

OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. The Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS) did not comply with the liquidation basis of accounting adopted in the preparation of its financial statements (FS) as at December 31, 2023 and 2022, as the assets and liabilities of the AFPRSBS are not presented and measured at their estimated net realizable values and settlement amounts, respectively, and the corresponding appropriate disclosures in the Notes to FS have not been made, contrary to the fair presentation mandated by Philippine Accounting Standards (PAS) 1.

1.1 This is a reiteration of the prior year's audit observation (AO) as embodied in Calendar Year (CY) 2022 Annual Audit Report (AAR).

1.2 Paragraph 15 of PAS 1 -*Presentation of Financial Statements* provides:

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

1.3 When a reporting entity has adopted the liquidation basis of accounting, its FS should reflect the entity's assets and liabilities at their estimated realizable values and settlement amounts, respectively. At each reporting date, after the adoption of the liquidation basis, a reporting entity should continue to re measure its assets and liabilities using the same measurement principles as it followed on the date it adopted the liquidation basis.

1.4 As disclosed in Note 2 to FS, the AFPRSBS' FS for the years ended December 31, 2023 and 2022 were prepared using the liquidation basis of accounting and that the current operation of the AFPRSBS is in consonance with the provisions of Memorandum Order (MO) No. 90 geared towards the winding down objective of disposal/liquidation of the assets and refund of all members' contributions (MCs).

1.5 However, review of the FS and Notes to FS revealed that it did not comply with the liquidation basis of accounting in the preparation of FS for CYs 2023 and 2022. The FS are still prepared on a going concern basis. Also, Note 3 to FS disclosed that the FS were prepared on a historical cost basis, except for the equity securities, which are measured at fair value. Likewise, Notes 3.7 to 3.12 disclosed that the real estate inventories, supplies and materials inventory, investment in subsidiaries, investment in real estate, investment property and property and equipment (PE) are all carried or stated at cost,

net of either accumulated depreciation or allowance for impairment losses. Details of this observation are further discussed as follows:

Non-classification of its non-current assets to current assets amounting to P4.978 billion and non-current liabilities to current liabilities of P237.299 million

- 1.6 Some of the AFPRSBS' assets and liabilities with a total amount of P4.978 billion and P237.299 million, respectively, as at December 31, 2023, are still classified under non-current despite the adoption of the liquidation basis of accounting in the preparation of FS, thus affecting the fair presentation of the accounts in the FS. The details and account balances are presented in Table 1.1.

Table 1.1 – Account Balances of Non-current Assets and Non-current Liabilities As at December 31, 2023

Account	Amount
Non-current assets	
Investments	2,765,822,952
Receivables	113,020,903
Investment property	1,737,674,514
PE	25,394,498
Other assets	336,582,605
Total Non-current assets	4,978,495,472
Non-current liabilities	
Trust liabilities	117,697,496
Deferred credits/Unearned income	119,601,822
Total Non-current liabilities	237,299,318

Non-compliance with the forward-looking Expected Credit Losses (ECL) model prescribed under Philippine Financial Reporting Standards (PFRS) 9 – Financial Instruments, on the provision of the Allowance for Impairment Losses on the Loans and Receivables, Lease Receivables, Inter-agency receivables, Other Receivables and Investment in Bonds, thereby, the accounts are not presented at its estimated net realizable values.

- 1.7 PFRS 9, with objective to establish the principles in the reporting of financial assets and financial liabilities effective for annual periods beginning on or after January 1, 2018, requires the recognition of impairment losses on a forward-looking basis.
- 1.8 The new impairment model under PFRS 9, also known as ECL model, is required to be applied to the following, among others: (a) financial assets measured at amortized cost; (b) financial assets measured at fair value through other comprehensive income; (c) lease receivables within the scope of PFRS 16 on Leases; and (d) financial guarantee contracts, except those measured at fair value through profit or loss.

- 1.9 Further, PFRS 9 provides that at each reporting date, an entity is required to comply with the following requirements:
- a. Paragraph 5.5.3 - *Measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition;*
 - b. Paragraph 5.5.9 - *Assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition;*
 - c. Paragraph 5.5.17 - *Measure ECL of a financial instrument in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions; and*
 - d. Paragraph 5.5.18 – *Consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.*
- 1.10 Note 3.6 to FS on the accounting policy for Impairment of Financial Assets disclosed that AFPRSBS adopts the ECL model in measuring credit impairment in accordance with PFRS 9. Under this model, allowance for credit losses is recognized even before objective evidence of impairment becomes apparent, and the amount of the loss is recognized in profit or loss.
- 1.11 Audit, however, revealed that among the various reported outstanding receivables and investments in fixed income securities as at December 31, 2023, only the Loans Receivables, Accounts Receivables (AR), Installment Sales Receivables (ISR) and Other Receivables were provided with an allowance for impairment losses, and it was based on a

measurement other than those required under PFRS 9, as shown in Table 1.2:

**Table 1.2 - AFPRSBS' Various Receivables and Fixed Income Securities
As at December 31, 2023 and 2022**

Account	Amount	Allowance for impairment losses
Loans and receivables		
Loans receivables	1,088,519,963	241,954,482
Interest and dividend receivables	1,468,509,108	0
ISR	195,465,659	88,644,387
Receivable from joint ventures	23,129,322	0
AR	10,850,205	5,130,003
Lease receivables	244,952,702	0
Inter-agency receivables	22,388,846	16,189,215
Other receivables	1,157,480,365	70,484,367
Total receivables	4,211,296,170	422,402,454
Investment in bonds	2,297,163,946	0
Total as at December 31, 2023	6,508,460,116	422,402,454
Total as at December 31, 2022, as restated	6,233,074,275	425,626,961
Increase/(decrease)	275,385,841	(3,224,507)

- 1.12 As can be noted in the above table, the Allowance for Impairment Losses as at December 31, 2023 is lower by P3.225 million as compared to the last year's balance. Verification revealed that the decrease was mainly due to the reversal of allowance for impairment losses provided on the: (a) dividends receivable from a private corporation amounting to P2.320 million due to the disposal of the latter's shares of stocks prior to dividend declaration in CY 2000; and (b) loans receivables under litigation amounting to P0.905 million due to the reclassification of the said receivable to Acquired Assets account following the completion of the foreclosure proceeding and consolidation of the title of collaterals in the name of the AFPRSBS.
- 1.13 Apparently, there was no additional allowance for impairment loss provided for the Other Receivables and Loans Receivables accounts despite their status as follows:
- a. The Other Receivables account includes uncollected amount for three to seven years of P404.161 million from accountable officers who invested the amount in the acquisition of real property despite the issuance of pertinent Supreme Court (SC) decisions in CYs 2016 and CY 2020; and
 - b. Loans Receivables account includes unpaid loan of Riviera Golf Club, Inc. totaling P184.125 million inclusive of interest which matured in October 2020, for payment of real estate taxes delinquencies. It also

includes non-moving past due account amounting to P125.087 million outstanding for more than 180 days.

- 1.14 As for the Investment in Bonds recorded and measured at fair value, PFRS 9 requires assessment of the risk through daily monitoring of cash flows in consideration of future payment due dates and daily amounts of collection as basis for the impairment, hence, subject to any impairment. In this case, while there was an increase in the average yield of 5.507 per cent interest per annum for Investment in Bonds in CY 2023, the same investment had historical performance of earned interest at an average of 4.360 per cent interest per annum in CY 2021 but subsequently reduced to 3.094 per cent per annum in CY 2022. Considering that the terms of the investment ranged from three to 10 years, there is a risk that the term may be shortened by the issuer due to a fall in interest rates, or there may be a chance that the AFPRSBS may not be able to collect the expected return of investments. However, the risks involved to this account were not considered and no ECL was provided.

Non-valuation of its properties and/or assets at their estimated net realizable values and liabilities at their estimated settlement amounts

- 1.15 Further, audit of the account balances disclosed that some of its assets are still reported in the FS at their carrying amounts of P5.880 billion. Details are presented in Table 1.3:

**Table 1.3 – Account Balances Reported at their Carrying Amounts
As at December 31, 2023**

Account	Cost	Allowance for impairment losses/accumulated depreciation	Carrying amounts
Receivables	4,211,296,170	422,402,454	3,788,893,716
Investment in real estate, landbanking	1,738,043,765	19,232,230	1,718,811,535
Building and building improvements at the industrial park	129,061,550	110,198,571	18,862,979
Acquired assets	469,043,644	141,242,942	327,800,702
Property and equipment	165,507,311	140,112,813	25,394,498
	6,712,952,440	833,189,010	5,879,763,430

- 1.16 Likewise, Trust Liabilities and Deferred Credits/Unearned Income totaling P237.299 million are not adjusted and/or presented at their reasonably estimated settlement amounts.
- 1.17 Foregoing considered, the AFPRSBS did not comply with the liquidation basis of accounting adopted in the preparation of its FS, considering that its dissolution and liquidation became apparent and imminent with the issuance of MO No. 90 dated April 8, 2016, thus, affecting the fair presentation of the accounts in the FS. Thereby, users of the FS may not

properly assess the realizable value of its assets and reasonably estimate the settlement amount of its liabilities.

1.18 We reiterated our prior year's audit recommendations with modifications that Management:

- a. **Reclassify all non-current assets and non-current liabilities under current to reflect the liquidation and winding down status of its operations;**
- b. **Apply in the provisioning of impairment losses on financial assets the forward-looking expected losses as prescribed under PFRS 9 – *Financial Instruments*.**
- c. **Present the assets at estimated realizable value and the liabilities at reasonably estimated settlement amounts; and**
- d. **Provide appropriate disclosures on the accounts in the Notes to FS pursuant to the liquidation basis of accounting.**

1.19 Management commented that in May 2023, the AFPRSBS submitted to the Governance Commission for GOCCs (GCG) its revised liquidation plan, which indicated that the former could not sell all its assets within the liquidation period. It also mentioned that any real estate assets not sold or liquidated will be part of the assets that will be turned over to the Government Financial Institution (GFI) entity. While there have been assets identified for sale in CY 2023, no disposals of investments in real estate classified as non-current assets are scheduled for CY 2024. In this case, the AFPRSBS maintains the non-current classification of its assets.

1.20 As to the non-adoption of ECL method, Management commented that they are currently reviewing the receivables that need to be provided with allowance for impairment and the criteria to be used for the provisions using the ECL model. Moreover, necessary adjustments will be made in the books once the review of the accounts is completed and the criteria for the provisions have been defined.

1.21 As a rejoinder, the Audit Team understands that some of the AFPRSBS' assets are not subject to sale. Considering that Management disclosed in the Notes to FS the adoption of the liquidation basis in the preparation of FS in consonance with the provisions of MO No. 90 on the directive to abolish and wind down the operations of AFPRSBS, **we maintain our recommendation that the non-current assets and liabilities shall be reclassified to current.** Also, regardless of whether the properties are subject to turnover or sale, they will eventually be disposed as part of its winding down operations, which is expected to be reflected in the FS under the liquidation basis.

2. **The accuracy of the balances of MCs Payable and Estimated Liability on Earnings of MCs accounts amounting to P1.226 billion and P771.325 million, respectively, as at December 31, 2023, could not be established due to the presence of unreconciled amount of P600.270 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances, and the absence of details of the remaining interest earned from MCs, thus affecting the fair presentation of the accounts in the FS.**
 - 2.1 Presidential Decree (PD) No. 361, series of 1973, established the AFPRSBS to provide a financially independent funding system and continuous financial support to the Armed Forces of the Philippines (AFP) retirement system. However, in CY 2003, it was established by the *Feliciano Commission Report* that AFPRSBS was “fundamentally flawed” and had not discharged its mandate. Hence, Executive Order (EO) No. 590, series of 2006, as amended by EO No. 590-A, series of 2007, were issued mandating the deactivation of AFPRSBS, including its winding down and liquidation, but the same were not fully implemented.
 - 2.2 Further, on April 8, 2016, MO No. 90 was issued to direct the abolition, winding down and liquidation of the AFPRSBS. Among the main purposes of the MO are the cessation of collecting MCs and accrual of interest thereon, and the refund of MCs to members as they fall due.
 - 2.3 On April 19, 2016, pursuant to the same MO, the AFPRSBS’ Board of Trustees convened as the Board of Liquidators (BOL). The BOL issued Board Resolution No. SPL-01-2016, which approved the stoppage of the collection of five per cent MCs and the accrual of interest thereon effective March 31, 2016.
 - 2.4 As at December 31, 2023, the balances of the MCs Payable and Estimated Liability on Earnings of MCs accounts in the FS amounted to P1.226 billion and P771.325 million, respectively. The MCs Payable account represents the total accumulated MCs awaiting refund to AFPRSBS members upon retirement, separation, or discharge from active service, while the Estimated Liability on Earnings of MCs account refers to the interest earned from the said contributions.
 - 2.5 Notably, the combined total amount of P1.997 billion for both accounts represents 75 per cent of the total liabilities of the AFPRSBS amounting to P2.670 billion as at December 31, 2023.
 - 2.6 To account the MCs Payable and Estimated Liability on Earnings of MCs account transactions, the Accounting Department (AD) utilizes a list of members with their contributions, extracted from the Integrated Financial Management System 2 (IFMS2) as at July 2015, which is being reconciled with the balance of the MCs Payable per books. **However, the AD cannot provide details of the Estimated Liability on Earnings of MCs account because the list of members qualified for refunds cannot be finalized until the GL balance is properly reconciled with the SL in IFMS2.**

- 2.7 In CY 2022, the balance of MCs Payable per IFMS2 SL was higher by P116.560 million than the GL balance due to the following reasons:
- a. Inclusion of members in the list extracted from the IFMS2, who have been refunded of their contributions in CYs 2012 and 2013 via manual processing due to the system crash of the IFMS2 in CY 2012;
 - b. Existence of members with two different serial numbers, hence, even after the refunds, their accounts remain open/outstanding; and
 - c. Lack of adequate manpower dedicated solely to the reconciliation of the accounts.
- 2.8 To expedite the reconciliation of the variance, the AFPRSBS hired project-based personnel to review the remaining accounts for refund in CY 2023. Through their efforts, they have filtered out duplicated or previously refunded records from the IFMS2. As a result, the balance of MCs Payable as at December 31, 2023 per IFMS2 decreased to P625.300million, which is now lower than the GL balance by P600.270 million, hence, the variance even increased by P483.710 million from CY 2022 to 2023. Details are presented in Table 2.1.

**Table 2.1 - Status of the CY 2015 Reconciliation of Books/GL Balances with IFMS SL Balances of the MCs Payable account
As at December 31, 2023**

CY	Per books/GL	Per IFMS SL	Variance
December 31, 2022	P 1,285,198,377	P 1,401,758,644	P 116,560,267
December 31, 2023	1,225,570,455	625,300,021	600,270,434
Decrease(increase)	59,627,922	776,458,623	(483,710,167)

- 2.9 Management disclosed the following reasons that brought the increase in the variance in CY 2023:
- a. Membership contributions prior to CY 1992 were not posted/uploaded in the IFMS/SLs of members who still have outstanding membership contributions since the IFMS was introduced only in CY 1992; and
 - b. Few accounts were inadvertently deleted from the SL upon reconciliation due to human errors.
- 2.10 To date, the Management is continuously finding ways to locate and contact the members who are entitled for refunds, while also updating the accounts to determine the accurate amount of refunds of MCs including the interest earned thereon.
- 2.11 In view of the foregoing, the Audit Team stresses that the AFPRSBS' responsibility to maintain complete, updated, and accurate records in the SLs of the MCs Payable and Estimated Liability on Earnings of MCs accounts is indispensable. These records serve as the basis for the computation of members' total contributions and interest earned for refund.

Failure to do so may result in under or overpayment of refunds, potentially causing delays thereof and consequently, prolonging the liquidation process of the AFPRSBS.

- 2.12 Therefore, the non-reconciliation of the variance of P600.270 million between the balances per GL and IFMS SL of the MCs Payable, and the absence of details of the Estimated Liability on Earnings of MCs accounts, cast doubt on the accuracy of the balances, thereby affecting the fair presentation of the accounts in the FS.
 - 2.13 **We reiterated our prior years' audit recommendations with modification that Management exert more effort in reconciling the IFMS SLs with the books of accounts/GL maintained by the AD, and in preparing the details of the remaining earned interests that have not yet been refunded to the members, in preparation for the transfer of MCs records to the GFITrustee, in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.**
 - 2.14 Management stated that the reconciliation process will be continued to establish the balance of the remaining liabilities of the AFPRSBS and their corresponding interests thereon.
 - 2.15 Nonetheless, **the Audit Team will continue to monitor Management's compliance until the variance is fully reconciled.**
3. **The presence of unreconciled variance of 415,573 square meters (sqm) with a total value of P383.637million between the total land area per records and actual inventory of Transfer Certificates of Title (TCTs) of real estate properties, casts doubt on the accuracy and reliability of the balances of Real Estate Inventories and the Investment in Real Estate – LandbankingAssets accounts, contrary to paragraph 15 of PAS 1, thereby affecting the fair presentation of the accounts balances in theFS as at December 31, 2023.**
 - 3.1 This is a reiteration of the prior year'sAOwith modifications as embodied in the CYs 2018, 2020, 2021, and 2022 AARs.
 - 3.2 In addition to Paragraph 15 of PAS 1, Sections 111 and 114 of the PD No. 1445 require that accounts should be kept in such detail for the agency's needs and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government. These include the maintenance of SL. Also, internal control dictates that an entity should maintain adequate records and systems for all aspects of its business including the maintenance of hard copies of individual SLs that will support the GL control account at any given period of time.
 - 3.3 The AFPRSBS' Investment in Real Estate-LandbankingAssets account refers to underdeveloped land properties located in various parts of the country that have not yet been offered for sale to the public. The breakdown

of the said account amounting to P1.719 billion as at December 31, 2023 are presented in Table 3.1.

**Table 3.1 – Breakdown of Investment in Real Estate – Landbanking Assets Account
As at December 31, 2023**

Account title	Amount
Investment in real estate –Landbanking	P 1,738,043,765
Accumulated impairment losses	(19,232,230)
Carrying amount	P 1,718,811,535

- 3.4 On the other hand, the AFPRSBS' Real Estate Inventories refer to real properties held for sale in the ordinary course of business. As at December 31, 2023, the account has a balance of P3.502 billion as presented in Table 3.2.

**Table 3.2 – Breakdown of Real Estate Inventories Account
As at December 31, 2023**

Account title	Amount
Club share inventory	P 1,003,422,733
Other inventories	2,569,600,667
Allowance for impairment losses	(70,893,191)
Carrying amount	P 3,502,130,209

- 3.5 Validation of the submitted documents disclosed a total variance on the land area of 415,573sqm, with equivalentvalue of P383.637 million,between the recorded and the actual inventory of TCTs as presented in Table 3.3.

**Table 3.3 – Variance between the Recorded and Actual Inventory of TCTs
As at December 31, 2023**

Project Name	Total area per books	Total area-per TCTs net of sold lots	Variance	Cost per sqm/plot	Equivalent amount of variance
	(sqm/ plots)	(sqm)	(sqm)		
	(A)	(B)	(C) = (A - B)	(D)	(C x D)
Real Estate Inventories:					
Mount Zion Memorial	24,173	19,698	4,475	P14,074.2400	P 62,982,224
Riviera Project- Commercial	85,255	78,024	7,231	1,144.4400	8,275,446
San Lorenzo South Subdivision (SLSS) – Phase I	88	3,663	3,575	1,800.0000	6,435,000

Project Name	Total area per books	Total area per TCTs net of sold lots	Variance	Cost per sqm/plot	Equivalent amount of variance
Village East III Subdivision	93,445	109,005	15,560	530.5500	8,255,358
The Orchard Project	29,919	36,250	6,331	1,514.6200	9,589,059
Investment in Real Estate – Landbanking					
Assets:					
Riviera	2,453,733	2,222,903	230,830	663.4900	153,153,397
General Santos City*	34,401	34,191	210	11,238.3286	2,360,049
Eastridge Golf Course and Subdivision II	499,428	488,956	10,472	209.4500	2,193,360
San Lorenzo	435,727	348,432	87,295	545.9095	47,655,170
Green Meadows Iloilo (Phase 1A)	21,963	6,531	15,432	2,214.4800	34,173,855
Green Meadows Iloilo (Phase 1)	12,424	46,586	34,162	1,421.5700	48,563,674
Total	3,690,556	3,394,239	415,573		P383,636,592

**with discussion on paragraph 6.9*

- 3.6 Notably, the variance of 415,573 sqm valued at P383.637 million in CY 2023 is lower than the previously reported absolute variance of 548,564 sqm with an absolute amount of P589.355 million in CY 2022. The Audit Team recognizes the effort of AFPRSBS to reconcile variances on land areas for the project sites. Even so, the remaining variance still casts doubt on the accuracy and reliability of the balances of both the Real Estate Inventories and Investment in Real Estate-Landbanking Assets accounts in the FS.
- 3.7 Review of the reconciliation submitted by the AFPRSBS on November 7, 2023 revealed that the main reason for the variance between the AD and Internal Records Management Department (IRMD) records is the accounting treatment of installment sales contracts. When a property is sold, the AD derecognizes the corresponding cost per area of the sold lots. However, the equivalent TCT of the sale remains in the records of IRMD until full payment is received. Such timing differences in recording resulted in a variance, such as the AD records show a lower balance as compared to the IRMD records.
- 3.8 It was also observed that there are instances where the records of the IRMD are lower than those of the AD, which is still the subject of the ongoing reconciliation by Management.
- 3.9 As disclosed in the CY 2022 AAR, the remaining 210 sqm variance of the project located in General Santos City pertains to a property purchased from Bulaong Enterprises, which was erroneously accounted for as part of its assets because it has not yet been fully paid by the Management since CY 1997 at the agreed purchase price. Hence, derecognition of the property from the books of the AFPRSBS was recommended unless a compromise agreement is successfully entered into with the seller. Based on the submitted Agency Action Plan and Status of Implementation as at October 31, 2023 which was further validated as at December 31, 2023, negotiations with the seller are still on-going.

- 3.10 In view of the foregoing, the accuracy of the balances of Real Estate Inventories and the Investment in Real Estate – Landbanking Assets accounts with carrying amounts of P3.502 billion and P1.719 billion, respectively, as at December 31, 2023, could not be ascertained due to the noted unreconciled variance thereby affecting the fair presentation of the accounts' balances in the FS as required under paragraph 15 of PAS 1.
- 3.11 **We reiterated our prior years' audit recommendations with modifications that Management require the AD and IRMD personnel to:**
- a. **Establish a clear timeline for the reconciliation process to immediately address the variance between the total land area per physical inventory of TCTs and those recorded under the Real Estate Inventories and Investment in Real Estate-Landbanking Assets accounts;**
 - b. **Submit updated reconciliation pertaining to both Real Estate Inventories and Investment in Real Estate –Landbanking Assets accounts to allow the Audit Team to validate the completeness of the real estate properties of AFPRSBS; and**
 - c. **Derecognize from the books the unpaid property purchased from Bulaong Enterprises, unless ownership or real rights can be established.**
- 3.12 The Management commented that the reconciliation of the remaining eight real estate projects with variances between the total land area per physical inventory of TCTs and those recorded under the Real Estate Inventories and Investment in Real Estate-Landbanking Assets accounts is being pursued. Continuous efforts among the concerned departments/offices are being made to establish the correct total land area for each project. The reconciliation process is targeted to be completed within CY 2024.
- 3.13 For CY 2023, the AFPRSBS was able to reconcile three projects, particularly, Riviera-Residential, SLSS – Phase IC & ICA and SLSS. For projects that will be reconciled thereafter, AFPRSBS will submit the updated reconciliation schedule to the Audit Team for review and validation.
- 3.14 Management also stated that they have on-going negotiations with Bulaong Enterprises and that depending on its outcome, appropriate adjustments will be made in the CY 2024 FS.
- 3.15 As a rejoinder, the Audit Team has considered the reconciliation made by Management for Riviera-Residential and SLSS – Phase IC & ICA, which are recorded under Real Estate Inventories. However, further evaluation of the reconciled variances disclosed the non-inclusion of Riviera Property classified as commercial area and San Lorenzo – Phase I. As regards SLSS, the Audit Team pointed out that the submitted reconciliation report shows a variance of 87,295 sqm. requiring further checking by the

Management. Nonetheless, we appreciate Management's continuous efforts in reconciling the variances, and the Audit Team will closely monitor Management's compliance with the above recommendations until the variance is fully reconciled.

4. Receivables totaling P957.480 million remain dormant for 16 to more than 20 years due to ineffective monitoring of the status of receivable accounts, thus, casting doubt on the validity of the account balances, contrary to Paragraph 15 of PAS 1, and depriving the AFPRSBS of funds for the accelerated refund of MCs and immediate settlement of liabilities.

4.1 This is a reiteration of the prior years'AO with modifications as embodied in CYs 2019 and 2022 AARs.

4.2 Commission On Audit (COA) Circular No. 2023-008 dated August 17, 2023, amending COA Circular No. 2016-005 dated December 19, 2016, prescribes the guidelines and procedures on the proper disposition of all dormant accounts of National Government Agencies, Local Government Units and Government-Owned and Controlled Corporations (GOCCs), not covered by specific laws, rules and regulations, and to fast track the cleansing of dormant accounts of government agencies for the fair presentation of accounts in the FS, as follows:

5.0 DEFINITION OF TERMS

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5.7 Dormant Receivable Accounts – accounts which balances remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained.

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5.16 Write-off of Dormant Accounts – the process of derecognizing the asset account and the corresponding allowance for impairment from the books of accounts and transferring the same to the Registry of Accounts Written off (RAWO). This does not mean condoning/extinguishing the obligation of the accountable officer/debtor.

6.0 GENERAL GUIDELINES

6.4 The entity shall determine whether the dormant accounts identified are covered by specific law, rules and regulations prescribing for the proper disposition and/or procedures to address the issue on dormancy.

6.5 If the dormancy of an account cannot be addressed through Item 6.4 above, then the entity shall apply the procedures prescribed by this Circular.

7.0 PROCEDURES FOR THE DISPOSITION OF DORMANT ACCOUNTS

7.1 The Head of Accounting Unit shall:

a. Conduct regular and periodic verification, analysis, and validation of the existence of all dormant accounts;

b. Secure/collate all available documents relative to the said accounts, xxx

xxx

e. Ensure fairness in the presentation of accounts in the financial statements, taking into consideration the provisions of applicable IPSAS or PFRS on specific accounts and prepare the necessary adjusting entry/ies xxx

4.3 Moreover, Sections 8.1 and 8.2 of the same Circular provide that dormant accounts shall be derecognized from the books of accounts only upon the grant of specific authority by COA. Likewise, within one year from the effectivity of the Circular, the Head of the Accounting Unit, through the Head of the Agency, shall file with/through the Audit Team Leader and/or Regional Supervising Auditor/Supervising Auditor, depending on the jurisdictional amount, a request for the approval of COA to write-off/derecognize from the books the dormant accounts. The request shall be supported with pertinent documents, and provided with index tabs for easy reference.

4.4 As at December 31, 2023, AFPRSBS has dormant receivables amounting to P957.480 million, representing 25 per cent of the combined carrying amount of Loan and Receivables, Lease Receivables and Other Receivables accounts totaling P3.783 billion. Among these dormant receivables, a total of only P896.867 million is secured by collaterals subject to consolidation or foreclosure proceedings. Details are presented in Table 4.1.

**Table 4.1 – Aging of Dormant Receivable Accounts
As at December 31, 2023**

Account	No. of accounts	Amount	Aging of dormant receivable accounts		
			16 to 20 years	More than 20 years	Undetermined
Secured					
Accounts under litigation	8	P775,568,600	P2,370,500	P43,274,772	P729,923,328
Past due-commercial loans	5	115,942,929	0	109,824,865	6,118,064

Account	No. of accounts	Amount	Aging of dormant receivable accounts		
			16 to 20 years	More than 20 years	Undetermined
Past due-small business loans	6	3,607,927	714,233	2,893,694	0
Past due car loan	18	1,747,647	218,225	1,280,255	249,167
Sub-total	37	896,867,103	3,302,958	157,273,586	736,290,559
Unsecured					
AR-non-trade	7	22,675,316	3,586,294	19,089,022	0
Advances to subsidiaries	5	22,388,846	0	0	22,388,846
AR-others	7	7,736,838	5,329,194	2,407,644	0
AR-others, beg	5	3,968,314	0	3,968,314	0
Advances to contractors	4	1,750,452	0	1,750,452	0
AR-discounted	1	1,010,081	0	1,010,081	0
Past due-other loans	3	779,668	779,668	0	0
AR-trade, financing	8	303,539	0	0	303,539
Sub-total	40	60,613,054	9,695,156	28,225,513	22,692,385
Total	77	P957,480,157	P12,998,114	P185,499,099	P758,982,944

4.5 The accounts determined as dormant for 16 to more than 20 years pertain to the loans and advances extended by AFPRSBS to its subsidiaries, former employees, real estate buyers and other major business enterprises and/or companies.

4.6 The status of these dormant receivables as at December 31, 2023 is summarized in Table 4.2 as follows:

**Table 4.2 - Status of Dormant Receivables
As at December 31, 2023**

Status	No. of accounts	Amount (In millions)	%
1. Currently undergoing legal proceedings, titling, or awaiting writ of execution	4	P 763.463	79.74
2. Receivables/advances to various subsidiaries and affiliates that are already closed and are subject to terminal audit/dissolution procedures	11	122.847	12.83
3. For recovery after the sale of the subsidiaries or reconciliation with Joint Venture partners	4	25.029	2.61
4. Subject to offsetting or write-off, as applicable, from payables with the contractors after reconciliation	5	1.454	0.15
5. Subject to deduction from the pension of the members	3	0.780	0.08
6. For collection/filing of collection suit, or with demand letter	18	1.430	0.15
7. Documents are still for tracing or for reconciliation	29	42.309	4.42

Status	No. of accounts	Amount (In millions)	%
8. Borrowers are deceased and/or cannot be located	3	0.169	0.02
Total	77	P 957.480	100.00

4.7 Validation of the above status of dormant accounts revealed the following:

- a. In CY 2023, a portion of the foreclosed properties due from Borrower A was consolidated in the name of AFPRSBS. Consequently, the Loans Receivable accounts under litigation, with a carrying amount of P2.202 million, were reclassified to the Acquired assets account. The Allowance for impairment loss amounting to P0.905 million related to such an account was adjusted accordingly. Meanwhile, a receivable from Company A amounting to P714.125 million remain outstanding. Although the property was foreclosed on February 28, 2013, the title has not yet been consolidated in the name of AFPRSBS. Also, accounts from Company B amounting to P6.060 million are undergoing legal proceedings while accounts from Company C totaling P36.670 million are awaiting finality of decision from SC. Only accounts due from Company A and Borrower A have been partially provided with allowances.
- b. Five accounts amounting to P115.943 million represent past due commercial loans that remain unpaid for more than 180 days, which include the remaining outstanding balance of the multi-purpose loan and discounting of commutation of leave credits extended by the AFPRSBS to its members. Likewise, these loans, including accounts under litigation, are secured by mortgages on real estate, except on a few accounts. Our verification revealed that efforts to collect these loans are not yet undertaken. Furthermore, as disclosed in Note 6.1.a, some of these accounts are still for provision of additional allowance for doubtful accounts.
- c. The receivables/advances due from the closed subsidiaries of AFPRSBS (Item 2 of Table 4.2) correspond to 11 accounts in which: (1) seven accounts have been provided with allowance for impairment; (2) the documentation to support the request for write-off for the receivable from GMC totaling to P8.676 million is still being completed; and (3) accounts due from Monterrosa Development Corporation amounting to P14.278 million, with an allowance for impairment of P8.094 million, will be adjusted upon its disposal. Also, four accounts pertaining to past due car loans amounting to P436,216 were not provided with allowance for impairment loss.
- d. Five accounts due from contractors for offsetting (Item 4 of Table 4.2) and the three accounts due from members for deduction from their pension (Item 5 of Table 4.2), have not been provided with allowance for impairment, whereas receivable accounts from deceased borrowers and those who cannot be located have been fully provided with an allowance for impairment amounting to P168,722. Out of the 18

accounts marked for collection, ten have been sent with demand letters. The remaining 29 accounts are still for tracing and reconciliation due to difficulties encountered in the retrieval of documents.

- e. Out of the total 77 dormant accounts, 34 accounts totaling P147.812 million were fully provided with an allowance for impairment loss but Management has not yet requested for an authority to write-off from COA for these dormant accounts.
- 4.8 Management stated that it has been constantly monitoring and tracing the history of the dormant accounts to determine the appropriate actions to be taken. In CY 2013, the Management exerted efforts to recover the past due car loan accounts, by sending Collection Notices/Final Demand Letters to several borrowers via registered mail, albeit without success. They mentioned that they have been exhausting all available remedies to collect the long outstanding/dormant/past due accounts and will request authority to write-off from COA should all efforts to collect fail. Likewise, Management assured that the existence of the dormant receivables will not hinder the refund of all MCs since the AFPRSBS is projected to have an estimated excess fund of P1.500 billion in CY 2023 after settling all existing liabilities.
- 4.9 The Audit Team emphasizes that under Section 3 of MO No. 90, the BOL has been directed to collect all indebtedness due to the AFPRSBS. Despite this, the balance of dormant receivables remains significant at P957.480 million as at December 31, 2023. Even before the issuance of MO No. 90, the Management's approach in collecting the said receivables resulted in minimal results, leaving them outstanding for periods ranging from 16 to more than 20 years and depriving the AFPRSBS of the much-needed funds for the accelerated refund of MCs and payment of other obligations.
- 4.10 The Audit Team noted, however, that only P259.521 million Allowance for impairment losses was provided as at December 31, 2023, despite the non-movement of the said account balances.
- 4.11 The presence of dormant accounts totaling P957.480 million outstanding for 16 to more than 20 years casts doubt on the validity of the account balances, contrary to Paragraph 15 of PAS 1, gives the stakeholders of AFPRSBS a false impression of having additional resources to meet its obligations, and deprives the AFPRSBS of funds for its accelerated refund of MCs and immediate settlement of liabilities.
- 4.12 **We reiterated our prior years' recommendations with modifications and Management agreed to:**
- a. **Exhaust all available remedies to collect long outstanding/dormant/past due accounts and ensure proper and complete documentation of accounts;**

- b. Devise alternative options and, if warranted, resort to legal means to enforce the settlement of accounts, including those pertaining to prior years' accounts without request for write-off; and**
- c. Request authority from COA to write-off dormant receivables, supported by relevant documents as provided under COA Circular No. 2023-008, when all collections efforts have failed and the accounts are considered non-recoverable.**

4.13 We further recommended and Management agreed to:

- a. Evaluate the collectability of outstanding receivables and accordingly provide additional allowance for impairment loss; and**
- b. Consider the foreclosure of collaterals of secured commercial loans that could no longer be collected.**

5. The accuracy of the balance of the Unapplied Receipts account amounting to P1.718 million under the Deferred Credits/Unearned Income account as at December 31, 2023 could not be ascertained mainly due to the presence of unidentified transactions and long outstanding balances for 11 to 20 years, contrary to Paragraph 15 of PAS 1.

- 5.1 This is a reiteration of the prior years' AOs with modifications as embodied in the CYs 2019 and 2022 AARs.
- 5.2 AFPRSBS' Chart of Accounts describes the Unapplied Receipts account as collections made over the counter but not yet posted in the appropriate GL accounts and SL. It is a temporary account specifically used in IFMS 2, where SL is extracted, to record the unidentified collection transactions. The AD informed that it is in their internal policy that as at end of the month, the Unapplied Receipts are debited and appropriate accounts are credited to close the temporary posting of collections.
- 5.3 Examination of the GL and SL revealed that the Unapplied Receipts accounts amounting to P1.718 million as at December 31, 2023 have been outstanding for 11 to 20 years. The said amount is a temporary beginning balance forwarded in November 2004 during the migration from Legacy System to the IFMS. It also includes an adjustment amounting to P34,630 recorded in CY 2022, the nature of which has not been identified by Management.
- 5.4 Management disclosed that continuous reconciliation is being made to account for the unidentified transactions credited to the AFPRSBS' bank account. However, they are having difficulty in the reconciliation since most of the entries were created in the previous accounting system and they are still currently tracking the related prior years' transactions.

- 5.5 Consequently, the reported balances of the Unapplied Receipts account as at December 31, 2023 could not be relied upon due to the presence of unidentified transactions and long outstanding balances.
- 5.6 **We reiterated our prior year’s audit recommendations with modifications and Management agreed to:**
- a. **Immediately identify the nature of the transactions recorded under the Unapplied Receipts account and make the necessary adjustment to avoid accumulation of unposted transactions; and**
 - b. **Exert more effort on the tracing and analysis of the forwarded temporary beginning balance to the Unapplied Receipts account.**
6. **The presence of an unreconciled variance totaling P7.586 million between the GL and SL of ISR, cast doubt on the accuracy and reliability of the balance of the ISR account totaling P195.466 million as at December 31, 2023, thus affecting the fair presentation of the FS as required by Paragraphs 15 and 16 of PAS 1.**
- 6.1 This is a reiteration of prior year’s AOW with modifications as embodied in the CY 2022 AAR.
- 6.2 To expedite the sale of its properties, the AFPRSBS sold some of its properties on an installment basis as an option for buyers to allocate payments over a longer period, normally ranging from one to 15 years. Upon settlement of the required down payment, the corresponding amount of receivable is taken up under ISR account supposedly supported with SL for the account of the buyer of which monthly amortization payments shall be recorded thereon.
- 6.3 As at December 31, 2023, the current and past due balances of ISR amounted to P111.039 million and P84.427 million, respectively. Verification showed that there are variances between the GL and SL of the ISR-Current and ISR-Past Due accounts of P7.420 million and P165,569, respectively. Details are presented in Table 6.1.

**Table 6.1– Variance between the GL and SL balances of the ISR
As at December 31, 2023**

ISR	Current	Past due	Total
GL	P 111,039,105	P 84,426,554	P 195,465,659
SL	103,618,830	84,260,985	187,879,815
Variance	P 7,420,275	P 165,569	P 7,585,844

- 6.4 Inquiry with Management disclosed that there is an on-going reconciliation to trace the causes of the noted variances. Likewise, they revealed that one of the identified causes of the said variances was due to the system

breakdown of the IFMS2 in CY 2012 resulting in loss of data on some buyers.

- 6.5 We commend the Management for achieving a significant reduction in the total variance between the two records, amounting to P15.402 million or 68.85 per cent of the total variance of P22.371 million in CY 2022. However, the remaining unreconciled variance of P7.586 million still raises doubts on any possible unadjusted and/or unrecorded transactions in the GL and unposted transactions in the SL.
- 6.6 Thus, the presence of unreconciled variance between the GL and SL cast doubt on the accuracy and reliability of the ISR balance presented in the FS as at December 31, 2023.
- 6.7 **We reiterated our prior year's audit recommendation with modifications that Management:**
- a. **Expedite the reconciliation of net variance between the GL and SL of the ISR account; and**
 - b. **Set a timeline for the said reconciliation of the two accounting records.**
- 6.8 The Management commented that they are continuously reconciling the ISR accounts to determine the remaining P7.586 million variance between the GL and SL. Each ISR account and the corresponding journal entries affecting the account will be reviewed/revalidated to determine transactions that need to be adjusted in the books, if any.
- 6.9 Moreover, the reclassification of the ISR accounts, together with the corresponding Allowance for impairment loss accounts, will be done once the manual updating of the SLs of the buyers is completed. This process will be undertaken simultaneously with the reconciliation of the variance.
7. **The existence, completeness, and accuracy of the recorded Property and Equipment (PE) account balance with a total carrying amount of P25.394 million could not be ascertained due to: (a) unreconciled variances of P3.777 million between the balances of GL and Report on the Physical Count of Property, Plant and Equipment (RPCPPE); (b) inaccurate provision for depreciation; and (c) non-disposal of unserviceable properties.**
- 7.1 This is a reiteration of the prior year's AOW with modifications as embodied in the CY 2022 AAR.
- 7.2 As at December 31, 2023, the PE account of the AFPRSBS has a total cost and carrying amount of P165.507 million and P25.394 million, respectively. Details of the PE accounts are presented in Table 7.1:

**Table 7.1 – Balance of PE account
As at December 31, 2023**

PE accounts	Total cost	Accumulated depreciation	Carrying amount
Office Equipment (OE)	P 65,260,593	P 59,330,805	P 5,929,788
Transportation Equipment (TE)	5,500,000	4,637,854	862,146
Furniture & Fixtures (FF)	2,736,253	3,081	2,733,172
Buildings and improvements	92,010,465	76,141,073	15,869,392
Total	P 165,507,311	P140,106,651	P 25,394,498

- 7.3 Audit of the PE account showed some lapses in the recording and monitoring of the status of the assets, thus, necessitating improvements in asset management, to wit:

Unreconciled differences of P3.777 million between the balances of GL and RPCPPE

- 7.4 Reconciliation of accounting records with the physical count is a basic control over physical assets as it provides the necessary checking on the completeness and accuracy of accounting and property records. Likewise, a physical count is conducted to determine the existence and condition of items comprising the PE account.
- 7.5 Comparison of the recorded PE accounts against the RPCPPE as at December 31, 2023, disclosed a variance of P3.777 million. Details of the variance are presented in Table 7.2.

Table 7.2 – Total Variance between the RPCPPE and GL sub-account balances of PE account

Account name	GL	RPCPPE	Variance
OE	P 65,260,593	P 62,929,684	P 2,330,909
Buildings and improvements	92,010,465	92,010,465	0
FF	2,736,253	1,289,670	1,446,583
TE	5,500,000	5,500,000	0
Total	P 165,507,311	P 161,729,819	P 3,777,492

- 7.6 The AFPRSBS' AD manages the balances of its PE account based on the extracted SLs from the Legacy System as at December 31, 2012 and manually records the succeeding years' transactions.
- 7.7 Management revealed that the reconciliation of the discrepancy between the accounting records and the RPCPPE is being undertaken by the AFPRSBS' Inventory Committee, under the lead of the General Services Department (GSD). It was mentioned that one of the reasons for the discrepancies noted is that there were disposals of unserviceable properties in prior years that were not dropped from the books.
- 7.8 In CY 2023, Management was able to identify and adjust a significant portion, however, some accounts remained unreconciled. Further

examination of records disclosed that the remaining variance can be attributed to the following:

- a. A total of 19 items of OE and six items of FF amounting to P4.308 million were recorded in the books but couldnot be traced in the RPCPPE;
- b. Three items of OE and an item of FF amounting to P1.680 million were found during the physical inventorybut are not recorded in the books; and
- c. There arebooks and reference materials that are included in the schedule but were not found in the RPCPPE.

7.9 The variance between the records of the AD and GSD totaling P3.777 million as of December 31, 2023,casts doubt on the existence, completeness and accuracy of thebalances of PE and other related accounts.

Inaccurate provision for depreciation due to the absence of policy

- 7.10 Depreciation is the periodic process that accounts for the deterioration of a property over its useful life. It represents the estimated reduction in the value of an asset. At the end of an asset's life, it is reported at its residual value unless it isfully deteriorated and is of no use. In the absence of an accounting policy relating tothe residual value, the 10 per cent of the cost as prescribed under COA Circular No. 2004-003 can be used.
- 7.11 InCY 2023, the AD was not able to provide depreciation for the newly constructed electrical room completed on July 18, 2023 amounting to P7.321 million, resulting in the understatement of the Depreciation Expense and Accumulated Depreciation – Building and Structure accounts both by P274,532.
- 7.12 On the other hand, while most of the reported PE items have reached their useful life and/or are fully depreciated, a recalculation of depreciation showed that the AD has improperly accounted for the depreciation of its PE accounts. The residual value of some PE items is reported at P10.00, while some are reported at 10 per cent of their purchase cost.Thus, there is inconsistency in the computation of the residual value.
- 7.13 Inquiry with Management revealed that the assets with a residual value of P10.00 are items thathadalready been fully depreciated even prior to the declaration of the AFPRSBS asa government entity. Such residual value of P10.00, however, is not consistently applied to all fully depreciated PE.
- 7.14 The non-provision of depreciation for the newly constructed electrical room and inconsistentapplication of percentage of residual value in the computation of the monthly depreciation, renders the balance of the PE accounts inaccurate.

Non-disposal of unserviceable properties

7.15 Section 79 of PD No. 1445 provides:

Section 79. Destruction or sale of unserviceable property. *When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee an award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.*

7.16 Also, National Budget Circular No. 425 dated January 28, 1992, pursuant to EO No. 285, provides that:

Disposal proceedings should be immediately initiated to avoid further deterioration of the property and consequent depreciation in its value.

7.17 Unserviceable properties are assets that no longer serve its purpose to an entity and are therefore subject for disposal through sale, barter or destruction. In case of sale or barter, the appraised value of the subject property is determined, which becomes its minimum selling price. Unserviceable assets are then dropped from the books only after disposal. The necessity of disposal of unserviceable assets is duly recognized, as pertinent laws, rules and Circulars have been issued to regulate and expedite the process.

7.18 In December 2023, the Disposal Committee was able to conduct the disposal of various unserviceable items. However, they were not able to include two vehicles with a total cost of P1.940 million. These vehicles were reported as unserviceable in the RPCPPE.

7.19 The non-disposal of unserviceable PEs exposes the property to further deterioration, loss, obsolescence, and continuously occupies storage space, thereby depriving the AFPRSBS of additional funds and use of the storage for other official purpose.

- 7.20 We stress that Management's obligation to maintain organized and up-to-date records is important in ensuring the fair presentation of the agency's financial position and performance. The improper accounting and reporting, and inadequate monitoring of PE account, including the delayed disposal of unserviceable properties, cast doubt on the existence, completeness, and accuracy of the PE account, and deprives the AFPRSBS of additional funds and use of storage for other official purpose.
- 7.21 **We reiterated our prior year's recommendations and Management agreed to require the:**
- a. **AD and GSD to reconcile the discrepancy between the accounting records and the RPCPPE;**
 - b. **Disposal Committee to promptly dispose all unserviceable assets in accordance with the appropriate disposal guidelines;and**
 - c. **AD to effect the necessary adjusting entries, if any, to reflect the correct balance of the PE account in the FS, once the reconciliation of the PE accounts is completed.**
- 7.22 **We further recommended and Management agreed to include in the accounting policy the basis of the computation of the residual value to ensure that the monthly depreciation is accurately computed.**

B. Others

8. **The inclusion of 13th month pay and five days service incentive leave (SIL) amounting to P2.166 million in the payment of the separation pay to five AFPRSBS officials and employees is contrary to Section 4 of MO No. 90, Article 298 (283) of the PD No. 442, otherwise known as Labor Code (LC) and Paragraph 5 of COA Circular No. 2012-003, thus, considered illegal and irregular.**

8.1 Section 4 of MO No. 90 provides:

SECTION 4. Separation Pay for Affected Personnel. *Affected officials and personnel of AFP-RSBS may avail the separation benefits below in addition to retirement or separation benefits allowed under existing laws:*

YEARS IN SERVICE	RATES
<i>First 20 years</i>	<i>1.00 x Basic Monthly Pay (BMP) x No. of years</i>
<i>20 years and 1 day to 30 years</i>	<i>1.25 x BMP x No. of years</i>
<i>30 years and 1 day and above</i>	<i>1.50 x BMP x No. of years</i>

The payment of separation pay shall be sourced from its corporate funds. (Emphasis supplied)

8.2 Further, Article 298 (283) of the LC, provides:

ART. 298. [283] Closure of Establishment and Reduction of Personnel. – *The employer may also terminate the employment of any employee due to the installation of labor-saving devices, redundancy, retrenchment to prevent losses or the closing or cessation of operation of the establishment or undertaking unless the closing is for the purpose of circumventing the provisions of this Title, by serving a written notice on the workers and the Ministry of Labor and Employment at least one (1) month before the intended date thereof. In case of termination due to the installation of labor-saving devices or redundancy, the worker affected thereby shall be entitled to a separation pay equivalent to at least his one (1) month pay or to at least one (1) month pay for every year of service, whichever is higher. In case of retrenchment to prevent losses and in cases of closures or cessation of operations of establishment or undertaking not due to serious business losses or financial reverses, the separation pay shall be equivalent to one (1) month pay or at least one-half (1/2) month pay for every year of service, whichever is higher. A fraction of at least six (6) months shall be considered one (1) whole year.*(Emphasis supplied)

8.3 Paragraph 3 of COA Circular No. 2012-003 defined irregular expenditure as follows:

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

8.4 On July 18, 2023, the AFPRSBS requested the Office of the Government Corporate Counsel (OGCC) for an opinion on the entitlement of its employees to separation benefits under Section 13 of EO No. 150, series of 2021, and Sections 283 and 287 of PD No. 442, in addition to the separation benefits under MO No. 90.

8.5 In response, the OGCC, in its Opinion No. 156 dated August 11, 2023, opined that AFPRSBS cannot claim a separate Separation Incentive Pay under EO No. 150 in addition to that allowed in MO No. 90 since they

pertain to the same separation benefits granted because of their involuntary separation from service following the abolition of AFPRSBS. As to the retirement or separation benefits under PD No. 442, the OGCC opined that these may be claimed in addition to the separation pay under MO No. 90 since it is a separate and distinct form of incentive to the affected employees.

- 8.6 In CY 2023, the AFPRSBS granted separation benefits to its four officials and two employees based on Section 4 of MO No. 90 and additional benefits pursuant to the LC totaling P15.079million. Our review of the Statement of Separation Package (SSP) revealed that the additional benefit of five employees included 13th month pay and cash equivalent of five days SIL totaling P2.166 million. Details as presented in Table 8.1.

Table 8.1 – Summary of Net Separation Pay Granted Based on MO No. 90 and LC For CY 2023

Designation of concerned separated official/employee	Net separation pay*	Net separation pay per audit	Excess due to inclusion of 13th month pay and 5 days SIL
1. Head, Management Information System's Office	P 8,618,398	P 7,204,509	P 1,413,889
2. Executive Assistant to the Executive Vice President (EVP)	2,119,301	1,786,632	332,669
3. Head, Corporate Services Group	1,919,638	1,919,638	0
4. Securities Custodian/Records Officer	1,376,915	1,137,240	239,675
5. Driver/Messenger	586,408	484,346	102,062
6. Refund Examiner	458,514	381,073	77,441
Total	P15,079,174	P12,913,438	P2,165,736

*Per MO No. 90 and PD No. 442

- 8.7 Inquiry with Management revealed that the inclusion of the 13th month pay and five days SIL was due to their interpretation of the OGCC opinion, applying Article 302 (287) instead of Article 298 (283) of the LC. Article 302 (287) refers to the provision on retirement pay applicable to employees covered by the provisions of the LC. Such provision states that:

xxx in the absence of a retirement plan or agreement providing for retirement benefits of employees in the establishment, an employee upon reaching the age of sixty (60) years or more, but not beyond sixty-five (65) years which is hereby declared the compulsory retirement age, who has served at least five (5) years in the said establishment, may retire and shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one whole year.

xxx the term 'one-half (1/2) month salary' shall mean fifteen (15) days plus one-twelfth (1/12) of the 13th month pay and the cash equivalent of not more than five (5) days of SIL.

- 8.8 However, the OGCC opinion clearly distinguishes retirement pay from separation pay, citing differences in legal bases, sources of funds, and intents. As emphasized in such opinion, retirement benefits are a form of reward for an employee's loyalty and service to an employer, earned under existing laws, Collective Bargaining Agreements, employment contracts and company policies. On the other hand, a separation pay is the amount which an employee receives at the time of his severance from employment, designed to provide the employee with funds during the period that he is looking for another employment and is recoverable only in instances enumerated under Articles 298 (283) and 299 (284) of the LC or in illegal dismissal cases when reinstatement is not feasible.
- 8.9 A clear reading of the SSP showed that the AFPRSBS grants separation benefits to its employees, and not retirement benefits. Hence, the grant of additional benefits of 13th month pay and SIL totaling P2.166 million, is considered irregular as defined under paragraph 3 of COA Circular No. 2012-003. The Audit Team would like to emphasize that the computation of separation pay due to closure or cessation of business under Article 298 (283) of the LC is only equivalent to one (1) month pay or at least one-half (1/2) month pay for every year of service, whichever is higher, hence, the 13th month pay and the cash equivalent of five days SIL should not be included.
- 8.10 **We recommended that Management:**
- a. Require the concerned employees and officers to refund the overpayment of additional benefits granted to them totaling P2.166 million. Otherwise, appropriate audit action will be undertaken; and**
 - b. Discontinue the payment of 13th month pay and cash equivalent of five days SIL as part of separation pay in accordance with Section 4 of MO No. 90 and Article 298 (283) of the LC.**
- 8.11 The Management commented that Section 4 of MO No. 90 authorizes the payment of the separation pay to officials and personnel affected by the abolition of AFPRSBS and expressly provides that such separation benefits are in addition to the retirement or separation benefits allowed under existing laws. The employees, who were involuntarily separated from service due to GCG's recommended abolition of AFPRSBS, are entitled to the separation benefits under Section 4 of MO No. 90 in addition to retirement or separation benefits allowed under Articles 298 (283) or 302 (287) of the LC.
- 8.12 They added that as pointed out by the Audit Team, in the absence of a retirement plan, an employee of AFPRSBS who has reached the retirement age shall be entitled to retirement pay in accordance with Article 302 (287) of the LC. Four employees aged between 60 to 65 years at the time of their

retirement are entitled to the separation benefits under MO No. 90, in addition to retirement benefits under Article 302 (287) of the LC.

- 8.13 Relative to the use of the word “or”, Management referred the OGCC Opinion No. 156 dated August 11, 2023 that cited the case of Centeno vs. Villalon-Pornillos (G.R. No. 113092), wherein the SC ruled that the word “or” as used in a statute is a disjunctive article indicating an alternative, thus, inferred that the intention of Section 5 of EO No. 44 was to grant either (i) Early Retirement Incentive Plan (ERIP) and retirement benefits or (ii) ERIP and separation pay, whichever is applicable.
- 8.14 Similarly, AFPRSBS applied the provisions of the LC under Article 298 (283) in case of separation or Article 302 (287) in case of retirement as opined by the OGCC and under existing jurisprudence. Retirement benefits were granted to four employees who are 60 years old and above as of the end of their employment with the AFPRSBS.
- 8.15 As a rejoinder, the Audit Team would like to emphasize that while Section 4 of MO No. 90 authorizes the payment of separation benefits in addition to the retirement or separation benefits allowed under existing laws, review of the disbursement vouchers showed that the four employees were separated from service, not retired, as supported by the Notice of Separation signed by the President of the AFPRSBS. The notice did not specify any entitlement to retirement benefits for the four employees.
- 8.16 Likewise, the Management sweepingly applied the provision of Article 302 (287) of the LC by granting retirement benefits to one employee who had not yet reached the retirement age of 60. Hence, such action gives an impression that there is an intention to grant retirement benefits without regard to age, as required under Article 302 (287) of the LC.
- 8.17 Furthermore, assuming arguendo that the four employees as earlier mentioned are deemed entitled to retirement benefits, the payment of the same would still be illegal and irregular as the AFPRSBS did not fully comply with the due process requirement of giving notice to the appropriate Regional Office of the Department of Labor and Employment (DOLE) as mentioned in Paragraph 10.2 and further discussed in Paragraph 13.4. As defined in Articles 298 (283) and 299 (284) of the LC, as amended, in relation to Section 5.3, Rule I-A of the Implementing Rules and Regulations (IRR) of the same law, as amended, the requirements of due process shall be deemed complied with upon service of a written notice to the employee and appropriate Regional Office of the DOLE at least 30 days before the effectivity of the termination, specifying the ground or grounds for termination. As in the case of the four separated employees, while they were given notices of separation, none were submitted to DOLE. It is also noteworthy to mention that the OGCC opinion dated August 11, 2023 emphasized that before granting separation pay or retirement benefits under the LC, specific requirements under the law must be fully satisfied.
- 8.18 Foregoing considered, we maintain our recommendations that Management require the concerned employees to refund the overpayment

of additional benefits granted and to prospectively restrict the payment of separation pay in accordance with MO No. 90 and Article 298 (283) of the LC by excluding 13th month pay and the cash equivalent of five days SIL.

9. **The AFPRSBS continued to maintain depository accounts in Banco De Oro Unibank, Inc. (BDO) and Armed Forces and Police Savings and Loans Association, Inc. (AFPSLAI), with balances amounting to P117,530 and P326,250, respectively, as at December 31, 2023, without obtaining prior approval from the Department of Finance (DOF), contrary to the pertinent provisions of DOF Department Circular (DC) No. 002-2022, thus, defeating the purpose of Treasury Single Account system intended for better cash management and greater transparency in public financial management.**

- 9.1 Section 3.1 of DOF DC No. 002-2022 dated May 16, 2022 on the Revised Guidelines on Authorized Government Depository Banks defines Authorized Government Depository Banks (AGDB), as follows:

*“Authorized Government Depository Bank (“AGDB”)” refers to a bank where NGAs/ GOCCs/ GFIs/ GICPs/ GCEs and LGUs are **allowed by law** to deposit government funds and maintain depository accounts, or by way of exception, **a bank allowed or designated by the DOF and the Monetary Board** to hold government deposits subject to prescribed rules and regulations. (Emphasis supplied)*

- 9.2 Section 5.2 of the said DC enumerated the AGDBs, to wit:

*GOCCs and LGUs, specifically allowed by laws, rules, regulations to retain income and/or for operations and/or working balances **shall deposit and maintain Government Funds with any of the following banks xxx:***

- a. Land Bank of the Philippines;*
- b. Development Bank of the Philippines;*
- c. Overseas Filipino Bank (formerly, Philippine Postal Savings Bank Inc.); and*
- d. Al Amanah Islamic Investment Bank of the Philippines. (Emphasis supplied)*

- 9.3 In relation thereto, Section 5.2.2 provides for the requisite approval of the Secretary of Finance, in the case of GOCCs, before transacting with private banks, in this way:

*In **highly exceptional cases**, where the NGAs/ GOCCs/ LGUs deemed it **necessary to transact with private banks** or avail of its services, the NGAs/ GOCCs/ LGUs shall secure the **approval** of Treasurer of the Philippines, in the case of NGAs, the **Secretary of Finance, in the case of GOCCs**, and the Executive Director of the BLGF, in the case of LGUs. (Emphasis supplied)*

- 9.4 To enforce the DC, Section 6.2 thereof provides for the following sanction to GOCCs, among others:

*For **GOCCs/ NGAs/ LGUs**, the **Heads of GOCCs/ NGAs/ LGUs** shall be **responsible for the compliance** of this Circular without prejudice to **criminal and/or administrative liability** in accordance with existing laws, rules and regulations. (Emphasis supplied)*

- 9.5 Further, Section 4.3 explains one of the general principles of the DC as follows:

*Pursuant to Executive Order No. 55 (s. 2011), the government through the DOF and the Bureau of the Treasury (“BTr”) implemented the **Treasury Single Account (“TSA”) system for better cash management and greater transparency in public financial management.**(Emphasis supplied)*

- 9.6 Examination of the depository accounts revealed that in addition to maintaining accounts with the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP), AFPRSBS also holds accounts with BDO, a private commercial bank, and AFPSLAI, a non-GFI. These are not among those included in the list of Authorized Government Depository Banks (AGDBs) provided in Section 5.2 of DOF DC No. 002-2022, nor have they obtained the necessary approval from the Secretary of Finance as mandated by Section 5.2.2 of the same DOF DC. Details of the account balances as of December 31, 2023 are outlined in Table 9.1:

**Table 9.1 –Accounts of AFPRSBS with Private Banks
As at December 31, 2023**

Account description	Type of account	GL balance
Cash in Bank - BDO CASA	Current Account	P117,530
Cash in Bank - AFPSLAI SA	Savings Account	326,250

- 9.7 Perusal of the Board Approval Sheet dated May 10, 2013 showed that the BDO account was opened to address the unaccounted collections from the Green Meadows project in Iloilo. It also serves as the AFPRSBS’ collecting/servicing bank for the remittance of the monthly amortizations of such project’s lot buyers. Meanwhile, the Board Approval Sheet relative to the AFPSLAI account that contains the approval of opening the said account was not submitted to the Audit Team despite the request thereof. As disclosed in Note 4 to FS, the account maintained in the AFPSLAI pertains to the 90-day fixed income security that was used as a security/collateral to the AFP General Insurance Corporation (AFPGIC) in relation to a legal case pending at the Housing and Land Use Regulatory Board (HLURB). However, the account will be closed once the AFPRSBS submits another security to AFPGIC as a replacement for the said collateral.

- 9.8 It is important to note that AFPRSBS has not successfully secured approval from the Secretary of Finance prior to the opening of these bank accounts, contrary to Section 5.2 of the DOF DC.
- 9.9 In CYs 2014 and 2015, the AFPRSBS sought approval from the DOF for all accounts maintained with private banks, including those with BDO. However, both requests were denied. DOF advised the closure of the deposit accounts, which the AFPRSBS adhered to, except for the closure of the account with BDO. On February 23, 2017, the AFPRSBS submitted a third request for approval by the DOF, but as of report date, no reply has been received.
- 9.10 Regarding the AFPSLAI account, the Management, in its Memorandum dated February 7, 2024, disclosed that the account was deemed terminated as at December 31, 2023. However, the termination process cannot commence because the passbook of the said account was used as collateral in one of the AFPRSBS's HLURB cases. Management informed that the AFPGIC will not release the passbook until the AFPRSBS secures the HLURB clearance or replaces the collateral with another instrument. Likewise, the Legal Department is in the process of transferring to another bonding company and arranging for alternative collateral to facilitate the release of the passbook.
- 9.11 The Audit Team acknowledges the initial actions taken for the closure of the AFPSLAI account, however, no definite timeline has been given for replacing the collateral in exchange for the release of the AFPSLAI passbook. Moreover, the continuous maintenance of the depository accounts with BDO and AFPSLAI without approval from the DOF is contrary to Sections 3.1, 5.2 and 5.2.2 of DOF DC No. 002-2022. The denial or disapproval by the DOF not only exposes the Head of the AFPRSBS to possible criminal and/or administrative liability, as sanctioned under Section 6.2 of the same DC, but also affects the achievement of the government's objective in having an AGDB, through the DOF and Bureau of the Treasury (BTr), to implement the Treasury Single Account system for better cash management and greater transparency in public financial management as provided under Section 4.3 citing EO No. 55, series of 2011, both of DC No. 002-2022.
- 9.12 **We recommended that Management:**
- a. **Submit the Board Approval Sheet related to the AFPSLAI account for the Audit Team to determine the purpose of the opening of such account;**
 - b. **Expedite the closure of both the BDO and AFPSLAI accounts by setting a definite timeline;**
 - c. **Secure clearance from the HLURB for the release of the passbook of AFPRSBS with AFPSLAI by immediately replacing the collateral with an equivalent or reasonably valued instrument acceptable to the HLURB; and**

d. Transfer the balance of the depository accounts maintained in private banks to the LBP or DBP accounts currently maintained by the AFPRSBS.

- 9.13 The Management commented that the AFPRSBS has already taken action for the replacement of the collateral of the AFPSLAI account with AFGIC. The Treasury Department (TD) and Legal Department have already coordinated with AFGIC about the documentary requirements. Once the AFPSLAI account is closed, the funds will be deposited to either LBP or DBP.
- 9.14 On the other hand, the AFPRSBS' deposit with BDO was opened to cater to the demands of buyers who are mostly based in Iloilo City and some residing abroad, to facilitate their payments for their purchases of the lots at the Green Meadows project considering BDO's greater network of branches nationwide. The government banks such as LBP and DBP cannot provide the same deposit reference facility needed by the AFPRSBS in Iloilo. A change in the servicing bank at this point may disrupt the collection process for the buyers of Green Meadows.
- 9.15 Further, Section 5.3 of the DOF DC No. 01-2015 dated June 01, 2015, as amended, allows placement with private banks for the payment and collection system. The requirement, however, to deposit all collections to the depository government bank(s) the next banking day shall be complied with.
- 9.16 In the previous AO of COA for CY 2019 pertaining to the BDO account, the AFPRSBS was allowed by COA to maintain the said BDO account solely as a servicing bank, provided that the AFPRSBS maintains an average daily balance of not more than P500,000 at any given time. The TD ensures compliance with the said maximum maintaining balance. Any amounts in excess of P500,000 are promptly transferred to LBP or DBP.
- 9.17 As a rejoinder, the Audit Team appreciates the Management's action in replacing the collateral to expedite the closure of the AFPSLAI account. Nonetheless, the Audit Team will continue to monitor Management's compliance with the closure of the AFPSLAI account and the subsequent transfer of funds to either LBP or DBP.
- 9.18 Regarding the BDO account, while there are circumstances where agencies may be allowed to maintain accounts with non-GFIs, it is essential to note that under a more recent DC, specifically Section 5.3.1 of the DOF DC No. 002-2022, approval of the Secretary of Finance is now a requisite to continue to maintain accounts with private banks.

5.3 To remove revenue and expenditure floats:

*5.3.1 The NGAs/ GOCCs/ LGUs may engage the collection services of banks other than those listed in Section 5.2, thru a transaction fee-based arrangement, **subject to the prior approval***

of the Secretary of Finance, in the case of GOCCs, or of the Executive Director of the BLGF, in the case of LGUs: Provided, that in the case of NGAs the implementation of any collection system should require approval of the Treasurer of the Philippines, for consistency with the TSA framework Provided, further, that the proposed bank will only serve as a collection bank for the account of the NGAs/ GOCCs/ LGUs: Provided, finally that, all collections of collection banks shall be transferred to any of those listed in Section 5.2, in the case of NGAs, to the TSA or to any of those listed in Section 5.2, on the next banking day counted from the collection date.

- 9.19 It can be recalled that per DOF reply letter dated September 30, 2014, the Secretary denied the request of AFPRSBS and further advised to take necessary steps to wind down deposits with private banks.
- 9.20 Furthermore, the Audit Team emphasizes that Section 8 of DOF DC No. 002-2022 revokes or modifies all other orders, circulars, memoranda, or issuances contrary or inconsistent therewith. Since Section 5.3 of DOF DC No. 001-2015 dated June 1, 2015 is inconsistent with the provisions of DOF DC No. 002-2022, the requirement of prior approval from the Secretary of Finance before a GOCC can be allowed to maintain bank deposits with private banks is now an indispensable requirement. Thus, Section 5.3 of DOF DC No. 1-2015 is revoked or modified.
- 9.21 Relative thereto, we maintain our observations and recommendations until the closure of the BDO account.
- 10. The AFPRSBS has not fully complied with the provisions on the Transparency Seal under the General Provisions of Republic Act (RA) No. 11936 or the General Appropriations Act (GAA) for Fiscal Year (FY) 2023, thus, the stakeholders have been deprived of relevant information on government transactions that may affect their interests or provide them with benefits.**
- 10.1 Section 104 of RA No. 11936 or the GAA for FY 2023 provides:

Section 104. Transparency Seal. *To enhance transparency and enforce accountability, all agencies of the government shall maintain a Transparency Seal to be posted on their websites. The Transparency Seal shall contain the following: (i) the agency's mandates and functions, names of its officials with their position and designation, and contact information; (ii) approved budgets and corresponding targets, immediately upon approval of this Act; (iii) modifications made pursuant to the general and special provisions in this Act; (iv) annual procurement plan/s and contracts awarded with the winning supplier, contractor or consultant; (v) major activities or projects and their target beneficiaries; (vi) status of implementation, evaluation or assessment reports of said programs or projects; (vii) Budget and Financial Accountability Reports; (viii)*

Updated People's Freedom of Information (FOI) Manual signed by head of agency, Updated One-Page FOI Manual and Agency FOI Reports; and (ix) annual reports on the status of income authorized by law to be retained or used and be deposited outside of the National Treasury, which shall include the legal basis for its retention or use, the beginning balance, income collected and its sources, expenditures, and ending balance for the preceding fiscal year.

The heads of the agencies and their web administrators or their equivalent shall be responsible for ensuring compliance with this Section.

- 10.2 Verification of the AFPRSBS' website showed that the minimum disclosure requirements of information are either not complied with or partially complied with, as presented in Table 10.1.

Table 10.1 – Status of Compliance with Section 104 of RA. No. 11936 For CY 2023

No.	Minimum requirements under Section 104 of RA No. 11936	AFPRSBS compliance	Audit team validation
1	Agency's mandates and functions, names of its officials with their position and designation, and contact information	Partially complied	MO No. 90 series of 2016, which directs the abolition of the AFPRSBS, has not been included in the disclosure of the continuity of the delivery of its mandates and functions. Furthermore, the AFPRSBS Management Directory, which includes the names of officials, their positions and designations, and their contact information, remains not updated as some of the officials listed have already resigned or have retired from service.
2	Approved budgets and corresponding targets, immediately upon approval of this Act	Not complied	The latest approved budget and corresponding targets posted are for CY 2016.
3	Modifications made pursuant to the general and special provisions in this Act	Not complied	None was posted.
4	Annual procurement plan/s and contracts awarded with the winning supplier, contractor or consultant	Not complied	The latest annual procurement plan posted was for CY 2016 while the latest posted contracts awarded to winning suppliers, contractors or consultants were for CY 2015.
5	Major activities or projects and their target beneficiaries	Not complied	None was posted.
6	Status of implementation, evaluation or assessment reports of said programs or projects	Not complied	None was posted.
7	Budget and Financial Accountability Reports	Not complied	The AFPRSBS Corporate Operating Budget for CY 2023 was approved by the BOL on February

No.	Minimum requirements under Section 104 of RA No. 11936	AFPRSBS compliance	Audit team validation
			9, 2023; however, no information regarding this budget was posted on the AFPRSBS website.
8	Updated People's Freedom of Information (FOI) Manual signed by Head of Agency, Updated One-Page FOI Manual and Agency FOI Reports	Not complied	None was posted.
9	Annual reports on the status of income authorized by law to be retained or used and be deposited outside of the National Treasury, which shall include the legal basis for its retention or use, the beginning balance, income collected and its sources, expenditures, and ending balance for the preceding FY	Not complied	The AFPRSBS is engaged in real estate business where the income derived therefrom is retained or used for its operations and deposited outside of the National Treasury; however, no report thereon was posted on the AFPRSBS website. For CY 2023, the total income derived from the real estate operations amounted to P214.110 million.

10.3 Moreover, since AFPRSBS is considered as an abolished agency, all information pertaining to the status of its operations and those required under the GAA need to be disclosed, not only to its members but also to the public in general.

10.4 Further, the following requirements of the Other provisions under the General Provisions of RA No. 11936 have not been complied with, as presented in Table 10.2:

Table 10.2 – Status of Compliance with Other Provisions of RA No. 11936 For CY 2023

General provisions of the GAA	Requirement/s	Validation
Section 11	Information related to public funds deposited and maintained, and invested by them with any banking or financial institution/s	The AFPRSBS maintains bank accounts with the LBP, DBP, and BDO. Likewise, it maintains a savings account with the AFPSLAI. However, no information relating to these public funds was posted on the AFPRSBS website.
Section 98	Submission of Annual Reports and Audited FS on Accounts Deposited Outside of the National Treasury	The latest annual reports and audited FS posted are for CY 2018.
Section 99	Status Report on COA Findings and Recommendations	AFPRSBS received the CY 2022 AAR on May 23, 2023; however, no status report regarding it was posted on the AFPRSBS website.
Section 103	Transparency in Infrastructure Projects	The AFPRSBS awarded three infrastructure projects in CY 2023 with an aggregate contract price of P871.775 million; however, none of these projects was posted on the

General provisions of the GAA	Requirement/s	Validation
AFPRSBS website.		

10.5 Inquiry with AFPRSBS' web administrator disclosed that the main factor for non-compliance with pertinent provisions on the Transparency Seal in the GAA is that uploading of the required data or information on the website is only made once they receive the same from the concerned units. Further, they mentioned that despite reminding the concerned units of their responsibility to submit the required information or reports, no action has been taken.

10.6 Foregoing considered, the non-disclosure of the necessary information regarding government transactions on the AFPRSBS website undermines the primary purpose of the Transparency Seal, which is to promote transparency and enforce accountability. Consequently, the stakeholders have been deprived of the relevant information that may affect their interests or provide them with benefits.

10.7 **We recommended and Management agreed to:**

- a. **Instruct the AFPRSBS web administrator to ensure full compliance with the requirements of the Transparency Seal as provided under pertinent provisions of the GAA applicable to the AFPRSBS; and**
- b. **Require all concerned units to timely submit the reports needed for uploading or posting in the AFPRSBS website.**

11. **The AFPRSBS is not requiring the submission of a Certificate of Tax Exemption (CTE) from Income Tax and Withholding Taxes part of the clearance of the officials and employees who are due for separation, and neither notified the employees of their termination at least 30 days before the effectivity of the separation from the service nor submit a copy of the Notice of Separation to the DOLE, which is not in accordance with the provisions of Bureau of Internal Revenue (BIR) Revenue Memorandum Order (RMO) No. 66-2016 and Article 298 (283) of the LC, respectively.**

Non-compliance with Section 2 of RMO No. 66-2016

11.1 Section 2 of RMO No. 66-2016 dated December 6, 2016 provides:

SECTION 2. Amendment. – Item II of RMO No. 26-2011 is hereby amended to read as follows:

II. DOCUMENTARY REQUIREMENTS

In order to facilitate the processing of requests for tax exemption of separation benefits received by officials/employees or his/her heirs

as a result of their separation from employment due to death, sickness or other physical disability or **for any cause beyond the control of said officials or employees, regardless of age and length of service**, the following documents are required to be submitted to the Revenue District Office (RDO) or appropriate Large Taxpayers (LT) Office where the employer is originally registered, to support such request:

1. Letter request from the Official/Employee (or by his heirs) or the Employer for the **exemption of separation benefits from income tax and withholding tax;**

Xxx

7. Closure or Cessation of Operation

a) Written notice to the employee and the appropriate Regional Office of the Department of Labor and Employment (DOLE) at least thirty (30) days before the effectivity of termination, specifying the ground for termination.

b) Board Resolution, in case of a juridical entity, or sworn affidavit to be executed by the owner, in case of a sole proprietor, stating the following:

- i. That the management has decided to close or cease operation of the company;
- ii. That the closure or cessation of operation has been made in good faith; and
- iii. That there is no other option available to the employer except to close or cease operation. (Emphases supplied)

11.2 While the National Internal Revenue Code (NIRC), as amended, provides that any amount received by an official or employee, or by his/her heirs, from the employer due to separation because of death, sickness or other physical disability, or for any cause beyond the control of the said official or employee shall be exempt from tax, such exemption is not automatic by operation of law. Since tax exemptions are construed strictly against the taxpayer and liberally in favor of the government, separated employees by reason of closure or cessation of operation are not automatically entitled to income tax exemption on the separation pay received. To prove the eligibility for tax exemption of the separation pay, the employer or the employee must secure a CTE from Income Tax and Withholding Tax. Furthermore, to facilitate the processing of requests for tax exemption due to closure or cessation of operation, certain requirements as prescribed in the RMO No. 66-2016 must be satisfied.

11.3 Our review of the Notices of Separation served to the officials and employees who are due for separation disclosed that a CTE from Income Tax and Withholding Tax is not among the requirements requested from them. Also, it was noted that the submission of CTE is not part of the

requirements prior to the processing of payment of separation pay. Thus, the AFPRSBS is not compliant with RMO No. 66-2016.

Non-compliance with Article 298 (283) of the LC

- 11.4 Aside from Articles 298 (283) of the LC on the termination of employment through the closure of establishment and reduction of personnel wherein at least one-month written notice to be served to the concerned workers and the Ministry of Labor and Employment before the intended date of separation thereof, Article 303 (288) of the same law provides:

ART. 303. [288] of Penalties. – Except as otherwise provided in this Code, or unless the acts complained of hinge on a question of interpretation or implementation of ambiguous provisions of an existing collective bargaining agreement, any violation of the provisions of this Code declared to be unlawful or penal in nature shall be punished with a fine of not less than One Thousand Pesos (P1,000.00) nor more than Ten Thousand Pesos (P10,000.00), or imprisonment of not less than three months nor more than three years, or both such fine and imprisonment at the discretion of the court.

- 11.5 Jurisprudence provides that when dismissing an employee for an authorized cause, the employer must observe both the procedural and substantial due process of law. The employer satisfies procedural due process, which constitutes compliance with the procedures laid down in the LC, after serving a written notice of termination to the concerned employee and the appropriate Regional Office of the DOLE at least 30 days before the effective date of termination, specifying the ground(s) for termination. The employer follows substantial due process when requisites for the authorized cause(s) are present and supported by substantial evidence.
- 11.6 In CY 2016, the AFPRSBS sought the opinion of the Civil Service Commission (CSC) on whether its employees are considered private or government employees. The CSC, in its letter dated June 9, 2016, addressed to the AFPRSBS President, opined that the AFPRSBS employees are not government employees since there was no issuance of appointments prescribed for civil service employees. Moreover, another determinant factor was the coverage for social security insurance, which is with the Social Security System (SSS) and not with the Government Service Insurance System. Further, salary standardization, leave credits and the like were not accorded to the said AFPRSBS employees. Hence, based on the opinion of the CSC, it can be inferred that the employees are still covered under the provisions of the LC.
- 11.7 As previously mentioned, the AFPRSBS has separated six of its officials and employees from service by virtue of its abolition, closure and cessation of operation, which is deemed an authorized cause under the LC.
- 11.8 Our examination of the Notices of Separation served to all separated officials and employees revealed that the notices to two individuals were

served less than 30 days prior to the effective date of their separation, as presented in Table 11.1.

Table 11.1 – Summary of Days Elapsed from Notice of Separation Date to Effective Date of Separation For CY 2023

Official/employee	Notice of separation date	Effectivity date of separation from service	No. of days
1. Head, Corporate Services Group	April 18, 2023	May 16, 2023	28
2. Head, Management Information	July 13, 2023	September 1, 2023	50
3. Executive Assistant to the EVP	July 13, 2023	September 1, 2023	50
4. Driver/Messenger	July 13, 2023	September 1, 2023	50
5. Securities Custodian/Records Officer	July 13, 2023	September 1, 2023	50
6. Refund Examiner	September 8, 2023	October 7, 2023	29

11.9 Further, inquiry with Management revealed that no Notice of Separation was furnished to the DOLE, as required under Article 298 (283) of the LC, which should be at least 30 days prior to the separation of the employee.

11.10 It is worth mentioning that the OGCC, in its Opinion No. 156, series of 2023, as discussed in paragraph 8.13 hereof, also reminded the AFPRSBS to comply with the requirements under the LC and other implementing rules and regulations of the DOLE on the grant of the separation pay or retirement benefits.

11.11 Hence, although the AFPRSBS notified the concerned officials and employees prior to their separation from the service, failure to notify two of them at least 30 days and the non-submission of the notices to the DOLE as a requirement of the due process under the LC, also expose AFPRSBS to possible fines and penalties.

11.12 **We recommended and Management agreed to:**

- a. **Strictly comply with the requirements of RMO No. 66-2026 and Article 298(283) of the LC;**
- b. **Require the officials/employees to secure their respective CTE from the BIR as part of their clearance process; and**
- c. **Require the Head of the Human Resource Department to furnish the nearest Regional Office of the DOLE with a copy of the Notice of Separation.**

12. **Pertinent provisions of RA No. 9184, known as the “Government Procurement Reform Act”, and its Revised Implementing Rules and Regulations (RIRR) were not complied with, which prevented transparency, competitiveness, efficiency and economy in the process of procurement for various Programs, Activities, and Projects (PAPs).**

- 12.1 RA No. 9184 and its RIRR were promulgated to prescribe the necessary rules and regulations for the modernization, standardization, and regulations of procurement activities of the Government of the Philippines (GoP). The provisions of the RIRR are in line with the commitment of the GoP to promote good governance and its effort to adhere to the principles of transparency, accountability, equity, efficiency, and economy in its procurement process.
- 12.2 Evaluation of the Annual Procurement Plan (APP) and the awarded contracts including its bidding and the supporting documents of various PAPs undertaken by the AFPRSBS for CY 2023 revealed departures from some provisions of RA No. 9184 and its RIRR.
- 12.3 Section 7.1 of the RIRR of RA No. 9184 provides that *all procurement shall be within the approved budget of the Procuring Entity and should be **meticulously and judiciously planned by the Procuring Entity**. Consistent with the government fiscal discipline measures, only those considered crucial to the efficient discharge of governmental functions shall be included in the Annual Procurement Plan.* (Emphasis supplied)
- 12.4 The meticulous and judicious procurement planning required under Section 7.1 of the RIRR did not manifest in the actual procurement processes, to wit:

Non-preparation of the Revised APP based on the prescribed format of the Government Procurement Policy Board (GPPB)

- 12.5 The purpose of preparing the APP is to provide a structured framework for government agencies to effectively plan and manage their procurement activities throughout the fiscal year. The guide for preparing the APP specifies the inclusion of a specific time schedule for each procurement activity to ensure compliance with regulatory timelines and avoid any unplanned procurement activity or disruption of operations.
- 12.6 Review of the Revised APP for CY 2023 revealed that its preparation and/or its revision is not in accordance with the prescribed format of the GPPB, to wit:
 - a. The target time schedules provided in the APP is for the whole procurement process and not for each procurement activity (advertisement/posting; submission/opening of bids; notice of award and contract signing). A schedule for each procurement activity is important to ensure efficiency by the timely completion thereof, and to enhance transparency and accountability by providing a clear schedule that can be monitored.
 - b. There are several modes of procurement included in the APP for each PAPs instead of specifically identifying the kind of alternative mode of procurement to be applied.

Adoption of different procurement methods during the actual procurement of goods/services

12.7 Further, a comparison of the Revised APP and 15 reviewed contracts revealed that the procurement methods of eight PAPs, as reflected in the revised APP, were not eventually complied with during the actual procurement of PAPs. Details are as follows:

Table 12.1 Procurement of PAPs with Different Modes of Procurement

PAPs	Mode of procurement	
	Per revised APP	Per actual procurement
<i>Security services for:</i>		
1. Riviera project	Public bidding	Emergency
2. San Lorenzo South Group of project	Public bidding	Emergency
3. Calamba&Tanauan properties	Public bidding	Emergency
4. AFP-RSBS Compound	Public bidding	Emergency
5. St. Michael International Tower	Small Value Procurement (SVP)	Emergency
6. Sta Rosa, Nueva Ecija (Landbanking)	SVP	Emergency
<i>Others:</i>		
7. Purified Drinking Water	Neg/SVP/shopping	SVP
8. Repair/Maintenance - Machineries & Equipment	Neg/SVP/shopping	SVP

Unjustifiable adoption of emergency cases method for the procurement of security services

12.8 Relative to the procurement of security services, it was observed that although the mode of procurement was initially planned either through public bidding or SVP per the Revised APP, as presented in Table 12.1 hereof, the contracts were pursued by adopting the negotiated procurement through emergency cases modality, which is not applicable in these transactions because the procurement of security services is not considered a case that relates to a time element requiring immediate response to avoid loss of life or damage to property. To emphasize, Section 53.2 and Item V.D.2 of Annex H of the RIRR provide that negotiated procurement under emergency cases shall occur in case of imminent danger to life and/or property during a state of calamity, or when time is of the essence due to natural or man-made calamities or other causes requiring immediate action to prevent damage to or loss of life or property, or to restore vital public services, infrastructure facilities, and other public utilities.

Actual procurement of PAPs outside the timeline indicated in the Revised APP

12.9 Similarly, a comparison of the Revised APP and contracts reviewed disclosed that the timelines set in the Revised APP were not strictly followed. Specifically, 10 PAPs were procured later than scheduled, one was procured earlier, and another was completed after over six months since the start of the procurement process. The remaining three had no

specific timelines, with a general schedule set from January to December 2023. Details presented in Table 12.2 as follows:

Table 12.2 Procurement of PAPs that are not within the scheduled timeline specified in the Revised APP

PAPs	Schedule of procurement process	
	Per revised APP	Per actual (from issuance of disposition form to notice to proceed)
<i>Security services for:</i>		
1. Riviera project	April to June 2023	July 5 to August 31, 2023
2. San Lorenzo South Group of Projects	April to June 2023	July 5 to August 31, 2023
3. Calamba&Tanauan properties	April to June 2023	July 5 to August 31, 2023
4. AFPRSBS compound	April to June 2023	July 3 to August 31, 2023
5. St. Michael International Tower	April to June 2023	July 19 to September 16, 2023
6. Sta Rosa, Nueva Ecija (Landbanking)	January to March 2023	July 19 to September 16, 2023
<i>Survey and relocation services for:</i>		
7. The consolidation/subdivision of Lot 2899 and adjacent lots (25 resultant lots) at Riviera Residential Estates	July to September 2023	March 18 to June 5, 2023
8. Various lots in SLSS)	January to March 2023	April 5 to June 1, 2023
9. Villa Segovia Estates boundary	January to March 2023	June 2 to October 17, 2023
10. A commercial area at Riviera Residential Estates	January to March 2023	May 8 to August 4, 2023
<i>Others services:</i>		
11. Repair, supply/installation of fixtures and electrical lines for a Multi-purpose Building at RSCCI	April to June 2023	December 23, 2022 To July 6, 2023
12. Repair/Maintenance - Machineries and equipment	January to December 2023	June 2 to August 29, 2023
13. Lease/Rental of photocopying machine	January to December 2023	March 22 to June 14, 2023
14. Pest and termite control services	March, June, September, and December 2023	May 23 to August 15, 2023
15. Purified drinking water	January to December 2023	March 2 to July 31, 2023

12.10 The Audit Team further noted that the procurement for security services was commenced only when the existing contracts are about to expire.

Non-consolidation of the changes in the Revised APP before adopting different procurement methods and deviating from the set schedules

- 12.11 Relative to paragraphs 12.6 and 12.7 hereof, Management contended that while they had not updated the revised APP, the BAC obtained the approval of Head of the Procuring Entity (HoPE) for every change in the APP through the issuance of a Disposition Form.
- 12.12 The Audit Team observed that the said form is issued for every action related to procurement and not only for every change in the APP. Regardless, we stress that it is only a supplemental document that cannot replace the need for the BAC to consolidate and reflect the changes in the APP for approval by the HoPE, as required under Section 7.4 and Item IV.A of Annex H of the IRR of RA No. 9184.

Conduct and awarding of contracts relative to procurement of security services and survey/relocation services for CY 2023 into multiple contracts

- 12.13 Section 54.1 of the RIRR of RA No. 9184 provides:

54.1. Splitting of Government Contracts is not allowed. Splitting of Government Contracts means the division or breaking up of GoP contracts into smaller quantities and amounts, or dividing contract implementation into artificial phases or sub-contracts for the purpose of evading or circumventing the requirements of law and this IRR, particularly the necessity of competitive bidding and the requirements for the alternative methods of procurement.
(Emphasis supplied)

- 12.14 Further, COA Circular No. 76-41 dated July 30, 1976 provides that one of the forms of splitting is the non-consolidation of requisitions for one or more items needed at or about the same time by the requisitioner.
- 12.15 Review of the submitted contracts disclosed that procurement for security services totaling P5.623 million and survey/relocation services amounting to P2.090 million in CY 2023 were conducted and awarded separately into multiple contracts although they are of the same nature for almost the same covering period of service. Details of the APP and awarded contracts are presented in Table 12.3.

Table 12.3 – Revised APP vis-à-vis Awarded Contract for Security Services and Survey and Relocation Services For CY 2023

Project/location site	ABC per revised APP	Contract price per actual procurement
<i>Security services for:</i>		
Region IV		
Riviera project	P 2,612,500	P 2,596,391
San Lorenzo South Group of Projects	1,006,250	998,612
Calamba/Tanauan properties	990,000	972,725
	<u>4,608,750</u>	<u>4,567,728</u>

Project/location site	ABC per revised APP	Contract price per actual procurement
NCR		
AFPRSBS Compound	567,500	564,424
St. Michael International Tower	281,250	278,760
	848,750	843,184
Region III		
Sta. Rosa, Nueva Ecija	215,000	211,757
Total	P 5,672,500	P 5,622,669
<i>Survey and relocation services* for:</i>		
The consolidation/subdivision of Lot 2899 and adjacent lots at Riviera Residential Estates, in Silang, Cavite	P990,000	P 839,990
Villa Segovia Estates Boundary in Sta. Rosa, Laguna	495,000	395,000
Various lots in SLSS in Sta. Rosa, Laguna	900,000	780,000
A commercial area at Riviera Residential Estates in Silang, Cavite	80,000	75,000
Total	P 2,465,000	P 2,089,990

**all were procured via SVP*

- 12.16 Notably, the BAC did not consolidate similar PAPs for them to conduct competitive bidding, thus, contract costs for awarding separate contracts for security services may not represent the most advantageous price obtained by AFPRSBS.
- 12.17 For the conduct of SVP, the Audit Team noted that although the ABC per project for the two contracts for security services and four contracts for survey services are less than the threshold of P1 million as required under Section 53.9 and Item V.D.8 of Annex H of the RIRR, the aggregate Approved Budget for the Contract (ABC) for security services and survey services amounted to P5.673 million and P2.465 million, respectively. Hence, had the BAC consolidated the PAPs on security services as well as on survey services, public bidding would have been employed as the mode of procurement.
- 12.18 Inquiry with Management disclosed that they separated the procurement for those projects based on the location of properties. However, even if that is the case, the Audit Team still asserts that resorting to multiple contracts for the procurement of services for projects that are within the same region, is not justified. As shown in Table 12.3, three PAPs with ABC totaling P4.609 million per the Revised APP, were individually procured for projects located in Region IV, which could have been consolidated and awarded through the conduct of public bidding. The same holds true for the individual procurement of four survey and relocation services for projects located in Cavite and Laguna, both in Region IV as well.
- 12.19 Foregoing considered, the frequent deviations from and changes in the procurement plan suggest inadequate planning of the procurement

activities, which may undermine the principles of transparency, accountability, and efficiency that RA No. 9184 and its RIRR aim to uphold.

12.20 On the other hand, the Audit Team observed other deficiencies during the review of 15 awarded contracts, to wit:

Delay in posting of Notice of Award (NOA), Contract and Notice to Proceed (NTP) in the Philippine Government Electronic Procurement System (PhilGEPS) within ten days from issuance

12.21 Section IV.L.3 of Annex H of the RIRR of RA. No. 9184 provides:

3. Posting of Notice of Award, Contract and Notice to Proceed.

*Unless the contract involves and affects national security as determined by the HOPE in accordance with Section IV(D) of this Guidelines, the BAC, through its Secretariat, shall post the NOA, Contract/PO, including the NTP if necessary, for information purposes, in the PhilGEPS website, the website of the Procuring Entity concerned, if available, and at any conspicuous place reserved for this purpose in the premises of the Procuring Entity **within ten (10) days from their issuance**, except for contracts with ABC of Fifty Thousand Pesos (₱50,000.00) and below. (Emphasis supplied)*

12.22 The purpose of posting government-awarded contracts in the PhilGEPS is to promote transparency, accountability, and fairness in government procurement processes. Purposely, with awarded contracts publicly accessible on PhilGEPS, stakeholders, including potential suppliers and the general public, can review and monitor government procurement activities. This ensures that procurement processes adhere to legal and regulatory requirements, prevent corruption, and promote healthy competition among suppliers. Additionally, posting awarded contracts on PhilGEPS facilitates information dissemination and helps interested parties stay informed about government procurement opportunities.

12.23 Audit revealed that the NOA, Contract and NTP of the following awarded contracts, were not posted in the PhilGEPS website within ten days from their issuance, with delays ranging from six to 191 days. Details are as follows:

Table 12.4 – Summary of Delayed Posting of NOA, Contract and Notice to Proceed in the PhilGEPS

Awarded Contracts	Date of issuance of NOA, Contract and NTP	Date of posting in the PhilGEPS website	No. of days delayed
1. Pest and Termite Control Services	NOA: July 24, 2023 Contract: August 9, 2023 NTP: August 15, 2023	September 7, 2023	NOA: 35 Contract: 19 NTP: 13
2. Survey Services for the Relocation/Subdivision of Block 1D and Block 1E, Riviera Residential	NOA: May 11, 2023 Contract: June 1, 2023 NTP: June 5, 2023	November 28, 2023	NOA: 191 Contract: 170 NTP: 166

Awarded Contracts	Date of issuance of NOA, Contract and NTP	Date of posting in the PhilGEPS website	No. of days delayed
3. Installation of Electric Post and Meter	NOA: May 10, 2023 Contract: July 5, 2023 NTP: July 6, 2023	August 2, 2023	NOA: 74 Contract: 18 NTP: 17
4. Lease of Photocopying Machine	NOA: May 24, 2023 Contract: June 6, 2023 NTP posted within 10 days from issuance	June 22, 2023	NOA: 19 Contract: 6 NTP: 0
5. Supply of Purified Drinking Water for AFPRSBS	NOA: July 17, 2023 Contract and NTP posted within 10 days from issuance	August 11, 2023	NOA: 15 Contract: 0 NTP: 0
6. Survey Services of Various Lots in SLSS	NOA: May 18, 2023 Contract: June 1, 2023 NTP: June 1, 2023	June 29, 2023	NOA: 32 Contract: 18 NTP: 18
7. Cleaning Services and Repair of Air Conditioning Units for AFPRSBS	NOA: May 22, 2023 Contract: August 24, 2023 NTP: August 29, 2023	September 19, 2023	NOA: 110 Contract: 16 NTP: 11
8. Relocation Survey of Villa Segovia Estates Boundary, Sta. Rosa Laguna	NOA: September 8, 2023 Contract: October 16, 2023 NTP: October 17, 2023	November 14, 2023	NOA: 57 Contract: 19 NTP: 18
9. Survey Services for the Relocation/Subdivision Survey at Commercial Area (Lots 3639A, 3639B, & 3639C), Riviera Residential Estates, Silang, Cavite	NOA: July 6, 2023 Contract: August 1, 2023 NTP: August 4, 2023	October 17, 2023	NOA: 93 Contract: 67 NTP: 64

12.24 The delay in posting notices and awarded contracts may undermine public trust in government procurement processes since transparency and timely disclosure of procurement information is essential for building public confidence and ensuring accountability in the use of public funds.

Deficiencies in the submission of documentary requirements

12.25 Under Appendix A of Annex H of the RIRR of RA No. 9184, the following are the mandatory documents to be submitted by suppliers, manufacturers, distributors, contractors and consultants under SVP:

- a. Mayor's/Business Permit;
- b. Professional License/Curriculum Vitae (Consulting Services);
- c. PhilGEPS Registration Number;
- d. PCAB License (Infrastructure);
- e. Income/Business Tax Return; and
- f. Omnibus Sworn Statement.

- 12.26 For CY 2023, the Audit Team reviewed nine awarded contracts procured through SVP in which six contracts were found to have deficiencies in the mandatory documents submitted by the winning bidders, to wit:
- a. Five out of six contracts were not supported with the latest Income and/or Business Tax Return which hinders not only the verification of the business identity and address but also the proper assessment of whether the supplier or service provider has fulfilled its tax obligations, proving its financial capability; and
 - b. Four winning bidders did not comply with the submission of Omnibus Sworn Statement, which is essential in assuring the authenticity of the authorized representative for transactions with AFPRSBS, as well as of all its submitted documents. Also, said Statement confirms that the company is not blacklisted by any government agency and provides grounds to constitute liability in case of non-performance of any of its obligations.
- 12.27 Also, eight out of 23 contracts were not submitted to the Audit Team. The non-submission of awarded contracts is contrary to COA Circular No. 2009-01 which requires the submission of copy of the contracts and its supporting documents to the Audi Team within five working days from the execution thereof. Thus, the Audit Team was precluded from conducting timely review and evaluation of the awarded procurement transactions.
- 12.28 Overall, the non-compliance with the relevant provisions of RA No. 9184 and its RIRR regarding government procurement prevented transparency, competitiveness, efficiency and economy in the process of procurement of various PAPs.
- 12.29 **We recommended and Management agreed to require the BAC Secretariat and the Technical Working Group to:**
- a. **Strictly conform with the prescribed guidelines of GPPB in the preparation of the APP to specifically indicate the period when each procurement activity will be done and the mode of procurement for every PAP, particularly on the alternative mode to be used;**
 - b. **Ensure compliance with the schedule of procurement activities specified in the APP to facilitate the efficient conduct of procurement and to avoid delays;**
 - c. **Ensure that all changes in the APP are consolidated and reflected in the Revised APP for approval by the HoPE, as required under Section 7.4 and Item IV.A of Annex H of the IRR of RA No. 9184;**
 - d. **Consolidate similar projects/requisitions and adopt competitive bidding or appropriate alternative procurement method;**

- e. Adhere to the conditions provided for resorting to negotiated procurement through emergency cases and SVP pursuant Items V.D.2 and V.D.8 of Annex H of the RIRR of RA No. 9184;
 - f. Ensure timely posting of the NOA, NTP and Contracts in the PhilGEPS within 10 days from issuance thereof; and
 - g. Submit contracts and its complete bidding documents to the Audit Team within five working days from execution thereof.
13. The real estate inventories covered by Contract to Sell amounting to P4.189 million have no corresponding TCTs on file, contrary to Section 111 of PD No. 1445 and Section II.A.2.f of AFPRSBS Policy No. CPO-001-2017, thus, prolonging the transfer of titles to the concerned buyers.
- 13.1 This is a reiteration of the prior year's AO with modifications as embodied in the CY 2022 AAR.
 - 13.2 Section II.A.2.f of Policy No. CPO-001-2017 dated July 26, 2017 on the Revised Policy on Providing Allowances for Probable Losses and Writing-Off of Accounts states:
 - f. *Installment Contract Receivable*

*There will be no provision for losses or allowances that will be made on this account since **the title of the properties subject of the receivables are not yet transferred to buyers unless fully settled.***" (Emphasis supplied)
 - 13.3 In a contract to sell, the ownership and title of the subject properties will only be transferred and released, respectively, to the buyers upon full payment of the purchase price. Relative thereto, the transactions involving ISR accounts are covered with the respective Contract to Sell to which the corresponding titles of the sold real estate remain in the custody of AFPRSBS.
 - 13.4 The IRMD, as the vault custodian of AFPRSBS, is tasked with releasing TCTs from their custody through the issuance of Securities/Documents Release Form (SRF) pursuant to the Guidelines on Document/Check Releases dated April 11, 2006. The SRF provides for the possible justification for the release of TCTs, to wit:
 - a. Full settlement of account
 - b. For bank take-out
 - c. Temporary release due to title transfer, re-titling/conveyance, court hearing, and others
 - 13.5 In CY 2023, the IRMD released a total of 230 TCTs, which were approved by the TD, as evidenced by: (a) SRFs with requests and recommendations

from managing and co-managing department heads; (b) clearances issued by the legal department; and (c) acknowledgment receipts from buyers or authorized representatives.

- 13.6 Cross-referencing of the SLs of the ISR to the inventory record of titles maintained by the IRMD revealed that TCTs of real estate inventories sold through installment sales with a total amount of P4.189 million were not found during the inventory of titles, or not among the TCTs released to the buyers. The list of ISR without titles on file is summarized in Table 13.1 as follows:

**Table 13.1 – List of ISR without TCTs on File
As at December 31, 2023**

Property Name	Phase	Block	Lot	Outstanding balance
Northmatrix Ville Orchard	1	2	U30-RTH	P 339,547
	1	42	28	63,000
	5A	7	3	1,263,300
	5A	7	8	480,000
	1	29	6	450,063
Riviera Residential Estate	Various accounts			1,467,216
Sta. Perpetua	0	5	11	6,939
Victoria Homes	C	5	0	119,339
Total				P4,189,404

- 13.7 The Audit Team was unable to conduct further verification of the whereabouts of certain titles due to the absence of TCT numbers in the schedules of ISR account. Also, other items in the SLs are only tagged as “various accounts” without any breakdown or details.
- 13.8 In CY 2023, the Management was able to reconcile and/or trace the TCTs of the following ISR-Current account included in the prior year’s AO amounting to P2.283 million, as presented in Table 13.2:

Table 13.2 – Summary of Reconciled CY 2023 ISR-Current Accounts with TCTs Found on File

Property name	Phase	Block	Lot	Outstanding balance	Remarks
Ciudad Verde	1	7	6	P 18,112	Account was fully paid in February 2020; The Deed of Absolute Sale was processed in April 2021.
Green Meadows	1	69	43	1,438,086	Lot number was inadvertently encoded in the ISR schedule as 43 instead of 42. The TCT for Block 69 Lot 42 is still in the vault of AFPRSBS.
San Lorenzo	1C	63	43	28,301	The account is classified

Property name	Phase	Block	Lot	Outstanding balance	Remarks
South –Phase IC & ICA					as past due since the last payment received was in September 2022. The TCT is still in the vault of AFPRSBS.
Tanauan	0	0	652 1-C	798,120	The account is classified as past due since the last payment received was in November 2019. Lot number was inadvertently encoded in the ISR schedule as 6521-C instead of 6521-G. The TCT is still in the vault of AFPRSBS.
Total				P2,282,619	

- 13.9 The Audit Team acknowledges the efforts of the Management to reconcile or trace the above-listed accounts; however, a significant amount of the ISR account as presented in Table 13.1 remain unsupported with the corresponding TCTs potentially leaving the buyers without the title security even after settlement of their account.
- 13.10 **We reiterated our prior year’s audit recommendations with modifications and Management agreed to:**
- a. **Update the SLs of ISR accounts by identifying those customers tagged as “various accounts”;**
 - b. **Require the AD and the IRMD to reconcile the list of the TCTs released with that of the ISR schedule; and**
 - c. **Ensure that all the individual balances reflected in the ISR have corresponding TCTs to secure buyers’ ownership over the property in case of full payment.**
- 13.11 The Management commented that the AFPRSBS is actively pursuing the reconciliation of the remaining ISR accounts. The TCTs for the remaining eight accounts are still for tracing and the schedule will be updated once the TCTs numbers are traced/identified.
- 13.12 The AFPRSBS ensures that all accounts reflected in the ISR schedule have corresponding TCTs and the same will be made available for release upon full payment of the buyers.
- 13.13 As a rejoinder, the Audit Team will closely monitor Management’s compliance with the above recommendations.
- 14. The approved fidelity bonds (FBs) of six Accountable Officers were not renewed before the expiration of its effectivity date, contrary to Bureau of the**

Treasury Circular (TC) No. 02-2019 dated April 25, 2019, thus, the AFPRSBS may not be indemnified in case of loss, fraud, dishonesty, or irregularities during the non-renewal period.

14.1 TC No. 02-2019 provides that:

*2.2 For the renewal – if premium is paid in advance, **the effective date shall commence on the date of cancellation of previous year’s bond.***

4.9 When Considered Bonded – An accountable public officer shall be considered bonded/insured with the Fidelity Fund upon payment of the bond premium. Xxx.

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

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

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

14.2 The bond coverage is effective for one year from the issuance date and is automatically cancelled on the expiration date. Pursuant to TC No. 2-2019, an accountable public officer shall be considered bonded/insured with the fidelity fund upon payment of the bond premium. Otherwise stated, the actual payment date of the bond premium is also the effectivity date of the bond.

14.3 The confirmation letters from the BTr on the approved FBs showed that there were delays in the renewal of the bonds for the six accountable officers, ranging from one to 26 days on the cancellation date of the previous FB, as presented in Table 14.1.

Table 14.1 – Schedule of Delayed Renewal/Receipt of Approved FB Effective Date in CY 2023

Assignment/ Department	Maximum accountability	Amount of bond	Cancellation date of the previous FB	Effective date of the renewed FB	No. of days without bond
Treasury Office	P100,000,000	P5,000,000	06/01/2023	06/02/2023	1
Corporate Services Group	150,000	100,000	09/07/2023	10/03/2023	26
Investment Management Group	25,000	18,900	06/01/2023	06/02/2023	1
Membership Group	35,000	18,900	09/07/2023	10/03/2023	26
Real Estate Group	85,000	75,000	09/07/2023	10/03/2023	26
Corporate Planning Office	50,000	37,500	03/07/2023	03/08/2023	1

- 14.4 In a Memorandum dated January 23, 2024, the Management clarified that the applications for renewal of FBs of the six accountable officers were submitted via the On-Line Fidelity Bonding System of the BTr as early as August 15, 2023. However, due to unavoidable circumstances, the application for the renewal of FBs was only signed by the approving authority on September 8, 2023.
- 14.5 Furthermore, there is a long waiting time in the processing of applications for renewal of FBs by the BTr. Also, Management needs time to notarize, scan, and email documents for each application to the BTr.
- 14.6 The Audit Team underscores that among the six accountable officers, three had FBs that expired before the dates of both the online application filing on August 15, 2023, and the determined renewal deadline of September 8, 2023. Thus, there were indeed delays in the submission of the applications. To stress, the TC allows for advance payment of premium and the effective date of the new FB commences on the date of cancellation of the previous year's bond, thus, Management is allowed to request the renewal of FBs and pay the premium way before the expiration of the bonds. In such way, the delayed approval of the renewal of FBs caused by the long process/queueing of requests by the BTr may be avoided.
- 14.7 Foregoing considered, the non-renewal of the FBs of six accountable officers prior to their cancellation dates exposes AFPRSBS to the risk of potentially not receiving indemnification from the BTr in the event of theft, fraud, dishonesty, or irregularities during the non-renewal period.
- 14.8 **We recommended and Management agreed to strictly monitor the cancellation dates of the FBs by taking appropriate actions on the following:**
- a. **Submit the application for renewal of FB to the BTr way before the expiration of the bond; and**
 - b. **Designate an alternate officer in the absence of the approving officer for the applications for renewal of FBs.**

15. Compliance with Tax Laws

In compliance with the requirements set forth under Revenue Regulation No. 15-2010, the information on taxes, duties and license fees paid or accrued during the taxable year 2023 are disclosed under Note 30 to FS. The taxes from income, withholding and other sources amounting to P48.619 million were remitted in accordance with the deadlines for payment/remittance of taxes prescribed by the NIRC.

16. SSS Contributions and Remittances

In CY 2023, AFPRSBS complied with IRR of RA No. 11199, otherwise known as the Social Security Act of 2018, on the collection and remittance of contributions to SSS as follows: (a) Mandatory monthly contribution of covered employees and employers in accordance with Sections 1 to 3 of Rule 31 and Sections 1 to 4 of Rule 32, respectively; and (b) Remittance of employees' and employers' contributions within the due date pursuant to Sections 1 to 9 of Rule 36.

17. Philippine Health Insurance Corporation (PhilHealth) and Pag-IBIG Premiums

17.1 In CY 2023, AFPRSBS complied with Title III, Rule III, Section 18 of the IRR of RA No. 7875, otherwise known as The National Health Insurance Act of 2013, as amended, in the payment of monthly premium contributions to the PhilHealth. Employer's and employees' shares for 2023 totaling P639,600 were promptly remitted to PhilHealth.

17.2 It also complied with Rule VII, Section 3 of the IRR of RA No. 9679 (Home Development Mutual Fund Law of 2009) otherwise known as Pag-IBIG Fund in the collection and remittance of contributions to the Pag-IBIG Fund. Employer's and employees' shares for CY 2023 totaling P242,800 were promptly remitted.

18. Status of Audit Suspensions, Disallowances and Charges

18.1 As at year-end, the audit suspensions and charges have no balances, while the audit disallowances amounted to P251.443 million. Details are presented in Table 18.1.

**Table 18.1 – Status of Audit Suspensions, Disallowance and Charges
As at December 31, 2023**

Audit action	Beginning balance 01/01/2023	Amounts			Ending balance 12/31/2023
		Issued	Settled	Adjustment	
Disallowances	P251,467,707	0	P25,000	0	P 251,442,707

- 18.2 Notice of Disallowance (ND) No. 2010-07-084(1996), on the overpriced land acquisition by the AFPRSBS in the amount of P250,318,200 was affirmed by the Commission Proper (CP) under COA Decision No. 2012-188 dated November 5, 2012. Moreover, the Motion for Reconsideration filed by the AFPRSBS on the COA Decisions was denied under CP *En Banc* Resolution dated February 27, 2015. Accordingly, a Notice of Finality of Decision (NFD) and a COA Order of Execution were issued.
- 18.3 Subsequently, the SC promulgated its Decision under G.R. No. 217948 dated January 12, 2016, on the Petition for Certiorari for the subject ND on the overpriced land acquisition, affirming COA Decision No. 2012-188 dated November 5, 2012.
- 18.4 Relative thereto, on January 17, 2017, one of the liable persons filed a petition for relief, praying for exclusion and exemption from the execution of the subject ND. Such petition is pursuant to Section 1, Rule XV of the 2009 Revised Rules of Procedures of COA, read together with Rule 38 of the Rules of Court, on the ground of a mistake in one's inclusion in the subject ND.
- 18.5 In CY 2022, CP granted the aforesaid petition for the exclusion and exemption from the execution of the subject ND under COA Decision No. 2022- 044 dated January 24, 2022. It became final and executory under NFD No. 2022-178 dated June 22, 2022. Accordingly, the partial settlement of the subject ND was being implemented through salary deduction by the concerned liable person until such exclusion. As result thereof, the total partial settlement in the amount of P3,621,656 was added back to the outstanding balance of the ND as at June 30, 2022. The ND No. 2010-07-084(1996) is reported back to its gross amount of P250,318,200 as at reporting date.
- 18.6 On November 4, 2022 the Head of the Legal Department of the AFPRSBS requested the OGCC's assistance relative to the recovery of the amount of P250,318,200, pursuant to the Sandiganbayan Special 2nd Division's July 19, 2016 Decision in "People vs. Ramiscal, et al." for malversation. Accordingly, since the Sandiganbayan's Decision is the subject of a pending appeal, any action to execute the monetary award is still premature.
- 18.7 The details of the other disallowances issued in CY 2016, in the total amount of P1,149,507 include: (a) disallowances awaiting the decision of the CP on gasoline withdrawn from AFP Commissary and Exchange Services using private vehicles, granting of rice subsidy in excess of the allowable P1,500 per sack, and granting of monthly cell card subsidy to a postpaid plan holder and claims for communication allowance while on official travel amounting to P534,132, P236,656 and P27,720, respectively; (b) granting of cash gift amounting to P325,999; and (c) granting of loyalty award to one AFPRSBS employee amounting to P25,000.