STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 193 audit recommendations embodied in the prior year's Annual Audit Report, 36 were implemented, hence no longer included in this report; 66 were not implemented, 91 were partially implemented, 90 of which were reiterated in this report, while 35 similar observations were combined to shorten presentation. The observations and the partially and not implemented recommendations are discussed briefly, as follows:

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
2014	
1. The System's financial statements were not consolidated with the financial statements of its subsidiaries and controlled entities where it has invested a total of P2.546 billion. Moreover, the investment account is overstated by P10.828 million due to failure to eliminate reciprocal accounts. Hence, the said financial statements do not present a reliable and accurate financial conditions and the results of its operations as of and for the year ended December 31, 2014 contrary to pertinent provisions of Philippine Financial Reporting Standards (PFRS) 10. Similar observation was made in CY 2013 report. We recommended that Management:	
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. 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.	<u>All the three recommendations are not implemented</u> This observation is included as the basis for adverse opinion and reiterated with modification in Observation No. 1 of this report.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
2. Three lessees of the IPMO did not execute contracts with RSBS, contrary to COA Circular No. 88-282 A, while four lessees did not comply with Sections 3.3.2 and 3.3.3 of the existing lease contracts on the timely remittance of rental payments. Moreover, all the lease contracts lack provision as to the date and time of payment of the monthly management dues contributing to accumulation of receivables, thus, prejudicial to the interest of the System. We further noted that the System does not exercise its right to audit the Summary of Sales Report (SSR) provided by a lessee for the purpose of computing the percentage rent payable to it contrary to sound internal control principles. We recommended that Management:	
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 with the CD to avoid discrepancies in billing and accruing monthly rentals; d. Strictly monitor the observance/ implementation of the stipulations in the lease contracts for the benefit of the System; e. Impose on time the agreed penalty and interest on the delayed remittance of the four lessees; f. Incorporate in subsequent lease contracts the date and time of payment of	<u>Recommendations a to f are partially implemented.</u> The noted lessees were already collected of arrearages. Said recommendations are reiterated in Observation No. 9 of this report.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
the monthly management dues and the imposition of penalties for any delay in payment thereof. Similar observation was raised in the CYs 2013 and 2011 audit where we recommended to Management the following in addition to (a to f) above: g. Revisit the provisions of the contract of lease which are contradicting, hence, prejudicial to the funds of the public and the members.	 Not implemented This recommendation, which requires Management to revisit the contradicting provisions of the contract, is hereby reiterated.
3. The BIR Registration of AFPRSBS did not include registration under the value-added tax (VAT) system, relative to the lease by RSBS of its properties, contrary to pertinent provisions of Republic Act (RA) No. 8424 or the Tax Reform Act of 1997, as amended by RA No. 9337 and Revenue Regulation (RR) No. 16-2005, thus exposing itself to possible financial and legal consequences. Further, it collected VAT from one of its lessees despite being registered as a non-VAT entity contrary also to the aforementioned law and regulation. We recommended that Management: a. Register under the VAT system to comply with pertinent provisions of RA No. 8424 or present proof as to the VAT-exemption of the System, i.e. submission of VEC from the BIR; and b. Study legal remedies to lessen the impact of possible financial and legal consequences of the non-imposition of VAT on the lease of the System's properties in current and previous years.	Not implemented The Bureau of Internal Revenue (BIR) issued an Official Receipt (OR) which is applicable to Non-VAT. Management will still evaluate the System's status as Non-VAT. Not implemented This is being studied by the System.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
4. The recognition and the non-accrual of rental income based on the amount received or to be received from the lessees is not in accordance with pertinent provisions of Philippine Accounting Standards (PAS) 17 – Leases, thus understating the reported income for the current year by P7.670 million. Likewise, the required disclosures of the Standard relative to the System's operating leases are not provided for in the Notes to Financial Statements. We recommended that Management:	
a. Adopt the straight-line basis of recognizing rental income from operating leases as mandated by PAS 17;	<u>Partially implemented</u> Reiterated in Paragraph 1.5.e, Observation No. 1 of this report. For the year 2015, the System has already adopted the straight-line method in the recording of rental income for IPMO. However, the retroactive effect of the application of PAS 17 was not recognized by the System.
b. Produce/retrieve the details of the rental income for 2012 and 2013 and then establish the effect of the non-compliance with PAS 17 in said years on the year-end AR, Trade – Lessees;	<u>Not implemented</u> Reiterated in Paragraph 1.5.f., Observation No. 1 of this report.
c. Prepare the necessary adjusting journal entries to: i. Reflect the adoption of and compliance with PAS 17 through an adjustment of the reported rental income for 2014 and the reported year-end AR, Trade – Lessees; and ii. Correct the errors committed in recording lease income for 2014 as discussed in Paragraphs 4.9 (a) to (d).	<u>Partially implemented</u> The adjustment of the rental income for 2014 was already reflected in the 2015 financial statements.
d. Include in the Notes to Financial Statements the required disclosures relative to the System's operating leases.	<u>Partially implemented</u> Management states that the appropriate

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
	disclosures were included in the notes to financial statements for 2015.
5. Accounts and Loans Receivable 5.1. The absence of subsidiary ledgers/schedules from which to substantiate eight accounts receivable (AR) amounting to P171.713 million; AR-Non-Trade/Other Accounts totaling to P5.442 million; the discrepancies of P49.455 million between the trial balance (TB) and its schedule; and the negative/abnormal balance of P15.491 million in some schedules cast doubt on the reliability and accuracy of the respective accounts as reflected in the financial statements, contrary to pertinent provisions of Presidential Decree (PD) No. 1445. Moreover, a defect in the IFMS Lending Module resulted in erroneous transaction. 5.2. In CY 2012, 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 December 31, 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. 5.3. In CY 2011, 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. 5.4. In CY 2010, 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	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
AFPRSBS to the risk of not recovering its investments to the detriment of the public/ members' fund. 5.5. Similarly in CY 2010, 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. Moreover, 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. 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. 5.6. In CY 2009, 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.	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
We recommended that Management: a. Prioritize the preparation of SL/schedules for every account and reconcile the balances to come up with correct and reliable account balances to comply with Section 114 of PD 1445; b. Investigate the causes of the discrepancies between TB and SL schedules and the existence of negative/abnormal items in the schedules including a review and analysis of the validity of the items;	<u>Recommendations in letters a and b are partially implemented</u> Reiterated under Paragraph 3.8.a, Observation No. 3 of this report. CD has already updated a total of 3,129 SLs, 1,986 of which are for fully paid accounts and 1,143 have outstanding balances. In 2015, initial efforts were made to reconcile the accounts with negative balances, with minimal balances, and those accounts classified both in ICR-Current and ICR- Past Due.
c. For the car loan, review and reconcile the transaction in the IFMS-Lending module to the individual's payroll deductions and make the necessary adjustments; d. Enhance the IFMS-Lending module to produce correct results;	<u>Recommendations in letters c and d are not implemented</u> We hereby reiterate said recommendations.
e. Make the necessary adjustments for fair presentation of the accounts in the financial statements; f. 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; g. Send the required notices to delinquent buyers to fast track the cancellation process;	<u>Recommendations in letters e to g are partially implemented</u> The reconciliation of the ICR accounts together with the Buyers Deposits account for 640 buyers resulted in the adjustment of Buyers Deposit by P70.85 million, and ICR- Current and Past Due by P50.99 million. Moreover, for the year 2015, the Loans Administration Branch (LAB) has sent and continues to send collection letters to delinquent buyers. A total of 132 Reminder Letters/Final Demand/Notice of Delinquency was sent.
h. Implement a proactive approach in the management of the delinquent accounts by considering the following courses of action:	<u>Not implemented</u> This recommendation is hereby reiterated.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
i. Develop an adequate information system to tract, monitor and account for all the ICR past due accounts; and ii. 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.	
i. 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;	<u>Partially implemented</u> On the P951 million PAPC Loan Receivables – RMB already foreclosed the PAPC property and LD is negotiating with the BIR for the CGT prior to consolidation.
j. 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; k. Approved BOT Resolutions showing the annual provisions for ADA in accordance with II.A.1 of Office Policy No. 7-2-87, if any;	<u>Recommendations in letters j to r are partially implemented.</u> With related recommendations in Observation 3 of this report. Management is reviewing its policy on the Provisions for Probable Losses and Writing-Off of Accounts. Requests for provisions are done on a case-to-case basis and are presented to the BoT for approval.
l. Prioritize the printing of the hard copy of the Customer's SLs; m. 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;	The CD and the AMD are joining efforts in preparing the SLs for the various ICR accounts. The SLs that were already prepared by AMD were forwarded to CD for validation. Once the accounts are validated, the SLs are printed for filing and for issuance to the borrowers.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
n. 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;	Management has already come up with the ICR schedule as of December 31, 2015 with the corresponding aging of accounts.
o. 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;	CD ensures that all schedules and SLs are properly backed up.
p. 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;	The Management commented that it has already come up with the ICR schedule as of 31 December 2015 with the corresponding aging of accounts.
q. Revisit the organizational structure and enhance functional chart to pinpoint responsibilities among departments;	Revisiting the System's organizational structure is no longer necessary in view of its winding down status.
r. Require the Operating Divisions of the System including the CD to coordinate and maintain the required SL for all receivables and its related accounts;	Management has already come up with the ICR schedule as of 31 December 2015 subject to our verification for CY 2016 audit.
s. Pursue appropriate legal action against the 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;	<u>Recommendations in letters s and t are partially implemented</u> 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.
t. 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;	On the P951M (PAPC) Loan Receivables – RMB already foreclosed the PAPC property and LD is negotiating with BIR for the CGT, prior to consolidation.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
u. 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; v. 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; w. 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; and x. Register the chattel mortgage to protect the interest of the System.	<u>Recommendations in letters u to x are not implemented.</u> This recommendation is hereby reiterated.
6. Lack of supporting schedules and various discrepancies totaling to P24.646 million on prepaid expenses account casts doubt on the reliability of the account balances as of December 31, 2014. Moreover, items not currently realizable within the succeeding year were included as part of Prepayments under current assets contrary to Paragraph 57 of PAS 1 – Presentation of Financial Statements. We recommended that Management: a. Submit all documents to prove the reliability of the transactions;	<u>Not implemented</u> This recommendation is hereby reiterated.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
b. Investigate and reconcile the noted unsubstantiated balances in each item of the prepaid expenses and adjust the accounts, as necessary;	<u>Partially implemented</u> CD has already reconciled the Prepaid Rental and Prepaid Repairs & Maintenance accounts and were included in the December 2015 FS. Reconciliation for the other prepaid accounts is ongoing and the corresponding adjustments, if any, will be made in the 2016 FS.
c. Require the concerned operating departments to properly monitor the System's prepaid expenses through, but not limited to, the preparation of detailed supporting schedules, otherwise, the same should not be recorded in the books under the prepaid accounts; Prepare adjusting entries to correct the errors in amortizing prepaid expenses; and d. Present the portions of the prepaid expenses not likely to be consumed or realized within the succeeding year as non-current assets to comply with the requirements of PAS 1.	<u>Recommendations in letters c and d are not implemented</u> These recommendations are hereby reiterated.
7. Deposits or Advances to MERALCO for the installation of new lines and/or additional facilities totaling P12.357 million from 2006 to 2014 remained unrefunded contrary to the agreements signed for the purpose, thus unfavorable to the System. We recommended that Management:	
a. Retrieve/produce all documents relative to the deposits made including proof of accomplishments then make personal representation with MERALCO for the following: 1. The status of each service connection projects completed to determine the propriety of a refund; and 2. Any offsets made to be able to update the accounts of the System.	<u>Both recommendations are partially implemented</u> Management has recently secured the Secretary's Certificate authorizing application for refund amounting to P542,363.67. Reconciliation of records with MERALCO is on-going.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
b. Demand payment of refunds for those the System is entitled to and update the accounts for any offsets made.	
8. The System's recording of real estate sales from 2012 and prior years to 2014 when full down payment are received from one of its agents/brokers rather than when said agent/broker receives payment from the buyers resulted in the delay in recording of transactions, which understated the reported/ recorded Income/Retained Earnings for CY 2013 and prior years by P2.449 million and understated the reported net income for CY 2014 and possibly for CY 2015 by P1.162 million and P1.940 million, respectively. The reported balances of Receivable and Payable accounts as of December 31, 2014 are also understated by P5.462 million and P1.765 million, respectively. Penalties provided for under the Marketing Agreement were not imposed on delayed remittance of collections. Similarly, in CY 2010, 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. We recommended that Management: Establish and maintain necessary control activities to ensure proper recording of real estate sale transactions, including but not limited to: a. Recognizing real estate sales when payments are received by Marketing Manager and other agents/brokers regardless of remittance of the same to the System;	<u>Recommendations in letters a to c are partially implemented</u> Management started in 2015 recognition of sales for the Green Meadows projects for accounts that

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
	have reached/completed the required full down-payment despite the delay in the remittance of collections by OPMC.
b. Enforcing compliance by 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;	Management sent reminder letters specifically to Moldex (Villa Caceres) and meetings have been held with their top management for the remittances of penalties. Demand letters will subsequently be sent, after which, a case will be filed against them if they fail to remit the penalties requested by the System.
c. Performing sales cut-off tests and monthly reconciliations of sales summaries and records to discover any error committed;	Management set a monitoring schedule in order to immediately trace the variances to that of the report of the MSD.
d. Reconcile the balance of SLs and GL and effect the necessary adjustments to reflect the correct balance of Investment in RE; and e. 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.	<u>Recommendations in letters d and e are not implemented</u> The CD is still tracing the discrepancy between the GL and the SL amounting to P112,256.00. Recommendations in letters a to e are hereby reiterated.
9. Ten properties were sold at a total loss of P1.281 million without the required appraisal and public bidding prior to sale contrary to the System's Standard Operating Procedure (SOP) No. 01-13 dated June 27, 2013. In CY 2009, 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 the sale of the subject lot in violation of the provisions of Sections V and VI of COA	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
Circular No. 89-296 dated January 27, 1989. We recommended that Management: a. Install controls to prevent selling of properties at a loss, i.e. regular appraisal of properties and MSD verifying if the cost data used for pricing is correct/updated; or review and improve, if necessary the controls currently in place;	<u>Recommendations in letters a to d are partially implemented</u> Management has stopped the sale at a loss.
b. Study if revision of selling prices of other properties is feasible taking into account the properties' latest appraised values and current market conditions among others;	The review of the selling price was made resulting in the stoppage of the selling of the lots at a loss.
c. Require the review and regular updating at least annually of the schedule of cost to be applied for each item of inventory;	Management is continuously reviewing the Cost of Sales and Selling prices prior to sale.
d. 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	The investigation report was already submitted by the committee to Management, a copy of which was submitted by the DND.
e. 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.	<u>Not implemented</u> This recommendation is hereby reiterated.
10. The Stock investment account totaling P31.354 million as at December 31, 2014 is overstated by P0.732 million due to the failure to deduct the correct carrying value of the sold shares of stocks. Also, the classification of the investment as current asset as well as the recognition of its income is contrary to Paragraph 9 of PAS 39 on Financial Instrument: Recognition and Measurement. Moreover, unrealized gain on changes of fair value	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
during the year amounting to P11.278 million was recognized as income through profit/loss and cumulative unrealized gain and loss of P10.936 million and P4.136 million, respectively, were not presented as part of the equity due to System's treatment as financial asset through profit/loss contrary to Paragraph 55 of the same standard. Provision for decline in market value of short-term investment totaling P4,236,066 as part of the profit/loss and instead recognize an unrealized gain/(loss) of P11,278,137 in other comprehensive income portion of Comprehensive Income for the remaining stock investment. In CY 2011, 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 We recommended that Management: a. Treat its stock investment as Available-For-Sale or Financial Asset through Other Comprehensive Income and adopt the accounting policy for it; b. Accordingly, adjust the following subsidiary ledger balances-Recovery from DMV of stocks totaling P15,322,773; c. Comply with the System's Policies and Procedures for Investment/ Divestment in the System's Stock Market Portfolio to prevent further losses; and d. 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.	<u>Recommendations in letters a and b are not implemented</u> These recommendations are hereby reiterated. <u>Recommendations in letters c and d are partially implemented</u> Management and TD commented that the existing policy relative to the investment/ divestment in traded stocks is still relevant. Inasmuch as TD is not anymore buying shares, efforts are more focused on selling/divestment of the remaining shares.
11. Transfer Certificates of Titles (TCTs) were not yet consolidated in the name of	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
AFPRSBS. Other deficiencies were also noted in the lists of TCTs, thus, ownership of properties cannot be ascertained, therefore the propriety and reliability of the System's Acquired Assets and Investment in Real Estate account balance amounting to P422.724 million and P6.780 billion, respectively as at December 31, 2014 is doubtful, contrary to the Conceptual Framework for Financial Reporting. Further, the System's interest and of its members are not safeguarded. In CY 2012, Transfer Certificate of Titles (TCTs) are not yet in the name of the System to safeguard its interest and of its members. Moreover, in CY 2010, 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 that Management: a. Reconcile the listed TCTs with the recorded Acquired Assets and Investment in Real Estate to ensure ownership and correctness of the account balance; b. Prioritize the transfer of all the TCTs in the name of AFPRSBS to safeguard its ownership and facilitate its easy disposal in the event of sale;	Recommendations in letters a and b are partially implemented Management is continuously working on the documentation requirements needed to proceed with the transfer of title. All mother titles were already forwarded for individual titling.
c. Continue and fast track the process of subdividing the two lots shared with other owners and registering the same for each sole ownership; d. Facilitate the immediate consolidation of the 29 TCTs not yet registered in the	Recommendations c to f are not implemented Management is still working on the consolidation of the 29 TCTs in favor of AFPRSBS to protect the interest of the System.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
name of AFPRSBS to protect its interest; e. Refrain from accepting “portion of undivided lot” as collateral to secure loans, as it entails additional expenses/ burden in subdividing the lot upon foreclosure; and f. 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.	Management is also working on the subdivision of the portion of the undivided lots in Baguio City used as collateral. All the recommendations for this observation are hereby reiterated.
12. Membership contributions (MC) records of ten sampled members for CY 2014 are unreliable due to gaps and deficiencies noted in the verification of transactions, thereby, affecting the members claims of benefits upon retirement. In CY 2010, the 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. For CY 2007, the members’ contributions (MCs) received 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: a. Include data entry validation control in the current system to immediately detect remittances with incomplete or invalid data and/or duplicate records;	 Recommendations in letters a and b are partially implemented The existing computerized system for membership records has a validation control to detect invalid data which are manually resolved and posted in the individual subsidiary ledgers of the

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
b. Coordinate with the remitting agencies in securing complete and reliable data of its members; c. 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; and d. 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.	members. Further, initial coordination was already made with the AFP Finance Centers. <u>Recommendations in letters c and d are not implemented</u> The noted discrepancy is still for tracing. All the recommendations for these observations which are partially and not implemented are hereby reiterated.
13. The continued withdrawal of gasoline by private vehicles from the AFP Commissary and Exchange Services (AFPCES) totaling P0.316 million is contrary to Section 4(2) of Presidential Decree (PD) 1445 and Section 7 of COA Circular No. 77-61 dated September 26, 1077, hence considered irregular expenses, as defined under Section 3 of COA Circular 2012-003 dated October 29, 2012. Similar observation was raised in the CY 2013 audit. We recommended that Management: a. For CY 2014, refund the amount of P316,434 representing the value of gasoline withdrawn; and b. **For CY 2013,** cause the immediate refund of the equivalent cost of gasoline withdrawn by private vehicles since these are irregular expenditures.	<u>Both recommendations are not implemented</u> These recommendations are hereby reiterated.
14. The policy of granting cash gift to birthday celebrators/employees is not anchored on a statutory authority and the	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
amount of P0.190 million given for CY 2014 is not among those allowances, incentives and other benefits expressly authorized by law and contrary to COA Circular No. 2013-003 dated January 30, 2013. We recommended that Management submit authority for the granting of cash gift to birthday celebrators/ employees; otherwise, stop the granting of said benefit and refund the amount of P190,000 granted for CY2014.	 <u>Partially implemented</u> A memorandum was issued to employees explaining that the grant of cash gift to birthday celebrators will be continued for regular employees hired prior to January 1, 2004.
15. Grant of cell card subsidy to an existing post-paid subscription plan holder and payment of communication allowance during official travel to recipient of cell card subsidy constitute excessive expenditure as COA Circular No. 2012-003 dated October 29, 2012, and is contrary to the System's policy on efficient use of communication facilities, thus its continuous payment will deny the System of funds for its operation. We recommended that Management: a. Refund the amount of P24,000 for cell card subsidy given to post-paid plan holder and the amount of P4,200 for official/personnel who claimed communication allowance during travels; and b. Assess the need for the additional allocation in the name of the office/department to establish accountability.	 <u>Not implemented</u> This recommendation is hereby reiterated. <u>Partially implemented</u> The additional cell card allocation of P11,000.00 for the year 2014 were used to enable AMD's three account officers and three Account Assistants to communicate with its 3,000 ICR clients.
16. The System failed to comply with the required submission of contracts/ purchase order (PO) and supporting document to COA within five days upon perfection thereof pursuant to COA Circular 2009-001	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
dated February 12, 2009. Moreover, no Requisition and Issue Voucher (RIV) were prepared for the System's requirement prior to purchase while POs were not duly acknowledged received by the Supplier, thus, denying imposition of penalties in case of delays in delivery contrary to Section 68 of RA 9184. We recommended that Management: a. Comply with COA Circular 2009-001 to furnish COA with certified true copies of all contracts and POs; and b. Prepare RIVs to support POs and proof of requisition of end-users.	 Partially implemented The System already forwarded to COA the Contracts/POs for procurements by public bidding made in 2015. Not implemented This recommendation is hereby reiterated.
17. The AFPRSBS has not prepared the Annual Gender and Development (GAD) Plan. Moreover, GAD concerns were not incorporated in the System's Revenue, Expense, Capital Outlay and Cash Flow Budget (Corporate Operating Budget) as required by Executive Order No. 273 dated September 8, 1995 and Joint Circular No. 2004-01 dated April 5, 2004. We recommended that Management formulate/prepare Annual GAD Plan and Accomplishment Reports in compliance with EO 273 ad Joint Circular No. 2012-01 and include GAD concerns in the Systems Corporate Operating Budget	 Partially implemented Budget for Gender and Sports Development was included in the 2016 Budget. A Gender and Development Plan was prepared that will cover the period 2015 and 2016 to coincide with the impending deactivation.
2013 18. The System's Net worth of P10.477 billion as of December 31, 2013 may not be sufficient to comply with the provisions of E.O. No. 590, as amended, deactivating the System and directing the transfer of its assets in trust to a Government Financial	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
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. In CY 2012, 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 that Management:	
a. Prepare policies, procedures and guidelines on the Reserve and Actuarial setting;	Not implemented Management commented that its efforts 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.
b. Comply immediately with the provisions of EO 590 and 590-A to put into action the winding down of the System;	Not implemented Related observation was discussed in Paragraph 4.6, Observation No. 4 of this report.
c. 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;	Partially implemented Management made several coordination but the System is yet to be provided by the AFP with complete list of active military personnel.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
d. 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;	Partially implemented Management commented that the estimation of the amount to be refunded yearly is very difficult for the CD due to the absence 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.
e. 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 policies, procedures and guidelines;	Not implemented Management commented that the procedure of estimating the amount refundable for the succeeding year is the most feasible at the moment.
f. 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	Not implemented This is no longer feasible in view of the winding down status of the System.
g. 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.	Partially implemented Management commented that its efforts 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.
19. 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:	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
a. 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;	Partially implemented Continuous appraisals are being made on the System properties by in-house appraisers or external appraisers.
b. 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; c. 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; d. 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	Recommendations in letters b to d are not implemented These recommendations are hereby reiterated.
e. Comply with SOP Paragraph III-D of AFPRSBS SOP No. 98-02 on the periodic appraisal of its assets.	Partially implemented The System already had the appraisals of its assets especially those with ongoing negotiations and those that will be immediately offered for sale.
20. 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:	
a. 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	Not implemented The Officers and other personnel of AFPRSBS involved in the transaction

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
as stated in Section 4 (a) and (b) of Republic Act (RA) No. 6713;	pertaining to the acquisition of Lot X are not anymore connected with the System. This recommendation is hereby reiterated.
b. 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	<u>Partially implemented</u> Twenty four consolidated cases were 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.
c. Make available all documents pertaining to the purchase of subject lots for post-audit purposes and for issuance of Notice of Disallowance, if necessary.	<u>Not implemented</u> This recommendation is hereby reiterated.
21. Property Management 21.1. 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. 21.2. In CY 2013, 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. 21.3. Further, the 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. 21.4. In CY 2012, Memorandum Receipts (MRs), now Acknowledgement Receipt for Equipment (ARE), are issued to a	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
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 have private plate numbers, hence not marked "For official use only". 21.5. 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 that Management:	
a. 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 same time get the best price upon its sale;	<u>Partially implemented</u> With related discussion in Paragraph 11.6.a, Observation No. 11 of this report. Management already disposed in 2015 the unserviceable properties. Corresponding adjustments were already made in the books.
b. 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;	<u>Partially implemented</u> The disposal is part of the 2015 plan of GSD.
c. 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;	<u>Partially implemented</u> The System insured its property with the 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.
d. Have the vehicles registered as government property for issuance of red plates and mark "For official use only"; and	<u>Not implemented</u> This recommendation is hereby reiterated.
e. For the valueless documents, Management can consider disposing its valueless documents guided by the	<u>Partially implemented</u> Coordination has been made with the

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
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.	National Archives for the disposal of valueless documents.
22. Cash in bank (CIB) account balance per book differed by P3.147 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 P126.640 million. We recommended that Management: a. 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; b. Regularly reconcile the cash in bank account of CD and TD since they are both in the same agency; c. Submit copies of monthly bank reconciliation statement to COA for audit purposes as required under Section 74 of PD No. 1445; d. 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; and e. Monitor the transactions of each bank account, prepare the adjustments and update the CIB account.	<u>All the five recommendations are partially implemented</u> Reiterated in Paragraph 8.3.a and 8.3.b, Observation No. 8 of this report. Management has already prepared the required bank reconciliations for all the depository banks as of December 31, 2015 with for the Current and Savings accounts (CASA) maintained with the Banco de Oro (BDO). The CD provided the 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. The CD is exerting its best efforts to reconcile the balances of all bank accounts with the book balance.
23. A total of 276 unclaimed/stale checks in the aggregate amount of P1.513 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 as of 2014.	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
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.	Partially implemented Stale checks amounting to P568,608.56 were already adjusted via JV-ADJ3-2012.
24. 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: a. Secure DoF approval on its deposits with private bank; and	 Partially implemented The then EVP/COO, AFPRSBS, in his letter dated May 26, 2005, sought the DoF approval, however, the Secretary of Finance, DoF, in its letter dated September 30, 2014 denied said request.
b. Pending approval of the same, the System has to transfer its funds from the current depository private commercial banks to government banks.	Partially implemented As of December 31, 2015, Short Term Placements totaling to P2.839 billion were substantially transferred to LBP, DBP and a negligible amount was retained in two financial institutions/banks, one of which is used as collateral for the Performance Bond on a labor case. The remaining CASA accounts with two banks were not immediately closed due to certain operational requirements, such as inter-branch remittance for Iloilo project amortizing buyers and inter-branch encashment of refund checks of members.
25. 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.	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
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.	Partially implemented Reiterated in Paragraph 10.9, Observation No. 10 of this report. The System already secured fidelity bonds for the authorized signatories on the checks and those personnel handling cash. Likewise, the System also bonded four AOs and staff of the Investment Management Group with the GSIS in compliance with Treasury Circular No. 02-209 dated August 6, 2009.
26.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. We recommended that Management: a. Exert effort to collect the unpaid loans of P267,656 from the separated employees; b. 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 c. Set-up an allowance for probable loss corresponding to the unpaid loan amount.	Partially implemented Final demand letters were already sent to the former employees stating therein that any receivable they may have from RSBS will be applied to their outstanding obligations. Recommendations in letters b and c are not implemented These recommendations are hereby reiterated.
27. Acquired Assets 27.1. In CY 2012, Acquired Assets with aggregate book value of P271.264 million 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.	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
27.2. In CY 2010, on the same subject condominium AFPRSBS stands to lose 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 AFPRSBS, 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 P254 million, contrary to Paragraph 6 of PFRS 5. 27.3. 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 that Management:	
a. 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 acquired assets especially	<u>Recommendations in letters a to b are partially implemented.</u> The System has an existing policy on the disposal of its acquired assets.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
those which are held for more than five years to recover its loan exposure; b. Develop strategies to expedite the disposition of non-performing assets to prevent accumulation thereof; c. 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; d. Observe due diligence in the preparation/ accomplishment of loan documents as these documents are vital in the enforceability of the loan; e. 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; f. Observe strictly the provisions indicated in Section 6 of Act 3135 relative to the consolidation of all foreclosed properties into AFPRSBS name; and g. Exert effort to immediately dispose its acquired asset to recover its investment.	The MSD always recommends to Management a marketing strategy for each property soon after it becomes part of the department's inventory. <u>Not implemented</u> This recommendation is hereby reiterated. <u>Recommendations in letters d to g are partially implemented</u> Management commented that all owners of the condominium units agree on selling the building as a whole and will engage the services of a consultant 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. Relative to the provision of security services for St. Michael property, there are already guards, deployed on the said property to safeguard the System's assets. The System continues to exert its efforts to dispose its foreclosed properties.
28. 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	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
and regulations. We recommended that Management require: a. 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; b. The officials and employees to refund cash gift received in excess of the authorized rate prescribed under the DBM Budget Circular No. 2010-1; and c. Refund of the amount of P236,656 representing the amount in excess of the P1,500 granted to all employees of AFPRSBS.	<u>All the three recommendations are not implemented</u> These recommendations are hereby reiterated.
29. Unreliable IFMS 29.1. 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. 29.2. In relation thereto, the reliability and accuracy of account balances, which include among others, the four accounts totaling to 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.	

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
We recommended that Management:	
a. 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;	<u>Partially implemented</u> A full-time programmer was hired to help the Management Information System Office (MISO) in addressing IFMS2 problems.
b. Examine the existence of OR amounts with negative values and effect immediate corrections; c. 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; d. Update and formulate policies and procedures on Business Disaster, Recovery and Contingency procedures; e. Test and improve the data backup and restore procedures; f. 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;	<u>Recommendations in letters b to f are not implemented</u> These recommendations are hereby reiterated. The System has still no policy/ procedure on file with the Corporate Planning Office (CPO) regarding Business Disaster, Recovery and Contingency procedure. The System is not considering acquiring a new computerized system in view of the winding down status of the System.
g. 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; and h. Review conditions of the contract with Oracle, Phils. and determine courses of action that is advantageous to the System. Study the offers of Oracle as to financial, as well as operational advantages.	<u>Recommendations in letters g and h are partially implemented</u> The migration project of transferring the data from Sunfire to IBM servers was successfully done and was running since August 2014. The separation of the production and test servers allows MISO to test/update/validate/correct errors without hampering the day to day business transactions of RSBS.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
30. Unaccounted and abnormal balances of Accounts Payable-Trade 30.1. The accuracy, reliability and validity of the Accounts Payable-Trade and Non-trade accounts totaling P179.698 million as of December 31, 2012 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. 30.2. As observed in the CY 2011 audit unaccounted abnormal balances of P51.688 million 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. We recommended that Management:	
a. Establish validity of outstanding obligations and determine whether these were perfected transactions/contracts or just a result of errors in recording;	<u>Partially implemented</u> Efforts were exerted to locate the last known addresses of the contractors that are on file which will be used in sending confirmation requests.
b. Coordinate with and send letters to creditors requiring the submission of documents to prove their claims from the System; c. Immediately revert to proper accounts any Payable not supported with valid claims to reflect the correct balance as at December 31, 2012, as necessary; and	<u>Recommendations in letters b to d were not implemented</u> These recommendations are hereby reiterated. Sending of confirmation requests were programmed to be undertaken by CD for the 2nd quarter of 2016.

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
d. 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.	Adjustments will be done depending on the result of the confirmation that will be made by CD. Reconciliation for the AP Trade Land Owner account is still ongoing. Details from the old database is being extracted and converted to Excel file format to identify the breakdown of the payables pertaining to the Riviera Project.
<u>2011</u> 31. 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 that Management: a. 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	<u>Not implemented</u> This recommendation is hereby reiterated. The adjustment will be made once the process of consolidation will be completed. The System has made an advance payment on Capital Gains Tax (CGT), however, the Legal Department is negotiating with the BIR to lower the CGT/Penalties/Surcharges which were based on the fair market value of a finished unit, which is not just, considering that the units are unfinished.
b. Ensure that the recorded transactions are valid and supported with appropriate documentations.	<u>Partially implemented</u> The CD ensures that all adjustments

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
	made in the books are duly supported with appropriate documents.
32. ICR and Accounts Receivable – Others 32.1 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. 32.2 Similarly, 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. We recommended that Management improve its 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: a. 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; b. Reconcile the unaccounted discrepancy in the balance of the area between the JVA and the Deed of Partition; c. Monitor the timely submission by the JV	<u>Recommendations in letters a to d are partially implemented</u> On January 2015, a Committee on Collections was created to reconcile the inventory of sold RSBS lot shares, reconcile the subsidiary ledgers of RSBS buyers, the settlement of outstanding balances of each account, and the formulation of strategic plans for the closure of the joint venture. MSD pursued the revocation of the MRI

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
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;	as the Marketing Agent effective 21 January 2015. At present, MSD undertake the selling of the remaining RSBS lot shares. Monthly report on the list of amortizing buyers is forwarded by MRI thru email.
d. 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;	
e. 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;	<u>Not implemented</u> This recommendation is hereby reiterated.
f. 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;	<u>Recommendations in letters f and g are partially implemented</u> AMD in coordination with LD is also pursuing the filing of collection case against MRI to collect penalty charges on late remittances.
g. 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;	Initial coordination was already made with the JV Partner for the submission of the required documents supporting the cancellations that were made in order to validate the accuracy of the System's share in the forfeited amount.
h. Conduct inventory of the files/records/reports left behind by the former JV employee in the presence of representatives of AFPRSBS and API/PEP;	<u>Not implemented</u> This recommendation is hereby reiterated.
i. Retrieve and reconstruct records pertaining to the JV agreement with API/PEP;	<u>Recommendations in letters i and j are partially implemented</u> The AFPRSBS and PEPI already hired a Joint Venture Staff who is currently undertaking the reconciliation of the

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
	Outstanding Installment Contract Receivables from the available source documents.
j. 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	Management created a Task Force that will handle the reconciliation and disposal of the other properties with the same joint-venture partner.
k. Intensify collection efforts on the receivable account from API/PEP.	<u>Not implemented</u> This recommendation is hereby reiterated.
<u>2010, 2009</u> 33. 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 Paragraphs 31 and 33 of the FPPFS. We recommended that Management:	
a. Conduct re-appraisal of all properties of the AFPRSBS-IPMO in accordance with existing policies;	<u>Partially implemented</u> The appraisal of IPMO properties was recently awarded to the winning bidder, Asian Appraisal, Inc. which was given 30 calendar days to complete the project.
b. Study the valuation and propriety of the depreciation expense in connection with COA Circular 2003-0078 dated December 11, 2003; and	<u>Recommendations in letters b and c are not implemented.</u> This recommendation is hereby

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
c. 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.	reiterated.
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. Similarly, 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. We recommended that Management: a. 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; b. Prepare a marketing plan for these properties to ascertain the best possible strategies beneficial to AFPRSBS; and c. Insure the subject properties against fire or any insurable risk to protect the System from loss in cases of contemplated perils.	<u>All the three recommendations for these observations are not implemented.</u> Management commented that the agreement on the 26 CCTs and 35 Parking Slots subject of Dacion was not notarized. The System (Legal Department) cannot consolidate because parking slots are actually elevated mechanical parking slots which cannot be sold because they were never constructed and remained unfinished up to this time. The parking slots remain undivided/unfinished, thus, it is hard to determine/allocate the slots. The System, however, included these 26 CCTs in the foreclosed units. Further, the System is still waiting for the expiry of the redemption period of the properties that were included in the foreclosure before consolidating the

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
	properties. Once consolidated, the properties will be insured. This recommendation is hereby reiterated.
35. 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 that Management: a. Expedite the disposal of all the AFPRSBS acquired assets to avoid additional expenses in the maintenance and/or restoration or repair of the property; b. 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; c. Consider renovating/repairing the dilapidated condominium units to increase its value in order to attract possible lessees or buyers; d. 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; e. 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	Recommendations in letters a to c are partially implemented. The Rosales property was already sold to the previous owners. Also, the provision of security guards was already made starting June 2014. The repair of two (2) Global Tower condominium units is on-going. On the other hand, the recommendation for the repair of two (2) PAPC condo units is in the pipeline. Not implemented This recommendation is hereby reiterated. Recommendations in letters e and f are partially implemented. An abrogation of the JV Agreement with Benjamin Construction was approved by the BOT and has already been

OBSERVATIONS	ACTIONS TAKEN/COMMENTS
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; and	communicated with the proponent. 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.
f. 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.	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 case is still with the Legal Department.