will not justify the cost to be incurred should the cases go on trial.

Partially Implemented

The Rosales property was already sold to the previous owners.

The Real Estate Group already sought the approval of the Senior Management Committee for the rescission of the JVA with Benjamin Construction due to failure to deliver the development of the subdivision. The recommendation will be elevated to the BOTs.

OBSERVATIONS AND RECOMMENDATIONS

of the property;

Formulate, marketing plan to attract buyers for the acquired assets immediate disposal. In the meantime, study the likelihood of hiring security guards or caretakers to secure the property against illegal occupants/entrants for internal control purposes;

Consider renovating/repairing the dilapidated condominium units to increase its value in order to attract possible lessees or buyers;

Reclassify the amount of P740,000 recorded as Loans Receivable-Past due representing the Rosales account to the Acquired Assets account to ensure proper presentation of the account in the financial statements for internal control purposes;

Investigate who owns the water meter and demand that it be removed from the property of AFPRSBS located at Camarin, Caloocan City in order to protect the interest of AFPRSBS. Likewise, determine whether there is still a necessity of ensuring the property against fire and other hazards considering that the residential building erected thereon is totally dilapidated to avoid incurrence of additional expenses by payment of the premium;

Consider filing a case against the JV partner, Benjamin Construction Equipment, Inc. and rescind the JVA for breach of contract due to noncompliance with the terms and conditions stipulated therein so that the property may be offered for sale to avoid additional expenses in maintaining the property. Likewise, take the necessary action to evict and/or remove the properties of those who encroached on the property line of Benjamin 9 with proper coordination with Benjamin Construction (developer), to protect the interest of the AFPRSBS on the said project;

ACTIONS TAKEN

The Antipolo property being leased to Gutang family is already a subject of an ejectment case due to failure of the lessee to update the lease payments.

The System has already insured the St. Michael property. The provision of security guards was already made starting June 2014.

PMED has already padlocked the water meter located in North Matrix Ville.

OBSERVATIONS AND RECOMMENDATIONS

Post signages of “For Sale” or “For Lease” with contact person and contact numbers indicated therein to attract possible lessees or buyers; and

Formulate a policy relative to the frequency of reviewing the reasonableness of the pricing of the lease rental rate on properties subject of lease contract by considering the current prevailing lease rate with similar condition within the property location. For the property at Antipolo, immediate review of the reasonableness of the lease/rental rate on the property is recommended. Likewise, secure tax declaration and pay its corresponding property tax for the three building improvements erected thereon to avoid possible penalties in the future.

39. There were missing TCTs booked as acquired assets of the AFPRSBS, properties not registered in the name of the System which were manifestation of lapses in the coordination and in the performance of duties by the officers/ personnel concerned of the System contrary to Sections 4 (a) and (b) of RA No. 6713.

We recommended Management to:

Exert all efforts to locate the two missing TCTs particularly the TCT Nos. 48256 and 48255, both located at Village East III, Binangonan, Rizal, and transfer the custody of the original duplicate copies of the subject TCTs to the Internal Records Management Department for security purposes;

Facilitate the immediate consolidation of the 29 TCTs not yet registered in the name of AFPRSBS to protect its interest;

Refrain from accepting “portion of undivided lot” as collateral to secure loans, as it entails additional expenses/ burden in subdividing the lot upon foreclosure;

ACTIONS TAKEN

Partially Implemented

The PMED has already made an initial verification of the two missing titles. The information that was gathered is for further checking.

PMED is still working on the consolidation of the 29 TCTs in favor of AFPRSBS to protect the interest of the System.

Likewise, PMED is working on the subdivision of the portion of the undivided lots in Baguio City used as collateral by the Paredes Family.

OBSERVATIONS AND RECOMMENDATIONS

Update the payment of real property tax on all properties of AFPRSBS to avoid possible interest and or the possibility that these properties be taxed foreclosed or levied as a result of disregarding the provisions of the Local Government Code of the Philippines. Moreover, secure the required Tax Declarations (TDs) and pay the corresponding property tax on the properties with no Tax Declaration on file; and

Determine who are the erring officers/employees who failed in the performance of their assigned duties and responsibilities and the applicable sanctions in accordance with laws, rules and regulations as well as office policies.

40. Foreclosed properties with a P254.702 million book value at December 31, 2010, covering 213 CCTs and the TCT of the land where the subject condominium was erected, exposed AFPRSBS to possible risk of losing its ownership due to non-compliance with Section 18 of PD No. 957.

There were apparent lapses in the preparation of the loan documents of the St. Michael account which is an indication of negligence in the performance of duties of concerned AFPRSBS officers and/or personnel contrary to Section 4 (a) of RA No. 6713.

Proper security measures and signages also were not posted by AFPRSBS on the subject condominium building which is a manifestation of negligence of the officer/personnel in-charge therewith contrary to Section 4(a) of RA No. 6713.

Moreover, subject properties are still classified as Loans Receivable-Items under Litigation despite consolidation of title in the name of AFP-RSBS, resulting in the understatement of the Acquired Asset-Non-Current Asset Held for Sale account and overstatement of Loans Receivable-Items under Litigation account by

ACTIONS TAKEN

Partially Implemented

Management commented that all owners of the SMIT (RSBS, LKG Group of Companies and St Michael Corporation) were able to agree on selling the building as a whole. They will engage the services of a consultant – *Tan, Frankum and Associates* for disposition advisory which will commence on the first quarter of 2015 with a term of three months renewable upon mutual agreement of the Owners. Fee is three per cent of the selling price.

OBSERVATIONS AND RECOMMENDATIONS

ACTIONS TAKEN

P254 million, contrary to Paragraph 6 of PFRS 5.

We recommended Management to:

Prospectively, ensure compliance of the Section 18 of PD No. 957 by requiring approval/clearance from the Housing Land Urban Regulatory Board (HLURB) of all mortgagors who is the owner or developer of real estate for all properties subject to mortgage in order to avoid loss in case of buyer's complaint;

Observe due diligence in the preparation/ accomplishment of loan documents as these documents are vital in the enforceability of the loan;

Insure against fire or other insurable risks the subject properties and consider the hiring of security services to secure the property from illegal entrants in order to protect the System's interest;

Formulate policy relative to the recording of Acquired Asset by considering the present industry practice of the recording to Acquired Assets after the expiration of the one year redemption period to reflect the accurate balance of the accounts in the Financial Statements. Observe strictly the provisions indicated in Section 6 of Act 3135 relative to the consolidation of all foreclosed properties into AFPRSBS name;

Reclassify the P254.702 million booked under Loans Receivable – Items under Litigation to Acquired asset-NCAFS in the books for accurate presentation in the Financial Statements in compliance with the PFRS; and

Formulate a comprehensive Marketing Plan/Strategy that will attract buyers/investors to fast track disposal of the subject assets to avoid additional costs in maintaining the property and to avoid possible loss in the

OBSERVATIONS AND RECOMMENDATIONS

ACTIONS TAKEN

future because of possible deterioration of the condominium units.

41. The members' contributions (MCs) received for CY 2007 as reflected in the System's cash flow statement does not reconcile with the MCs as reflected in the Statement of Changes in Fund Equity with a variance of P38.807 million, rendering the balance of the cash account unreliable.

We recommended that Management expedite reconciliation of the MC account as appearing in the Cash Flow Statement and Statement in Changes of Fund Equity to validate the accuracy of the cash account.

42. The System has shown poor collection efficiency because there is no specific department monitoring the collections, resulting in past due loans aging one to 25 years of P951.961 million or 88.63 per cent of the total Loans Receivables of P1.074 billion, P314.097 million of which represents Accounts Under Litigation.

We recommended that Management to strictly enforce the provisions of the "Contract to Buy and to Sell" particularly Item No. 6 Re: cancellation of the contract to concerned vendees under the Past Due ICR accounts. This will provide management the opportunity to sell these real estate properties to qualified buyers, and avail of the income that may be derived from the proceeds of the sale.

43. The negotiated sale of AFPRSBS' lot with its lessee at P148.000 million was way below its minimum selling price of P163.000 million (Fair Market Value) and ideal selling price of P214.000 million (FMV + Present Value of Future Cash Flows) since no public auction was undertaken by the AFPRSBS for

Not Implemented

Related observation is discussed in Observation No. 13.

The noted discrepancy is still for tracing.

Partially Implemented

The past due loans of P951 million comprise of PAPC account with a book value of P465 million which had been foreclosed in November 2012.

Presently, there is an on-going negotiation for its redemption and if it materializes, the past due loan balance will be greatly reduced.

Out of the 182 past due ICR accounts under RMB as of January 2014, 11 accounts were cancelled; 13 accounts were restructured, and two accounts were fully paid. Efforts are on-going for the cancellation/restructuring of some accounts, while those with legal issues/concerns have been forwarded to the LD for eviction/ resolution.

Partially Implemented

The investigation report was already submitted by the committee to Management.

OBSERVATIONS AND RECOMMENDATIONS

ACTIONS TAKEN

the sale of the subject lot in violation of the provisions of Sections V and VI of COA Circular No. 89-296 dated January 27, 1989.

We recommended Management to:

Conduct an investigation why the sale of the property was below its supposed appraised value and recover opportunity cost against officials/ employees determined to be liable; and

Hold liable concerned officials/employees who were directly or indirectly instrumental in the finalization of the negotiated sale to the buyer (Vice President of the Corporation) and institute proper administrative/ criminal charges against erring officials/employees, if warranted.