

## OBSERVATIONS AND RECOMMENDATIONS

### A. Financial Audit

1. **The Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS) did not present its Financial Statements (FS) as at December 31, 2024 under the liquidation basis of accounting, as the assets and liabilities were not measured at their estimated net realizable values and settlement amounts, respectively, and the corresponding appropriate disclosures in the Notes to FS were not made, affecting the fair presentation of the FS as mandated by Philippine Accounting Standards (PAS) 1.**

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

1.2 As disclosed in Note 2 to FS, the AFPRSBS' FS for the year ended December 31, 2024 were partially 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).

1.3 However, review of the FS and Notes to FS for Calendar Year (CY) 2024 revealed that the FS are still prepared on a going-concern basis. The FS were prepared on a historical cost basis, except for the equity securities, which are measured at fair value. Likewise, the Real Estate Inventories, Supplies and Materials Inventory, Investment in Associates, Investment in Real Estate, Investment Property, Property and Equipment (PE), and Acquired Assets 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-valuation of its properties and/or assets at their estimated net realizable values and liabilities at their estimated settlement amounts***

1.4 Audit of the account balances disclosed that some of its assets are still reported in the FS at their carrying amounts of P8.268 billion instead of their estimated net realizable values. Details are presented in Table 1.1.

**Table 1.1 – Account Balances Reported at their Carrying Amounts  
As at December 31, 2024**

Account	Cost	Allowance for impairment losses/accumula ted depreciation	Carrying amounts
Receivables	P 4,191,796,194	P 405,176,466	P 3,786,619,728
Investment in bonds	2,422,002,401	0	2,422,002,401
Investment in real estate, landbanking	1,739,168,690	19,232,230	1,719,936,460
Building and building improvements at the industrial park	129,061,550	110,454,571	18,606,979
Acquired assets	443,824,832	144,612,196	299,212,636
PE	164,778,754	142,831,456	21,947,298
	<b>P 9,090,632,421</b>	<b>P 822,306,919</b>	<b>P 8,268,325,502</b>

- 1.5 Likewise, Trust Liabilities and Deferred Credits/Unearned Income totaling P248.684 million are not adjusted and/or presented at their reasonably estimated settlement amounts.

***Non-classification of its non-current assets to current assets amounting to P5.633 billion and non-current liabilities to current liabilities of P248.684 million***

- 1.6 Further, some of the AFPRSBS' assets and liabilities with a total amount of P5.633 billion and P248.684 million, respectively, as at December 31, 2024, are still classified as 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 1.2.

**Table 1.2 – Account Balances of Non-current Assets  
and Non-current Liabilities  
As at December 31, 2024**

Account	Amount
<b>Non-current assets</b>	
Investments	P 3,376,088,979
Receivables	187,385,334
Investment property	1,738,543,439
PE	21,947,298
Other assets	308,540,218
<b>Total Non-current assets</b>	<b>P 5,632,505,268</b>
<b>Non-current liabilities</b>	
Trust liabilities	130,110,261
Deferred credits/Unearned income	118,573,576
<b>Total Non-current liabilities</b>	<b>P 248,683,837</b>

- 1.7 In August 2024, the AFPRSBS submitted to the Governance Commission for Government-Owned and Controlled Corporation (GCG) its revised Liquidation Plan (LP), indicating that the AFPRSBS could not sell all its assets within the liquidation period. Any real estate assets and equities that are not sold or liquidated will be part of the assets to be turned over to a Government Financial Institution (GFI) entity. While there have been assets identified for sale, no disposals of investments in real estate and equities classified under non-current assets were made in CY 2024. Hence, the AFPRSBS maintains non-current classification of its assets.
- 1.8 The Audit Team would like to emphasize that since the AFPRSBS is undergoing liquidation pursuant to MO No. 90, all assets and liabilities, whether the properties are subject to turnover or sale, are already due for disposal and settlement. Therefore, they should be classified as current.
- 1.9 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.
- 1.10 **We reiterated our prior year’s audit recommendations that Management:**
- a. **Present the assets at estimated net realizable values and the liabilities at reasonably estimated settlement amounts;**
  - b. **Classify all non-current assets and non-current liabilities as current to reflect the liquidation and winding down status of AFPRSBS operations; and**
  - c. **Provide appropriate disclosures on the accounts in the Notes to FS pursuant to the liquidation basis of accounting.**
- 1.11 Management acknowledges that fair presentation of the FS requires reporting amounts at fair values, consistent with the liquidation basis of accounting. However, this cannot yet be implemented, as most assets are still recorded at historical cost, except for stock investments, which are already carried at fair values.
- 1.12 The reclassification of non-current assets and liabilities to current will be implemented alongside the revaluation of assets at estimated realizable values once appraisals are completed.
- 1.13 The appraisal of various properties is scheduled on the second to fourth quarter of CY 2025, based on the approved Annual Procurement Plan (APP). This remains subject to the creation or identification of the Department of National Defense or Armed Forces of the Philippines (AFP) Bids and Awards Committee (BAC), which will handle procurement for the AFPRSBS. Once

appraisals are completed, the revaluation of assets will be reflected in the Statement of Financial Position.

- 1.14 Additionally, the reconciliation of liabilities is ongoing, with obligations outstanding for two or more years being reverted to Retained Earnings, except for the MC account. Appropriate disclosures will be included in the Notes to FS, as necessary.
- 1.15 As a rejoinder, the Audit Team will continue to monitor the progress of Management's initiatives to ensure timely compliance with the liquidation basis of accounting. **We further recommend that Management expedite the appraisal process to avoid further delays in the proper valuation and presentation of the accounts in the FS.**

**2. The non-recognition of the obligation for the unpaid membership dues to the Riviera Golf Club, Inc. (RGCI), as a result of the Supreme Court's (SC) decision nullifying the AFPRSBS' exemption to pay the said membership dues understated the Payables and Expenses accounts and overstated Retained Earnings all by undetermined amounts as at December 31, 2024.**

2.1 Paragraph 15 of PAS 1 states that:

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

- 2.2 Our audit disclosed that the AFPRSBS owns several shareholdings in golf clubs and sports and country clubs. These clubs are built on the premises of the commercial and residential subdivision projects of AFPRSBS and serve as additional amenities of the projects. One of these clubs is the RGCI, which collects membership fees, assessment dues, and other fees of similar nature from its members. However, RGCI amended its by-laws which provided for an exemption for the originally issued shares from payment of the said fees on January 5, 2001. The said by-laws was subsequently approved by the Securities and Exchange Commission (SEC) on February 1, 2001 prompting the AFPRSBS to stop paying membership dues to RGCI.
- 2.3 On July 2, 2006, two shareholders filed a complaint challenging the validity of certain provisions of the amended by-laws. The Regional Trial Court (RTC) later ruled to nullify these provisions. On appeal, the Court of Appeals (CA) upheld the decision of the RTC that subsequently became final when the SC issued a Resolution, in G.R. No. 2016944-45, denying the petition filed by the AFPRSBS on assailing the CA decision on July 1, 2015. Likewise, SC issued another Resolution denying the AFPRSBS' Motion for Reconsideration on

November 15, 2015. The antecedent facts of the case and the dispositive portion of the decision are as follows:

*The RGCI Board of Directors for the term 2000-2001 adopted new by-laws in a special meeting held in January 2001, pursuant to an alleged power delegated by the stockholders of RGCI holding at least 2/3 of the capital stock in a special meeting on 20 November 2000. The amendments to the by-laws are highlighted below:*

**“ART. X. Section 6. RIGHTS OF STOCKHOLDERS.** A registered owner of a share of stock in good standing shall have all the rights provided for in these By-laws and the Club’s Articles of Incorporation, including the right to vote during meetings.

*A stockholder in good standing is one who is not delinquent in his subscription payments and does not have a delinquent account with the Club for fees, dues and assessments, or who is not subject to any disciplinary action by the Club; **Provided, that the stockholders to whom the Club originally issued shares to shall be exempt from such dues, fees and assessments until such shares are sold by the stockholders to the public.***

**ART. XI. Section 1. DUES, FEES AND OTHER ASSESSMENTS.** – *The Board of Directors shall fix and review from time to time the amount of the monthly dues of the Club as well as other fees charged for the actual use of the facilities of the Club. The Board of Directors shall also fix from time to time the amount of assignment fees for the assignment of playing rights, transfer fees for transfer of shares, corporate nominee fees for changes in corporate nominee, as well as other fees, dues and assessments that the Board may from time to time deem appropriate. The Board of directors may, in its discretion, likewise impose dues, fees and other assessments equal to those imposed upon the members to all stockholders who may not have yet activated their shares by applying for membership. **The shares of stock held and owned on record by the stockholders to whom the Club originally issue shares to shall not be liable for the above-stated fees and assessments prescribed by the Board of directors until such shares of stock are sold by said stockholders to the public.”***

*The amended by-laws were then subsequently approved by the Securities and Exchange Commission on February 1, 2001. **The issue on the validity of the amended by-laws was raised before the RTC and elevated to the CA. In CA GR SP. Nos. 127231 & 127688, the CA ruled that the amendment to the by-laws granting AFPRSBS exemption from monthly dues was***

**void.** *The dispositive portion of the foregoing decision are as follows:*

***WHEREFORE, the RTC Decision of 28 August 2012 is REVERSED and SET ASIDE. In its stead, the court renders judgment declaring Section 6, Article X and Section 1 of Article XI of the new By-laws of RGCI NULL and VOID.***” (Emphases supplied)

- 2.4 Management disclosed that it finds no basis to recognize the aforesaid obligation since the CA Decision did not rule on any monetary award, nor did it state when AFPRSBS will commence to pay the monthly dues.
- 2.5 On January 30, 2023, the AFPRSBS sought the opinion of the Office of the Government Corporate Counsel (OGCC) regarding its shares and assets in the RGCI project. On May 10, 2023, the OGCC issued its opinion, stating that the RGCI has the legal right to collect monthly dues from AFPRSBS, in accordance with the Court’s decision and its finality.
- 2.6 Nonetheless, in the same opinion, the OGCC stated that the doctrine of operative fact should be applied in determining the reckoning period for the collection of monthly dues. Said doctrine recognizes the existence and validity of a legal provision before it is declared unconstitutional, thereby, legitimizing otherwise invalid acts performed under such provision. This principle is based on practicality and fairness, ensuring that actions taken in reliance on a now-invalid provision cannot simply be undone. Reversing such acts would not only be highly impractical but also unfair to those who acted in good faith before the provision was struck down. As a result, RGCI can only prospectively collect monthly membership and other dues from AFPRSBS. Furthermore, the OGCC opined that it is Management’s prerogative, with the approval of the Board of Liquidators (BOL), to negotiate a reduction in monthly dues.
- 2.7 As at December 31, 2024, the recorded shareholdings of AFPRSBS in RGCI is 2,407 shares. On the other hand, verification of the latest Statement of Account issued by RGCI revealed that as at February 28, 2023, the total unpaid membership dues of AFPRSBS amounted to P2.022 billion for the declared 1,336 shares only. Based on the data provided, the Audit Team estimated the unpaid membership dues to have increased to P2.362 billion as at December 31, 2024 for the 1,336 shares. However, Management clarified that the monthly rate and the total number of shares to be used in computing the unpaid dues are still under negotiation with RGCI, thus, the total amount of unpaid membership dues cannot be determined until the variance noted on the shares of stocks are reconciled.
- 2.8 It is worthy to note that the unpaid membership dues is a financial obligation of AFPRSBS, as the owner and holder of the club shares. Non-recognition of the subject obligation is not justified on the basis that the CA Decision did not rule on any monetary award and definite commencement date in paying the monthly membership dues, as the Courts have already established its validity.

2.9 Likewise, Paragraphs 4.26 and 4.27 of the Revised Conceptual Framework for Financial Reporting (CFFR) provide for the definition of liability and its recognition criteria:

***4.26 A liability is a present obligation of the entity to transfer an economic resource as a result of past events.***

*4.27 For a liability to exist, three criteria must all be satisfied:*

- (a) the entity has an obligation;*
- (b) the obligation is to transfer an economic resource; and*
- (c) the obligation is a present obligation that exists as a result of past events. (Emphasis supplied)*

2.10 The Audit Team would like to emphasize that all three (3) criteria in recognizing liability are satisfied, as follows:

- a. The AFPRSBS has an obligation to pay the membership dues considering that the SC declared the amended by-laws on the exemption from paying said membership dues as null and void;
- b. The payment thereof involves an obligation to transfer economic resource or cash which is also supported by OGCC's opinion that RGCI has the right to collect the monthly dues from AFPRSBS; and
- c. It is a present obligation that exists as a result of past event as likewise established by the Court.

2.11 Foregoing considered, the non-recognition of unpaid membership dues of undetermined amount is contrary to Paragraph 15 of PAS 1 and Paragraphs 4.26 and 4.27 of the Revised CFFR resulting in the understatement of the Accounts Payable and Expenses, and overstatement of the Retained Earnings all by undetermined amounts.

2.12 **We recommended that Management recognize the total unpaid membership fees in the books as at December 31, 2024.**

2.13 Management believes that the audit recommendation is premature, as the AFPRSBS and RGCI have not yet agreed on the amount to be paid. Negotiations are ongoing, and the AFPRSBS cannot provide an estimated amount at this stage, as it may impact its bargaining position. They also asserted the following:

- While AFPRSBS acknowledges its liability for the payment of monthly dues to RGCI, as determined by the Courts, the OGCC opined that RGCI can only collect dues from AFPRSBS prospectively. The OGCC further stated that RGCI must amend or delete the voided provisions of its by-laws and submit them to the SEC for approval. The obligation to pay dues will only begin once the amended by-laws are approved by the SEC.

- In the absence of amended by-laws, AFPRSBS has no basis to record a liability in its books. Recognizing any amount payable to RGCI prematurely may be used against AFPRSBS in future collections and imply acceptance of the obligation, which would not be in the AFPRSBS's best interest. Therefore, AFPRSBS finds it prudent not to recognize any liability to RGCI at this time.

2.14 As a rejoinder, the Audit Team stressed that upon the declaration of the SC of the nullity of the amended by-laws on the exemption on July 1, 2015, with the affirmation of the OGCC in its opinion dated May 10, 2023, the RGCI has the legal right to collect monthly dues, thus the AFPRSBS has an obligation to pay the unpaid membership fees. Accordingly, the Audit Team defers to the decision of the Court, which has affirmed the legality and enforceability of the obligation to pay the subject unpaid membership dues.

2.15 **In view thereof, we further recommend that Management expedite the negotiation with the RGCI on the determination of a reasonable amount of unpaid membership dues.**

3. **The AFPRSBS has recognized, classified, and measured its investments in four golf and country clubs amounting to P999.722 million as part of its Inventories despite retaining voting rights, thus, affecting the fair presentation of the Inventories and Investments in the FS.**

3.1 PAS 28 - *Investments in Associates and Joint Ventures* provides that:

*Paragraph 3. Xx Definitions*

*An **associate** is an entity over which the investor has significant influence.*

*Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.*

*Paragraph 5. If an entity holds, directly or indirectly (e.g. through subsidiaries), **20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence**, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), **less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated**. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.*

*Paragraph 6. The **existence of significant influence by an investor is usually evidenced in one or more of the following ways:***

- (a) **representation on the board of directors or equivalent governing body of the investee;***

xxx...

*Paragraph 8. **In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights,** except the intentions of management and financial ability to exercise or covert those potential rights.*

*Paragraph 9. **An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee.** The loss of significant influence can occur with or without a change in absolute or relative ownership levels.*

*Paragraph 10. Under equity method, on initial recognition the investment in an associate or joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. (Emphases supplied)*

- 3.2 Likewise, Paragraph 4 of PFRS 9 - *Financial Instruments*, on the classification of financial assets provides that:

*4.1.1 Xx an entity shall classify financial assets as subsequently measured at amortized cost, fair value through other comprehensive income, **or fair value through profit or loss** on the basis of both:*

- (a) the entity's business model for managing the financial assets and*
- (b) the contractual cash flow characteristics of the financial assets.*

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

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and*

*(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.*

*4.1.2A A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:*

*(a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and*

*(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.*  
(Emphasis supplied)

- 3.3 Our audit revealed that AFPRSBS engages in various funding mechanisms which includes, among others, investing in real estate development and construction of commercial and residential subdivision projects in exchange for and/or acquisition of shares of stocks of golf and country clubs.
- 3.4 As at December 31, 2024, the AFPRSBS' shareholdings in golf clubs and sports and country clubs are classified under the Inventories account. As disclosed in Note 7 to FS, these clubs were built inside the premises of the AFPRSBS's commercial and residential subdivision projects and serve as additional amenities of the project. Details of the Club share inventories are presented in Table 3.1.

**Table 3.1 – Schedule of Club Share Inventories  
As at December 31, 2024**

<b>Name of the club</b>	<b>Number of shares</b>	<b>Carrying amount</b>
Riviera Sports and Country Club Inc (RSCCI)	3,968	P 148,021,631
RGCI	2,407	724,550,130
<b>Sub-total</b>	<b>6,375</b>	<b>872,571,761</b>
Eastridge Golf Club Inc (EGCI)	195	126,691,946
Orchard Golf and Country Club Inc (OGCCI)	3	458,133
<b>Sub-total</b>	<b>198</b>	<b>127,150,079</b>
<b>Total</b>	<b>6,573</b>	<b>P 999,721,840</b>

- 3.5 Management further disclosed that the sale of real estate inventory associated with the Riviera project includes RSCCI shares, whereas shares in other golf clubs are sold separately. Moreover, it was noted that no dividends have been received from any of the club shareholdings.
- 3.6 The shareholdings in the four golf clubs and sports and country clubs should be reflected as Investments in the FS and not as Inventories. It is worth mentioning that AFPRSBS is mandated to provide retirement and separation benefits of the military personnel in the AFP and not into the business

operation of trading club shares. Inventories is defined in Paragraph 6 of PAS 2 as assets held for sale in the ordinary course of business.

- 3.7 Furthermore, Note 7 to FS also disclosed that AFPRSBS exercises their voting rights during the clubs' annual stockholders' meeting. Assuming that AFPRSBS did not exercise its voting rights, the golf and country clubs cannot deprive the AFPRSBS of its rights pursuant to Section 6 of the Revised Corporation Code of the Philippines which provides:

*No share may be deprived of voting rights except those classified and issued as "preferred" or "redeemable" shares, unless otherwise provided in this Code: Provided, that there shall be a class or series of shares with complete voting rights.*

- 3.8 Nonetheless, we have further noted deficiencies in the recognition and classification of the club shareholdings which are discussed below.

***Improper recognition, classification and measurement of the shareholdings acquired from RSCCI and RGCI as part of AFPRSBS' Inventories amounting to P872.572 million instead of Investments in Associates***

- 3.9 Accounting records reveal that AFPRSBS holds at least 50 per cent of the voting rights in both RSCCI and RGCI. Details are presented in Table 3.2.

**Table 3.2 – Percentage of AFPRSBS' Ownership  
As at December 31, 2024**

Name of the clubs	Total subscribed shares*	Number of shares owned by AFPRSBS	Percentage of ownership
RSCCI	7,977	3,968	49.78
RGCI	3,000	2,407	47.85
Total	10,977	6,375	

\* Per General Information Sheet (GIS) of club companies

- 3.10 To determine whether an investor has significant influence over an investee, one or more indicators outlined in Paragraph 6 of PAS 28 can serve as evidence. One indicator is a representation to the board of directors or an equivalent governing body of the investee. Based on records, the number of AFPRSBS' representatives and their respective designations in the governing boards of both clubs are presented in Table 3.3.

**Table 3.3 – AFPRSBS Board Seats in RSCCI and RGCI  
As at December 31, 2024**

Name of clubs	Total number of board seats	Number of representatives	Designation
RSCCI	7	1	President and General Manager
		1	Chairman
		1	Treasurer

Name of clubs	Total number of board seats	Number of representatives	Designation
		1	Secretary and Compliance Officer
		1	Member
RGCI	14	1	Chairman
		1	Member

3.11 Based on records, AFPRSBS holds more than 20 per cent ownership in both RSCCI and RGCI and exercises its voting rights during their annual stockholders' meetings. Additionally, AFPRSBS has board representation in both clubs, as evidenced by the GIS submitted to the SEC.

3.12 Even so, AFPRSBS classified its club shares as Inventories which is contrary to Paragraph 6 of PAS 2 on the definition of Inventories. To reiterate, the acquisition of club shares cannot be considered part of the ordinary course of business but rather an investment activity aimed at preserving funds, generating additional income, and attracting buyers for its real estate properties.

***Improper classification and recognition as Inventories of its investments in EGCI and OGCCI amounting to P127.150 million, instead of Investments - Financial Assets at Fair Value through Profit or Loss (FVPL), is contrary to Paragraph 4 of PFRS 9.***

3.13 PFRS 9 provides that a financial asset shall only be classified as FVPL if the conditions of both financial assets at amortized cost and financial asset at fair value through other comprehensive income are not met, as laid down in PFRS 9 and as enumerated in Paragraph 3.2 above.

3.14 Our audit disclosed that these conditions are not met since the business model of AFPRSBS has an objective to sell the club shares rather than to hold the shares in order to collect contractual cash flows or both. Likewise, the shareholdings of AFPRSBS in EGCI and OGCCI may not be considered or classified as Investment in Associates because its percentage of ownership is less than 20 per cent despite representation in the board as presented in Tables 3.1 and 3.3. In this regard, the recognition and classification of club share as Inventory under PAS 2 is improper.

3.15 Further, the assessment of AFPRSBS's business model is important in the recognition and classification of equity instruments. Inability to assess its business model for managing financial assets may result in improper classification of account. Relative thereto, shareholdings with voting rights were improperly classified as Inventories under PAS 2.

3.16 On the other hand, while PFRS 9 provides measurement of financial assets at fair value, the AFPRSBS adopted the liquidation basis of accounting in preparing the FS. Hence, the assets should be reflected at its estimated net realizable values. Such presentation conformed with the provisions of MO No. 90 on the winding down of operations through the disposal/liquidation of the assets.

- 3.17 Classifying an asset as Inventories rather than as Investment in Associates and Financial Assets at FVPL significantly affects its measurement and valuation. Under PAS 2, Inventories are measured at the lower of cost and net realizable value. Conversely, Investment in Associate under PAS 28 is accounted for using the equity method and Financial assets under PFRS 9 is accounted for at FVPL.
- 3.18 Foregoing considered, the recognition, classification and measurement/valuation of equity instruments with carrying amount of P999.722 million as Inventories rather than as Investments affect the fair presentation of both the Inventories and Investments in the FS as at December 31, 2024.
- 3.19 **We recommended that Management:**
- a. **Reclassify and recognize the club shares acquired from RSCCI and RGCI as Investments in Associates, pursuant to Paragraphs 3, 5, 6, and 10 of PAS 28;**
  - b. **Reclassify and recognize the club shares acquired from ECGI and OGCCI as Financial Assets at FVPL, pursuant to Paragraph 4 of PFRS 9; and**
  - c. **Provide the appropriate disclosures in the Notes to FS in accordance with the reclassification.**
- 3.20 Management commented that while Presidential Decree (PD) No. 361 mandates the AFPRSBS to provide retirement and separation benefits to military personnel, it does not expressly authorize the AFPRSBS to engage in the trading of club shares. Nevertheless, Section 2 of the same PD outlines the sources of funding for the System, which include:
- a. Appropriations and contributions;
  - b. Donations, gifts, legacies, bequests, and similar contributions to the System; and
  - c. All earnings of the AFPRSBS, which shall not be subject to any form of taxation.
- 3.21 In addition, pursuant to Section 3.f.2 of MO No. 90 on Winding Down and Liquidation, the AFPRSBS is mandated to divest its golf and country club shares, along with all other personal properties.
- 3.22 Currently, the sale of these club shares serves as one of the AFPRSBS' revenue streams. Proceeds from such disposals are either reinvested in money market instruments to generate interest income or utilized to support the daily operational requirements and the refund of MCs.
- 3.23 As a rejoinder, the Audit Team respectfully emphasizes that the appropriate classification and measurement of such assets should be determined based

on the guidance provided under the appropriate PFRS, taking into consideration the nature, purpose, and use of the assets rather than solely their disposability.

3.24 Classifying club shares under Inventories is not consistent with PAS 2, which applies to assets held for sale in the ordinary course of business and measured at the lower of cost and net realizable value. Such classification does not reflect the economic substance of the transactions that affects the fair presentation of the accounts in the FS.

**4. The accuracy of the MCs recorded in MCs Payable amounting to P1.215 billion could not be established due to the presence of unreconciled amount of P531.001 million between the general ledger (GL) and subsidiary ledger (SL) balances, while the interests earned from MCs amounting to P768.298 million recorded under the Estimated Liability on Earnings is likewise doubtful due to the absence of its details, thus affecting the fair presentation of the said accounts in the FS as at December 31, 2024.**

4.1 PD No. 361, series of 1973, established the AFPRSBS to provide a financially independent funding system and continuous financial support to the 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 to date.

4.2 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.

4.3 On April 19, 2016, pursuant to the same MO, the AFPRSBS’ Board of Trustees convened as the 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.

4.4 As at December 31, 2024, the balances of the MCs Payable and Estimated Liability on Earnings of MCs in the FS amounted to P1.215 billion and P768.298 million, respectively. The MCs Payable 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 refers to the interest earned from the said contributions.

4.5 To account for the MCs Payable and Estimated Liability on Earnings of MCs transactions, the Accounting Department (AD) utilizes the 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 because the list of members qualified for refunds cannot be finalized until the GL balance is properly reconciled with the SL in IFMS2.

- 4.6 Management maintained the following main reasons that caused the unreconciled variance between the GL and SL amounting to P531.001 million as at December 31, 2024:
- MCs prior to CY 1992 were not posted/uploaded in the IFMS/SLs of members who still have outstanding MCs since the IFMS was introduced only in CY 1992; and
  - Few accounts were inadvertently deleted from the SL upon reconciliation due to human errors.
- 4.7 To date, Management is already using the Certification of AFP Finance Centers on the remittances, retrieved records, pay slips and other related documents that would help in identifying the reconciling items and in refunding the unposted MCs. In CY 2024, the AFPRSBS was able to reconcile a total of P69.269 million, which pertains mainly to the unposted MCs from 12,430 members.
- 4.8 While the Audit Team appreciates the Management's continuing efforts to reconcile the MC Payable, we emphasize the importance of accelerating the process to prevent further delays in member refunds. Further, the AFPRSBS' responsibility to maintain complete, updated, and accurate SL records of the MCs Payable and Estimated Liability on Earnings of MCs is indispensable. These records serve as the basis for the computation of members' total contributions and interest earned to be refunded to them. Inability to do so may result in under or overpayment of refunds, potentially causing delays thereof and consequently, prolonging the liquidation process of the AFPRSBS.
- 4.9 Therefore, the non-reconciliation of the variance of P531.001 million between the balances per GL and IFMS SLs of the MCs Payable, and the absence of details of the Estimated Liability on Earnings of MCs, cast doubt on the accuracy of their balances, thereby affecting the fair presentation of the said accounts in the FSs.
- 4.10 **We reiterated our prior year's audit recommendation 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 earned interests that have not yet been refunded to the members, in preparation for the transfer of MCs records to the GFI Trustee, in accordance with EO Nos. 590 and 590-A, as amended by MO No. 90.**
- 4.11 **We further recommended that Management strengthen its internal control over the accounting of MCs transactions, including enhanced verification processes, and improved coordination with relevant agencies to facilitate a more efficient reconciliation.**

4.12 Management asserted that they will continue pursuing the reconciliation of the variance between the GL balance and IFMS2 SLs, with the goal of completing the reconciliation process by the end of CY 2025.

5. **The presence of unreconciled variance of 183,592 square meters (sqm) with a total value of P242.628 million between the total land area per records and the actual inventory of Transfer Certificates of Title (TCTs) of real estate properties, casts doubt on the accuracy and reliability of the balances of Inventories - Others and Investment in Real Estate – Landbanking Assets amounting to P2.485 billion and P1.720 billion, respectively, contrary to Paragraph 15 of PAS 1, thereby, affecting the fair presentation of the accounts’ balances in the FS as at December 31, 2024.**

5.1 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.

5.2 The AFPRSBS’ Investment in Real Estate-Landbanking Assets refers to underdeveloped land properties located in various parts of the country that have not yet been offered for sale to the public while the Inventories - Others refer to real properties held for sale in the ordinary course of business. As at December 31, 2024, the carrying value of Investment in Real Estate-Landbanking Assets and Inventories-Others amounted to P1.720 billion and P2.485 billion, respectively.

5.3 Comparison of the recorded land area against the actual inventory of TCTs disclosed a total variance on the land area of 183,592 sqm for the eight real estate projects, with equivalent value of P242.628 million, as presented in Table 5.1.

**Table 5.1 – Variance Between the Recorded and the Actual Inventory of TCTs As at December 31, 2024**

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)
<b>Inventories-Others:</b>					
Mount Zion Memorial	24,173	19,698	4,475	14,074.2400	P 62,982,224
Villa Caceres	897	14,003	13,106	1,765.1000	23,133,401
The Orchard Project	29,919	36,250	6,331	1,514.6200	9,589,059

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)		
Riviera Project- Commercial	85,255	78,024	7,231	1,144.4400	8,275,446
Village East III Subdivision	93,445	109,005	15,560	530.5500	8,255,358
<b>Investment in Real Estate – Landbanking Assets:</b>					
Green Meadows Iloilo (Phase 1)	12,424	46,586	34,162	1,421.5700	48,563,674
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
<b>Total</b>	<b>703,803</b>	<b>658,529</b>	<b>183,592</b>		<b>P242,628,187</b>

- 5.4 Notably, the variance of 183,592 sqm valued at P242.628 million in CY 2024 is lower than the previously reported absolute variance of 415,573 sqm with an absolute amount of P383.637 million in CY 2023. The Audit Team recognizes the effort of AFPRSBS to reconcile variances in land areas for the project sites. Even so, the variance still casts doubt on the accuracy and reliability of the balances of both the Inventories-Others and Investment in Real Estate-Landbanking Assets in the FS.
- 5.5 Review of the reconciliation submitted by the AFPRSBS as at December 31, 2024 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 wherein when a property is sold, the AD derecognizes the corresponding cost of the sold lots. However, the corresponding TCT remains at the IRMD until full payment is received. Such timing differences in recording resulted in variances, such as the AD records show a lower balance as compared to the IRMD records. Further, the AD has yet to account for the sold lots listed in the reported TCTs from the IRMD, to exclude the sold properties from the variance between the two records and to identify which remaining properties require reconciliation.
- 5.6 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 ongoing reconciliation by Management.
- 5.7 In the prior year, Management informed 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 Inventories and Investment in Real Estate-Landbanking Assets is being pursued. Continuous efforts among the concerned departments/offices are being made to establish the correct total land area for each project. They further asserted that the target completion period of the reconciliation process is within CY 2024. Nonetheless, the variance between the two records remains as at December 31, 2024.
- 5.8 In view of the foregoing, the accuracy of the balances of Inventories - Others and the Investment in Real Estate – Landbanking Assets with carrying amounts of P2.485 billion and P1.720 billion, respectively, as at December

31, 2024, cannot be ascertained due to the noted unreconciled variance thereby affecting the fair presentation of the accounts' balances in the FS.

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

- a. **Conduct a comprehensive reconciliation of the land area per records against the actual inventory of TCTs;**
- b. **Identify and investigate the cause of the variance to determine whether it stems from record-keeping errors, missing documentation, or unrecorded transactions;**
- c. **Establish a clear timeline to immediately address the identified cause of variance between the total land area per physical inventory of TCTs and those recorded under the Inventories-Others and Investment in Real Estate-Landbanking Assets; and**
- d. **Submit an updated reconciliation pertaining to both Inventories-Others and Investment in Real Estate – Landbanking Assets to allow the Audit Team to validate the completeness of the real estate properties of AFPRSBS.**

5.10 Management averred that AFPRSBS is actively reconciling land area records with actual TCT inventory by coordinating with relevant units to resolve discrepancies and adjust the records as necessary. Also, the AFPRSBS will endeavor to complete the reconciliation of remaining eight real estate projects by the third quarter of CY 2025. Updated reconciliation schedules will be provided to the Audit Team upon completion for its validation.

**B. Others**

**6. The BOL approved the separation of all 79 AFPRSBS employees without retaining the personnel necessary to effectively wind down its corporate affairs, resulting in hiring 63 Contract of Service (COS) personnel to perform essential liquidation activities, in violation of Section 3(b) and (i) of MO No. 90 and Commission on Audit (COA)-Department of Budget and Management (DBM) Joint Circular No. 2, series of 2020, Section 4(5) of PD No. 1445, thus, exposing the AFPRSBS to legal and financial risks, including potential irregularities in the disposal of funds and/or property, loss of accountability in preserving, managing, and disposing its remaining assets, and ultimately, prolonging its abolition and liquidation.**

6.1 Section 3 (b) and (i) of MO No. 90 provides:

***Section 3. Winding Down and Liquidation. The AFP-RSBS Board shall act as a Board of Liquidators, subject to oversight by the Governance Commission, and is hereby directed to:***

a. Xxx

b. **Maintain such number of personnel necessary to wind-down its corporate affairs and cease the hiring of new personnel unless first approved by the Governance Commission;**

Xxx

i. *Maintain full power to sue and file complaints for the protection of the rights and interests of the corporation and engage the services of lawyers, accountants and other professionals, in accordance with existing laws, as may be necessary for the AFP-RSBS to protect its interest, wind-down its corporate affairs and carry out its mandate of preserving, managing and disposing its remaining assets.*  
(Emphasis supplied)

6.2 In relation to Section 3 (i) of MO No. 90, Sections 7.1 and 7.5 of COA-DBM Joint Circular No. 2, series of 2020, dated October 20, 2020, on the limitation of hiring under COS states:

**7.1 Hiring under COS shall be limited to consultants, learning service providers, and/or other technical experts to undertake special project or job within a specific period. The project or job is not part of the regular functions of the agency, or the expertise is not available in the agency, or it is impractical or more expensive for the government agency to directly undertake the service provided by the individual or institutional contractor.**

Xxx

**7.5 The services of the COS and JO workers are not covered by Civil Service laws, rules, and regulations, thus, not creditable as government service.** Xxx (Emphasis supplied)

6.3 Section 4(5) of PD No. 1445, also known as the Government Auditing Code of the Philippines, provides:

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

Xxx

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

- 6.4 In the *En banc* case of *Atienza vs. Villarosa*, G.R. No. 161081 dated May 10, 2005, the SC has held that:

*When an authorized person approves a disbursement voucher, he certifies to the correctness of the entries therein, among others: that the expenses incurred were necessary and lawful, the supporting documents are complete and the availability of cash therefor.*

- 6.5 On April 11, 2024, upon the recommendation of Management, the BOL approved the separation of the remaining 79 employees of the AFPRSBS effective June 30, 2024, subject to the creation of a Liquidation Team (LT) thereafter, that will continue to pursue the liquidation until a GFI has been designated by law that will ultimately take over or receive the assets of the AFPRSBS.
- 6.6 On May 27, 2024, the BOL approved the creation of the LT which will assume its function effective from July 1, 2024 with the following composition:
- a. The Team will be headed by an Administrator appointed by the BOL;
  - b. The Administrator will be assisted by 63 personnel who shall be hired on a COS basis, for the period July 1, 2024 to December 31, 2024; and
  - c. The number of personnel will be reduced accordingly, as their tasks or projects are completed.
- 6.7 Corollary thereto, the LT shall have the following functions:
- a. Continue to service the refund claims of members;
  - b. Maintain and preserve the AFPRSBS' assets;
  - c. Continue to pursue income generating activities to support operations such as sale and/or lease of real estate assets, investment of funds in marketable securities, collection of receivables;
  - d. Continue, abrogate, and/or renegotiate existing contracts;
  - e. Continue the litigation of cases; and
  - f. Continue to undertake support activities (financial, administrative, personnel, etc.).
- 6.8 Likewise, for the LT to effectively execute its mandate, the BOL authorized the Administrator to hire individuals on a COS basis to compose the LT and to appoint officers and delegate approving authorities and authorized signatories as deemed necessary to carry out the LT's objectives.
- 6.9 On June 14, 2024, the AFPRSBS sought the opinion of the OGCC on the separation of all employees of the AFPRSBS effective June 30, 2024 as approved by the BOL and the subsequent creation of an LT composed of an Administrator and 63 COS personnel.
- 6.10 The OGCC issued Opinion No. 115 dated July 1, 2024 stating that the authority of the BOL to direct the separation of employees whose services are no longer necessary in the winding down and liquidation of AFPRSBS may be reasonably implied from Section 3 (b) of MO No. 90, and thus, subject to the

sound discretion of the BOL since it was directed to undertake certain task to wind-down the affairs of the AFPRSBS. Likewise, the OGCC emphasized that the AFPRSBS cannot compel employees who wish to be separated from the service to stay considering the abolished status of the AFPRSBS. A contrary position may be construed as constituting involuntary servitude, hence, there is no need to wait for the approval of the GCG on the matter of separation of all employees.

- 6.11 Moreover, the OGCC opined that the engagement of the services of 63 individuals under COS status may be based on the provisions of Section 3 (i) of MO No. 90, subject to compliance with COA-DBM Joint Circular No. 2, series of 2020, as amended, and other pertinent laws, rules, and regulations. The AFPRSBS was also reminded to engage in close coordination with the GCG and/or the Technical Working Group (TWG), which was constituted to assist the GCG, to ensure proper guidance in defining the roles and responsibilities of the LT, including the individuals under COS.
- 6.12 On June 14, 2024, the AFPRSBS informed the GCG of the BOL's resolution to separate the 79 remaining employees of the AFPRSBS and the creation of an LT. Further, in a letter dated July 29, 2024, the AFPRSBS sought the GCG's affirmation and ratification on the resolution and action of the AFPRSBS' BOL.
- 6.13 On August 27, 2024, the GCG affirmed and ratified the resolution of the BOL and concurred with the opinion of the OGCC on the separation of the 79 remaining employees of the AFPRSBS, the creation of the LT headed by an Administrator, and the hiring of 63 COS personnel. With regard to the resolution on the creation of an LT, the GCG noted that the formation and composition of the same is subject to the sound business judgment of the BOL and the exercise of extraordinary diligence in dealing with the properties of the AFPRSBS. Hence, the hiring of COS personnel to perform the liquidation and winding down operations of the AFPRSBS is subject to the limitations provided under Section 3 (i) of MO No. 90 and Section 7 of COA-DBM Joint Circular No. 2, series of 2020.
- 6.14 Given the above-presented conditions, the approval of the separation of all 79 AFPRSBS employees, without considering the retention of a number of personnel necessary to wind-down its corporate affairs, is contrary to Section 3 (b) of MO No. 90, and the consequent hiring of 63 COS personnel to perform essential liquidation activities have significantly impacted the execution of the liquidation processes, to wit:

***Contracts on five Programs, Activities and Projects (PAPs) were recommended for award by COS personnel***

- 6.15 Our examination of the APP for CY 2024 disclosed that the AFPRSBS planned to undertake procurement of 67 PAPs either through public bidding or alternative mode of procurement.

6.16 Examination of records revealed that only six out of the 67 planned procurement projects or 8.95 per cent were awarded in CY 2024 as presented in Table 6.1.

**Table 6.1 – List of Awarded Contracts in CY 2024**

<b>PAPs</b>	<b>Mode of procurement</b>	<b>Approved budget for the contract</b>	<b>BAC resolution date</b>	<b>Date awarded</b>	<b>Contract amount</b>
1. Fencing of Sta. Rosa Nueva Ecija Property	Public bidding	P1,300,000	July 2, 2024	August 1, 2024	P1,259,915
2. Leak Test of Sewer Lines and Submission of As-built plan (Riviera Property)	Public bidding	2,000,000	July 2, 2024	August 1, 2024	1,985,323
3. One-year subscription of Total Endpoint Security (90 users)	Small value	130,000	June 18, 2024	June 28, 2024	101,910
4. Cleaning services of air conditioning units for AFPRSBS	Small value	150,000	August 12, 2024	August 15, 2024	100,100
5. Janitorial, maintenance and messengerial services	Public bidding	2,100,000	July 8, 2024	July 17, 2024	1,930,000
6. Security services for the St. Michael and Sta. Rosa Nueva Ecija properties	Public bidding	2,100,000	July 2, 2024	July 22, 2024	2,049,563

6.17 Review of the six contracts revealed that five of them were awarded between July 1 and August 31, 2024, when all the BAC members who recommended to the Head of the Procuring Entity for the award of these contracts were already under COS employment status, raising concerns on the propriety and validity of the said contracts.

6.18 Moreover, inquiry disclosed that the remaining 61 procurement projects were put on hold or suspended pending the approval of the GCG on the creation of the BAC that will be composed of re-hired regular employees.

***Disposals of real estate assets and equity investments were done by COS personnel***

- 6.19 Review of the updated LP submitted to the GCG on August 27, 2024 disclosed that the AFPRSBS cannot sell all of its assets until December 31, 2024, except for the following identified several real estate assets that could be sold from July to December 2024. Details are presented in Table 6.2

**Table 6.2 – List of Real Estate Assets Projected for Sale From July to December 2024**

<b>Property</b>	<b>Projected sales (in lots)</b>	<b>Gross sales</b>	<b>Cost of sales</b>	<b>Marketing expenses</b>	<b>Expected net revenue</b>
1. Orchard	6	P21,696,433	P2,726,316	P3,506,929	P15,463,188
2. Green Meadows	12	24,300,000	3,986,064	5,592,512	14,721,424
3. Ciudad Verde	6	8,678,573	5,031,108	1,713,572	1,933,893
4. Village East III	12	20,655,000	1,298,786	3,940,175	15,416,039
5. Eastridge	6	43,392,867	3,633,984	7,486,859	32,272,024
6. Tanauan Agricultural lots	6	12,236,400	3,646,311	4,930,324	3,659,765
7. Heaven's Gate Memorial	360	8,640,000	4,625,230	0	4,014,770
8. Mt. Zion Memorial	180	12,960,000	2,533,363	768,000	9,658,637
<b>Total</b>	<b>588</b>	<b>P152,559,273</b>	<b>P27,481,162</b>	<b>P27,938,371</b>	<b>P97,139,740</b>

- 6.20 Verification revealed that the AFPRSBS generated a total net revenue of P130.221 million from the sale of the real estate assets listed in Table 6.2 for the period from July to December 2024, exceeding its target by P33.081 million. However, the sales were carried out by COS personnel, as approved and authorized by the BOL, which is not in accordance with Section 4(5) of PD No. 1445.

***Designation of COS personnel as approving authorities and authorized signatories for the refund of MCs, placement of funds in Money Market Placements (MMPs), fund transfer and other check/disbursement transactions***

- 6.21 To address the separation of all employees and continuously carry out the liquidation of the AFPRSBS, the BOL, in its Meeting on June 24, 2024, approved the revision of its policy on approving authorities and authorized signatories effective July 1, 2024. Notably, among the revisions made were the approving authorities and authorized signatories for the refund of MCs, placement of funds in MMPs, fund transfer transactions, and check/disbursement transactions. Presented in Tables 6.3 and 6.4, respectively, are the matrix of approving authorities and authorized signatories and its designated check signatories as approved by the BOL.

**Table 6.3 – AFPRSBS Approving Authorities and Authorized Signatories**

Nature of transactions	Approving authorities		Authorized signatories	
	Principal	Alternate	Principal	Alternate
<b>Refund operations:</b>				
Refund of MCs	Concerned Deputy Administrator	Other Deputy Administrator/s	Concerned Deputy Administrator	Other Deputy Administrator/s
<b>Treasury operations:</b>				
a. Money and stock market investments				
a. Up to P50 million	Concerned Deputy Administrator	n/a	Administrator	Concerned Deputy Administrator
b. Above P50 million	Administrator	n/a	Administrator	Concerned Deputy Administrator
a. Long-term investments (Government Securities/Treasury Bills/Retail Treasury Bills/Government Bank Long Term Notes)				
a. Up to P1 billion	Administrator	n/a	Administrator	Concerned Deputy Administrator
b. Above P1 billion	BOL	n/a	Administrator	Concerned Deputy Administrator
<b>Check/disbursement vouchers (DV):</b>				
a. Certifies completeness of documents and correctness of recording	n/a	n/a	Department Manager, Accounting Service Unit	Chief Accountant or Supervising Admin Officer, Accounting Service Unit
b. Certifies availability of funds	n/a	n/a	Department Manager, Financial Management Unit	Chief Treasury Operations Officer, Financial Management Unit
c. Recommend approval	n/a	n/a	Concerned Deputy Administrator as per RVCP	Other Deputy Administrator
d. Approval of payments	n/a	n/a	Administrator	Other Deputy Administrator
e. Signing of checks	n/a	n/a	Any of the Class "A" and Class "B" signatories	None
f. Signing of Landbank of the Philippines payroll register	n/a	n/a	Any of the Class "A" and Class "B" signatories	None

**Table 6.4 – Check Signatories as Approved by the BOL**

Transaction	Principal	Position
1. Class "A" signatories	a. Officer 1	a. Administrator
	b. Officer 2	b. Deputy Administrator for support team

Transaction	Principal	Position
2. Class "B" signatories	c. Officer 3	c. Department Manager, Marketing and Accounts Management Unit
	a. Officer 4	a. Deputy Administrator for Real Estate Management Team
	b. Officer 5	b. Deputy Administrator for Investment Management Team
	c. Officer 6	c. Department Manager, Financial Management Unit

- 6.22 As can be gleaned from Tables 6.3 and 6.4, the Audit Team noted that except for the Administrator, the other approving authorities and authorized signatories were on a COS status of employment which may raise concerns regarding proper authorization and accountability.
- 6.23 Likewise, in line with the revised policy, AFPRSBS continues to actively manage its treasury operations, particularly the investment of funds in MMPs and the execution of fund transfer transactions between its bank accounts. As part of its investment strategy, AFPRSBS invests excess funds in short-term, high-yield instruments such as MMPs. Meanwhile, fund transfers are routinely conducted from its Banco De Oro Unibank, Inc. (BDO) account to its Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) accounts for the monthly collection of payments from real estate buyers of the Green Meadows project in Iloilo.
- 6.24 Examination of the Cash in Bank and Investments for the period July 1 to December 31, 2024 disclosed that the AFPRSBS placed a total of P3.473 billion in MMPs and transferred funds to its other bank accounts totaling P88.550 million without the approval or certification of the proper officials, contrary to Section 4(5) of PD No. 1445.
- 6.25 However, several DVs related to MMPs and fund transfer transactions were approved and/or certified by COS who lacked the legal authority to do so. The details are presented in Table 6.5.

**Table 6.5 – Money Market Placements and Fund Transfer Transactions  
For the period July 1 to December 31, 2024**

Check/ DV no.	Date	Payee	Amount	Approving authorities and authorized signatories per revised policy	Signatories/ employment status per Check/DV
<b>MMPs</b>					
23294	07/02/24	LBP	P45,000,000	Approving authority: Administrator/ Concerned Deputy Administrator  Authorized signatory: Administrator/ Concerned Deputy Administrator  Certifies completeness of documents and correctness of recording:	Approved for payment: Officer 1/regular employee  Certified Availability of Funds: Officer 6/COS  Certified completeness of documents and correctness of recording: Officer 7/COS

Check/ DV no.	Date	Payee	Amount	Approving authorities and authorized signatories per revised policy	Signatories/ employment status per Check/DV
				Department Manager, Accounting Service Unit	
				Certifies availability of funds: Department Manager, Financial Management Unit	
1973	07/09/24	LBP	50,000,000	-do-	-do-
1978	07/17/24	LBP	50,000,000	-do-	-do-
2309	07/23/24	DBP	80,000,000	-do-	-do-
74986	07/30/24	DBP	110,000,000	-do-	-do-
2312	08/06/24	DBP	100,000,000	-do-	-do-
2313	08/12/24	DBP	100,000,000	-do-	-do-
1981	08/13/24	LBP	80,000,000	-do-	-do-
2316	08/21/24	DBP	830,000,000	-do-	-do-
1988	08/27/24	LBP	65,000,000	-do-	-do-
1994	09/04/24	LBP	38,000,000	-do-	-do-
23367/ 75139	09/10/24	LBP	90,000,000	-do-	-do-
1997	09/17/24	LBP	50,000,000	-do-	-do-
2000	09/24/24	LBP	55,000,000	-do-	-do-
75222	10/01/24	DBP	55,000,000	-do-	-do-
2326	10/08/24	DBP	80,000,000	-do-	-do-
2329	10/15/24	DBP	118,000,000	-do-	-do-
2330	10/22/24	DBP	102,000,000	-do-	-do-
2020	11/05/24	LBP	90,000,000	-do-	Approved for payment: Officer 5/regular employee
					Certified Availability of Funds: Officer 8/COS
					Certified the completeness of documents and correctness of recording: Officer 7/COS
2021	11/12/24	LBP	50,000,000	-do-	-do-
2337	11/19/24	DBP	400,000,000	-do-	Approved for payment: Officer 5/regular employee
					Certified Availability of Funds: Officer 9/COS
					Certified the completeness of documents and correctness of recording: Officer 7/COS
2336	11/19/24	DBP	445,000,000	-do-	-do-
2027	11/26/24	LBP	90,000,000	-do-	-do-
2046	12/03/24	LBP	135,000,000	-do-	-do-
2047	12/10/24	LBP	45,000,000	-do-	-do-
2345	12/17/24	DBP	50,000,000	-do-	-do-
2062	12/18/24	LBP	40,000,000	-do-	-do-
75460	12/18/24	DBP	30,000,000	-do-	-do-
<b>Total</b>			<b>P3,473,000,000</b>		
<b>Fund transfer transactions</b>					
74922	07/17/24	DBP	50,000,000	-do-	Approved for payment: Officer 1/ regular employee Certified Availability of Funds: Officer 6/COS
					Certified the completeness of documents and

Check/ DV no.	Date	Payee	Amount	Approving authorities and authorized signatories per revised policy	Signatories/ employment status per Check/DV
					correctness of recording: Officer 7/COS
2014202	07/30/24	LBP	3,500,000	-do-	-do-
2014203	08/30/24	LBP	2,000,000	-do-	-do-
2014204	09/18/24	LBP	4,000,000	-do-	-do-
2014205	11/07/24	LBP	4,500,000	-do-	Approved for payment: Officer 5/regular employee
					Certified Availability of Funds: Officer 8/COS
					Certified the completeness of documents and correctness of recording: Officer 7/COS
75352	11/11/24	DBP	10,000,000	-do-	-do-
75358	11/22/24	DBP	10,000,000	-do-	Approved for payment: Officer 5/regular employee
					Certified Availability of Funds: Officer 8/COS
					Certified the completeness of documents and correctness of recording: Officer 7/COS
2014206	11/22/24	LBP	1,200,000	-do-	-do-
2014207	11/28/24	LBP	1,100,000	-do-	-do-
2014208	12/03/24	LBP	1,000,000	-do-	-do-
2014209	12/12/24	LBP	700,000	-do-	-do-
2014210	12/27/24	LBP	550,000	-do-	-do-
<b>Total</b>			<b>P88,550,000</b>		

- 6.26 Notably, while the BOL approved the revised policy on approving authorities and authorized signatories to various transactions including the herein subject transactions, such approval can be deemed ultra vires act since it is beyond the scope of their authority to designate COS personnel as a signatory in the check/DV.
- 6.27 The Audit Team noted that although the transactions were approved by the Administrator pursuant to the revised policy approved by the BOL, the placement of funds of the AFPRSBS in the MMPs and the fund transfer transactions are still not in order since the other signatories to the check/DVs who certified as to the availability of funds and completeness of the documents and correctness of recording are on a COS status of employment.
- 6.28 Also, as stressed by the SC in the *en banc* case of *Atienza vs. Villarosa*, G.R. No. 161081 dated May 10, 2005, when an authorized person approves a DV, he certifies to the correctness of the entries therein, among others: that the expenses incurred were necessary and lawful, the supporting documents are complete and the availability of cash therefor. Hence, it can be inferred that the approving officers contemplated in Section 4(5) of PD No. 1445 are not limited only to those who approve the payment but also to those who certified the availability of funds and completeness of documents. Considering the status of employment of these signatories, they cannot be deemed authorized persons to sign the DVs for the subject transactions.

- 6.29 It must be stressed that individuals hired under COS are not considered government employees. The services rendered are not accredited as government service, and no employer-employee relationship exists. Hence, COS workers are neither allowed to perform functions which are part of the job description of regular employees nor designated to positions exercising control or supervision. As a consequence, COS workers have no authority to bind or represent the government.
- 6.30 Likewise, COA Circular No. 2009-006 dated September 15, 2009 defined accountability as the answerability for government funds of every public officer whose duties permit or require the possession or custody of such government funds in conformity with laws and regulations. Other public officers, although not accountable for government funds by the nature of their duties, may likewise be similarly held accountable and responsible therefor through their participation in the use or application of such government funds. Hence, considering the COS employment status of the individuals who certified the availability of funds and completeness of the documents and correctness of recording, accountability for public funds is not expected of them.
- 6.31 Furthermore, by the nature of their employment status, the individuals who signed the checks and DVs, particularly those who certified the availability of funds and completeness of documents and recording of the transactions, acted outside the scope of their authority, thus, signifying weakness in internal control.
- 6.32 While the GCG affirmed and ratified the resolution of the BOL and concurred with the opinion of the OGCC on the separation of the 79 remaining employees, and the hiring of 63 COS personnel, the hiring under COS shall be limited to consultants and/or other technical experts to undertake special project or job within a specific period and provided that the project or job is not part of the regular functions of the agency. Furthermore, the GCG emphasized that COS workers should not, in any case, be made to perform functions which are part of the job description of AFPRSBS regular employees. Likewise, pursuant to Section 3 (b) of MO No. 90, the hiring of new regular personnel must first be approved by the GCG.
- 6.33 Nevertheless, while the OGCC and the GCG ratified the action of the BOL regarding the engagement of individuals under COS as authorized in Section 3 (i) of MO No. 90, it is worthy to note that this provision must be interpreted in conjunction with Section 3 (b) of the same MO which explicitly directs the BOL to retain the necessary personnel to properly wind-down its corporate affairs and to refrain from hiring new personnel without prior approval from the GCG.
- 6.34 In addition, the authority of the BOL to engage the services of lawyers, accountants and other professionals as provided in Section 3 (i) of same MO No. 90 is under the assumption that it has maintained such number of personnel necessary to wind-down its corporate affairs. Moreover, the said provision should not be interpreted to mean that the BOL can alternatively

engage the services of its previous personnel under a COS status to perform the day-to-day transactions of the AFPRSBS.

- 6.35 In a letter to GCG dated October 10, 2024, the AFPRSBS discussed several major issues and concerns that it is currently facing, thus, posing, difficulties in the implementation of its LP. Among the major issues and concerns noted are as follows:
- a. with more than P7 billion worth of real assets still in its coffers being sold, leased out, maintained, preserved and still generating substantial revenue for the AFPRSBS, a multitude of disbursement and procurement transactions still need to be undertaken, thus, necessitating signatories and approving authorities from the different units under the LT, as well as the reconstitution of a BAC to undertake procurement activities;
  - b. with the difficulties encountered by the LT particularly with regard to the constraints brought about by the nature of employment of the personnel comprising the LT, a lot of activities that should have been undertaken in pursuit of liquidation have been deferred. This includes procurement activities which should have been undertaken within the third quarter of CY 2024, as well as those projected to be procured by fourth quarter of the same calendar year. Likewise, some properties that were projected to be sold within the year did not materialize, since procurement of appraisal services was put on hold pending the creation of the BAC; and
  - c. disbursement transactions were centralized to the Administrator which significantly slowed down the AFPRSBS' activities.
- 6.36 In relation thereto, the AFPRSBS have identified nine personnel occupying critical positions who are recommended for regularization. These personnel are the Deputy Administrators and Managers under the different teams, who have been designated as approving authorities and/or check signatories and/or BAC members, Disbursing Officers/Special Disbursing Officers (SDOs), as well as their Legal Counsel who appear in all court proceedings for and in behalf of the AFPRSBS.
- 6.37 Foregoing considered, pending the guidance to be provided by GCG, the separation of all 79 employees of the AFPRSBS without maintaining the necessary number of required personnel to properly wind down its corporate affairs resulted in the hiring of 63 COS personnel to perform essential liquidation activities, contrary to Section 3(b) of MO No. 90 and COA-DBM Joint Circular No. 2, series of 2020, and Section 4(5) of PD No. 1445, thus, exposing AFPRSBS to legal and financial risks including potential irregularities in the disposal of funds, loss of accountability in preserving, managing, and disposing of its remaining assets, and ultimately, prolonging its abolition and liquidation.

- 6.38 **We recommended that Management:**
- a. **Strictly comply with Section 3 (b) and (i) of MO No. 90 on maintaining sufficient number of qualified personnel to perform liquidation activities;**
  - b. **Take immediate action to rectify the improper designation of COS personnel as signatories for various AFPRSBS transactions;**
  - c. **Expedite the request to the GCG for the regularization of nine personnel to fill critical positions in the LT; and**
  - d. **Propose the designation of the members of the BOL as authorized signatories in the disbursement and/or investment transactions. Otherwise, postpone or suspend the placement of funds in MMPs and fund transfer transactions until the GCG approves the regularization of the nine personnel.**
- 6.39 The Management commented that since the approval of the LT on July 1, 2024, AFPRSBS has maintained only one regular employee as the Administrator and 63 COS personnel to complete its remaining activities until asset turnover.
- 6.40 To address concerns from GCG and COA regarding COS personnel performing regular employee functions, the BOL designated its members and the Administrator as authorized disbursement signatories. On March 10, 2025, additional BOL members were assigned as bank signatories due to increased transaction volumes from processing unposted MCs.
- 6.41 During a GCG TWG meeting on March 4, 2025, AFPRSBS reiterated its request to regularize nine COS personnel, citing the need for compliance with COA recommendations, proper authority for approvals, procurement responsibilities under RA No. 9184, and handling of legal matters. However, the GCG is still awaiting for the response from the Civil Service Commission (CSC) on whether AFPRSBS personnel, as part of an abolished Government-Owned and Controlled Corporations (GOCC), are considered civil service employees. This response will determine the status of the regularization request.
- 6.42 Management, however, disagrees with the audit recommendation to suspend money market transactions until the GCG approves the COS regularization, citing the following reasons:
- **Mandate Compliance** – MO No. 90 requires AFPRSBS to preserve assets, generate income, and ensure cash flow for obligations.
  - **Investment Returns** – Suspending investments would force funds into low-interest savings accounts of 0.075 per cent per annum instead of the current 5.4 per cent return.

- Financial Impact – A decline in income and cash flow would negatively affect the AFPRSBS’ financial goals.

6.43 Given the necessity of fund transfers for disbursements and investments, AFPRSBS deems the audit recommendation impractical.

6.44 As a rejoinder, the Audit Team notes that GCG’s letter to the CSC dated December 2, 2024, seeking clarification on the employment status of AFPRSBS personnel as an abolished GOCC, remains unanswered. Given that this decision will significantly impact the AFPRSBS’ workforce and operations, we strongly recommend that AFPRSBS and GCG follow up on the CSC response to prevent further delays in resolving the employment status of critical personnel.

6.45 Moreover, while Management has expressed reservations regarding the audit recommendation to suspend money market transactions pending GCG’s approval of the regularization of nine COS personnel, the Audit Team emphasizes that the AFPRSBS’ objective of generating higher investment returns through MMPs aligned with MO No. 90’s mandate to preserve assets and sustain cash flow for member obligations should not come at the expense of regulatory compliance. Allowing COS personnel, who lack both authority and accountability over public funds, to act as signatories to financial transactions is not permissible.

6.46 Therefore, we reiterate our recommendation to suspend investment activities until GCG approves the regularization of the nine personnel. Alternatively, we propose designating the BOL as signatories to investment transactions in place of COS personnel.

6.47 The Audit Team will continue to monitor developments on this matter and reiterate the importance of ensuring that AFPRSBS operates within the bounds of applicable rules and regulations while maintaining efficiency in its liquidation activities.

**7. The AFPRSBS continued to maintain a depository account in a private commercial bank, with balance amounting to P394,115 as at December 31, 2024, despite the disapproval of the Secretary of Finance of its request to retain the account, contrary to 5.2.2 of Department of Finance (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.**

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

7.2 Section 5.2 of the same 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; and*
  - d. Al Amanah Islamic Investment Bank of the Philippines.*
- (Emphasis supplied)

7.3 In relation thereto, Sections 5.2.2 and 5.3.1 of DOF DC No. 002-2022 provide for the requisite approval of the Secretary of Finance, in the case of GOCCs, before transacting with private banks, in this way:

*5.2.2 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.*

Xxx

*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: xxx... (Emphases supplied)*

7.4 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)*

7.5 Further, Section 4.3 states 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)

- 7.6 As at December 31, 2024, the AFPRSBS holds a current account with BDO, a private commercial bank, with a balance of P394,115 in addition to maintaining accounts with LBP and the DBP. BDO is not included in the list of AGDBs provided in DOF DC No. 002-2022, and the necessary approval from the Secretary of Finance, as mandated by Sections 5.2.2 and 5.3.1 of the same DOF DC was not obtained.
- 7.7 On September 30, 2014, the Secretary of Finance denied the AFPRSBS' request to maintain depository accounts with private banks. Subsequently, on August 6, 2015, the AFPRSBS sought clearance from the Secretary of Finance to utilize private banks/financial intermediaries as brokers for trading government securities under the Non-Restricted Trading System; however, this request was also denied. The Secretary of Finance advised the closure of its deposit accounts with private banks and utilize the LBP and DBP to manage its depository requirements and other banking needs and its proposed treasury investment activities.
- 7.8 Perusal of the Board Approval Sheet dated May 10, 2013 and as previously disclosed by Management in last year's audit observation, AFPRSBS opened a deposit account with BDO to accommodate buyers, primarily based in Iloilo City and abroad, by providing a more accessible payment facility for Green Meadows lot purchases. BDO's extensive nationwide branch network offers a level of convenience that government banks like LBP and DBP cannot match, as they lack the necessary deposit reference facility in Iloilo. Management added that changing the servicing bank at this stage could disrupt the collection process for Green Meadows buyers.
- 7.9 As a course of action to implement the prior year's recommendation, the AFPRSBS reiterated its request for approval of DOF on April 17, 2024 to use BDO purely as a servicing bank with a minimal deposit to facilitate the collection of the remaining Installment Contract Receivables from amortizing real estate buyers, but the same was denied.
- 7.10 The Audit Team emphasizes that while agencies may, in certain circumstances, be permitted to maintain accounts with non-GFIs, compliance with regulatory requirements remains crucial. Specifically, Sections 5.2.2 and 5.3.1 of DOF DC No. 002-2022 mandate that the approval of the Secretary of Finance shall be secured to continue holding accounts with private banks.
- 7.11 Given the foregoing, the continued maintenance of the depository account with BDO, despite the disapproval by the Secretary of Finance, violates Sections 5.2.2 and 5.3.1 of DOF DC No. 002-2022. Beyond non-compliance, this disapproval exposes the AFPRSBS Head to potential criminal and/or administrative liability under Section 6.2 of the same directive. Additionally, it undermines the government's objective of utilizing an AGDB, through the DOF and the Bureau of the Treasury (BTr), to implement the Treasury Single Account system, as mandated by Section 4.3 of DC No. 002-2022 and EO

No. 55, series of 2011. This system is essential for improving cash management and ensuring greater transparency in public financial management.

**7.12 We reiterated our prior year's audit recommendations with modification that Management:**

- a. Expedite the closure of the depository account maintained with BDO by setting a definite timeline; and**
- b. Transfer the BDO account balance to the LBP or DBP account maintained by the AFPRSBS.**

7.13 The Management commented that the AFPRSBS designated additional personnel authorized to transact with BDO to expedite withdrawals and fund transfer of collections to the AFPRSBS' government depository banks. Further, AFPRSBS is now reviewing the feasibility of transferring the collections within the one-day policy as stated in the DOF DC No. 002-2022 without breaching sound internal control and existing policy. AFPRSBS will send another letter request to the DOF to present its case and request consideration. With that, the Management is requesting COA to still allow the AFPRSBS to use the BDO account as a servicing bank for the collection of amortization payments from the remaining installment sales buyers of the Iloilo Project until the request for reconsideration is submitted and resolved.

7.14 As a rejoinder, the Audit Team upholds its position on the DOF approval requirement. It is important to note that this issue was raised in the previous year, and the DOF maintained its stance against allowing a private bank as the depository account of AFPRSBS.

**8. The AFPRSBS disbursed Special Counsel Allowance (SCA) to two government lawyers totaling P180,000 from January to June 30, 2024 without complete documentation, contrary to Section 4.6 of PD No. 1445 and COA Circular No. 2012-001.**

8.1 Section 4.6 of PD No. 1445 provides that claims against government funds shall be supported with complete documentation.

8.2 Furthermore, COA Circular No. 2012-001 dated June 14, 2012 provides for the documentary requirements for the grant of SCA, as follows:

*5.0 Allowances, Honoraria and Other Forms of Compensation*

*xxx...*

*5.6 Special Counsel Allowance*

- a. Office Order/Designation/Letter of the OSG deputizing the claimant to appear in court as special counsel*
- b. Certificate of Appearance issued by the Office of the Clerk of Court*

- c. *Certification that the cases to be attended by the lawyer personnel are directly related to the nature/function of the particular office represented*
- d. *Certification issued by the concerned lawyer and the Agency Accountant that the amount being claimed is still within the limitation under the GAA.*

8.3 In relation to Section 5.6 (d) of COA Circular No. 2012-001, Section 60 of the General Appropriations Act of 2024 also provides that:

**Section 60.** *Government lawyers assigned in the legal staff of the agencies are entitled an allowance of Five Thousand Pesos (P5,000) for each appearance or attendance to court hearings, subject to the following:*

- *The government lawyer has been deputized by the Office of the Solicitor General (OSG) or authorized by the head of agency to assist the OSG, prosecutors, or provide legal representation to the agency or its personnel as its counsel, as the case may be;*
- *The court appearance is not pursuant to motions for extension or postponement of hearing; and*
- *The aggregate allowance per month shall not exceed fifty per cent (50%) of the government lawyer's monthly basic salary.*

*Court as used in this Section shall pertain to those under the Judiciary. In no case shall special counsel allowance be granted to government lawyers appearing before quasi-judicial and administrative agencies.*

8.4 For the period January 1 to June 30, 2024, the AFPRSBS has paid a total of P180,000 to two government lawyers as SCA for the rendition of legal services in various cases involving the AFPRSBS.

8.5 Audit showed that all the 12 claims for the said allowance were not supported with complete documentation as required under item 5.6 of COA Circular No. 2012-001. The documentary requirements that were not attached to the claims are the following:

- a. Certification that the cases to be attended by the lawyer personnel are directly related to the nature/function of the particular office represented; and
- b. Certification issued by the concerned lawyer and the Agency Accountant that the amount being claimed is still within the limitation under the GAA.

8.6 Hence, the Audit Team requested the above requirements. Initially, Management asserted that although there were no certifications attached to the claims, the AFPRSBS maintained a monitoring schedule of all the hearings attended by the two lawyers to ensure that the amounts being claimed are within the limit or aggregate allowable allowance per month,

which shall not exceed 50 per cent of the government lawyer's monthly basic salary. Management further commented that the hearings attended are all related to the ongoing cases involving the AFPRSBS, which can be validated against the official list of pending cases as at December 31, 2024.

8.7 Although Management eventually submitted the required certifications, the Audit Team would like to emphasize that every disbursement requires certification from its authorized representative on the completeness of the supporting documents and the propriety of the amount claimed. Without the necessary supporting documents, the propriety and regularity of the transactions would be deemed doubtful.

8.8 **We recommended and Management agreed to ensure that all disbursement transactions are supported with complete documentary requirements to avoid possible incurrence of audit suspensions and/or disallowance/s.**

9. **Communication allowance totaling P115,200 was granted to 55 COS personnel of the AFPRSBS, contrary to Paragraph 3.1 of National Budget Circular (NBC) No. 2024-2, Paragraph 7.5 of COA-DBM Joint Circular No. 2, series of 2020, and Item 5 of the General Provisions of their Service Contracts, thus, considered irregular.**

9.1 Paragraph 3.1 of NBC No. 2024-2 on the Guidelines on the Payment of Communication Expenses of Certain Government Personnel provides:

3.1 Xxx

*On the other hand, **consultants and experts hired for a limited period to perform specific activities or services with expected outputs, as well as those hired on a contract of service and/or job order basis, shall not be entitled to the payment of communication expenses.*** (Emphases supplied)

9.2 Furthermore, Paragraph 7.5 of COA-DBM Joint Circular No. 2, series of 2020, provides limitations on hiring COS, as follows:

***7.5 The services of the COS and JO workers are not covered by Civil Service laws, rules, and regulations, thus, not creditable as government service. They do not enjoy the benefits being received by government employees, such as leave, Personnel Economic Relief Allowance, Representation and Transportation Allowances, and other bonuses and incentives.*** (Emphasis supplied)

9.3 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)

- 9.4 In relation to NBC No. 2024-2 and COA-DBM Joint Circular No. 2, series of 2020, Item 5 of the General Provisions of the Service Contracts executed and entered into with 53 COS personnel, provides:

*that the **SECOND PARTY shall not be entitled to the benefits granted to regular plantilla employees**, such as PERA, RATA, mid-year bonus, productivity incentive, thirteenth month pay, Christmas bonus, cash gifts, **and other similar benefits** under the pertinent CSC, DBM, and COA laws, directives, policies, circular, rules, and regulations on the matter.* (Emphasis supplied)

- 9.5 Service Contracts entered by and between the two project-hired personnel, also referred to as COS personnel, and the AFPRSBS provides only the contract fee which does not include the provision of communication and other allowances.
- 9.6 Both contracts include provisions that there shall be no employer-employee relationship between the parties arising from, as a result of, or in relation to the Contract and that the COS personnel shall be covered by the COA-DBM Joint Circular No. 2, series of 2020, as amended and other relevant and applicable laws, rules, policies, circulars, rules and regulations.
- 9.7 The AFPRSBS' policy on efficient use of communication facilities, including the grant of cell card subsidy to its selected regular officials and employees, is outlined in Document No. P-2004-03 effective November 10, 2004. Such policy was subsequently amended adding the use of mobile data usage and converting the cell cards to cash with monthly allocation of P56,400 based on the approved Disposition Form dated April 22, 2024.
- 9.8 The AFPRSBS BOL meeting, approved the separation of the remaining 79 employees of the AFPRSBS effective June 30, 2024 per Minutes of their meeting on April 11, 2024. With the subsequent hiring of 63 personnel under a COS arrangement, communication allowance of P28,800 per month was granted to 55 COS personnel in support to the discharge of their duties and responsibilities, effective July 1, 2024. Table 9.1 shows the details of said allowance granted for the period from July 1 to December 31, 2024.

**Table 9.1 – Payment of Communication Allowance to 55 COS Personnel  
From July 1 to December 31, 2024**

<b>Date</b>	<b>Period covered</b>	<b>Amount</b>
09/09/2024	July – August 2024	P 57,600
12/02/2024	November 2024	28,800
12/12/2024	December 2024	28,800
<b>Total</b>		<b>P 115,200</b>

- 9.9 Pursuant to Paragraph 3.1 of NBC No. 2024-2, COS personnel are not entitled to receive communication allowance. Moreover, although the concerned COS personnel are part of the LT, they are not regular employees to be allowed of communication allowance.
- 9.10 While the Audit Team acknowledges the necessity of a communication allowance in enabling COS personnel to effectively perform their duties and responsibilities, the disbursement of such allowance, without adherence to the relevant provisions of NBC No. 2024-2, COA-DBM Joint Circular No. 2, is deemed irregular, in accordance with Paragraph 3 of COA Circular No. 2012-003.
- 9.11 **We recommended that Management:**
- a. **Require the COS personnel concerned to refund the communication allowance totaling P115,200;**
  - b. **Stop the payment of communication allowance to COS personnel; and**
  - c. **Amend the policy on granting communication allowances to ensure alignment with the provisions of NBC No. 2024-2.**
- 9.12 The Management commented that despite being in liquidation, AFPRSBS remains actively engaged in fulfilling its mandate under MO No. 90, including asset disposal, debt collection, property management, and refund processing. These activities require continuous communication with external and internal stakeholders. To ensure operational efficiency, AFPRSBS provided communication allowances to qualified COS personnel, who perform essential tasks similar to regular employees.
- 9.13 Management added that:
- The allowance was used for official duties, including coordination with contractors, government agencies, buyers, and regulatory bodies;
  - The benefit primarily served AFPRSBS by ensuring timely service delivery;

- Office landlines were non-functional from November 2024 to February 2025, making mobile communication essential; and
- Under NBC No. 2024-02 transitory provision, existing policies on communication expenses were valid until December 31, 2024. The AFPRSBS is also reviewing this in formulating a permanent policy.

9.14 Given the increased volume of refund inquiries, serving an average of 400 members daily, the AFPRSBS requests consideration to continue the communication allowance.

9.15 As rejoinder, the Audit Team recognizes that various activities are required to be fulfilled by AFPRSBS, however, Management should have considered those activities when they made the decision on the separation of all regular employees from service. In this regard, attention is drawn to Section 3(b) of MO No. 90, which mandates maintaining the necessary personnel to wind-down operations. Furthermore, the AFPRSBS remains bound by existing government rules and regulations, particularly DBM NBC No. 2024-2 and COA-DBM Joint Circular No. 2, series of 2020. Therefore, the grant of a communication allowance to COS personnel is strictly prohibited.

**10. The designated Accountable Officer (AO) responsible for the treasury operations was reemployed under COS status, which eventually led to the cancellation of its fidelity bond protection upon separation from service, contrary to Section 3 (b) of MO No. 90, Section 101 of PD No. 1445 dated June 11, 1978 and Paragraphs 4.1.1, 4.11 and 7.3 of Treasury Circular (TC) No. 02-2019 dated April 25, 2019, thus, losing accountability for funds and, exposing the AFPRSBS to the risk of not being indemnified in cases of loss, fraud, dishonesty or irregularity.**

10.1 Aside from Section 3 (b) of MO No. 90 on the requirement of maintaining number of personnel necessary to wind-down its corporate affairs and Section 7.1 of COA-DBM Joint Circular No. 2 on the limitation for hiring under COS, Section 101 of PD No. 1445 provides:

*1. Every officer of any government agency whose duties permit or require the possession or custody of government funds or property **shall be accountable therefor** and for the safekeeping thereof in conformity with law.*

*2. Every **accountable officer shall be properly bonded** in accordance with law. (Emphases supplied)*

10.2 Likewise, Paragraphs 4.1.1, 4.11, and 7.3 of TC No. 02-2019 provide:

*4.1.1 **Every officer, agent, and employee** of the Government of the Republic Philippines, its agencies and instrumentalities, GOCCs, and SUCs, regardless of the status of their appointment, whenever the nature of the duties performed by such officer,*

*agent or employee permits or requires the possession, custody or control of public funds or properties for which he/she is accountable, **be deemed a bondable officer and shall be bonded or bondable and his/her fidelity insured.***

Xxx

**4.11 Effect of Separation from Office or Removal from Accountability** – *When the bondable officer is separated from the service by reason of resignation or retirement, or relieved of accountability by reason of his/her removal or transfer to another position or government agency, the Head of Agency concerned shall immediately request the BTr DO/PO CTOO II for the cancellation of the fidelity bond. **The cancellation of the bond shall take effect on the date of separation, relief or transfer.***

Xxx

### **7.3 Cancellation**

*7.3.1 The Head of Agency or authorized representative shall immediately submit a written request for bond cancellation to the concerned BTr DO/PO CTOO II involving accountable officers who are no longer accountable by reason of retirement, separation from the service, promotion, transfer, suspension from office or for any other cause rendering them not bondable to their present position. The Head of Agency or authorized representative requesting for cancellation of the bond shall accomplish and submit online the Fidelity Bond Application Form in the NGCDS Fidelity Bond Module. Two (2) copies shall be printed, subscribed and sworn to before any officer authorized to administer oath, for submission to BTr POs/DOs.*

*7.3.2 The CTOO II shall approve the request for bond cancellation and issue the corresponding CL. (Emphases supplied)*

- 10.3 On April 12, 2023, the AFPRSBS President and Chief Executive Officer (CEO) issued Human Resources Order No. HRO 04-04-2023 designating a COS personnel as the Head of the Cashiering Department and accountable for the cash collection and disbursement of the AFPRSBS with a maximum cash accountability of P100 million.
- 10.4 Our review of the contract of said COS personnel revealed that she was engaged to provide advisory and consultancy services as Chief Treasury Operations Management Officer of the AFPRSBS from July 1, 2024 to December 31, 2024, which are the same as her functions when she was holding a regular position. Also, although the contract provides the duties and responsibilities on the carrying out of the liquidation and winding down activities of the AFPRSBS in accordance with MO No. 90, series of 2016, the same law requires AFPRSBS to maintain a number of personnel to perform the same duties and responsibilities instead of separating them from the service.

- 10.5 Contrary to Section 101 of PD No. 1445, the COS personnel cannot be considered an AO since there is no employee-employer relationship between her and the AFPRSBS. As emphasized by the SC in the case of *Mark Abadilla, et. al., versus Philippine Amusement and Gaming Corporation,*

*Workers under contract of services and job orders are not considered to have rendered service for the government, covers lump sum work or services where **no employee-employer relationship exist**, exists for a period of short duration not exceeding six months on a daily basis, are not covered by Civil Service Law, Rules, and Regulations, but by the Commission on Audit (COA) rules, and do not enjoy the benefits enjoyed by government employees. (Emphasis supplied)*

- 10.6 In relation thereto, Paragraph 4.1.1 of TC No. 02-2019 also provides that only officer, agent, and employee of the Government of the Philippines whose duties require the possession, custody, or control of public funds for which he/she is accountable shall be deemed a bondable officer. Given her employment status as COS personnel, she cannot be considered an AO, despite handling the cash operations of the AFPRSBS.
- 10.7 Further, while the duties of the COS personnel involve the collection of government funds, she is not required by law or any regulations to render account to the COA, thus, she cannot be considered an AO as defined under COA Circular No. 2009-006.
- 10.8 Furthermore, based on the provision of Paragraph 4.1.1 of TC No. 02-2019 vis-à-vis Section 101.2 of PD No. 1445, the fidelity bond is automatically cancelled upon separation from the service of the AO. Records show that her fidelity bond as an AO was renewed on May 28, 2024 under Risk No. 13D2-2024-02953R covering the period from June 2, 2024 to June 1, 2025. Following Paragraph 4.11 of TC No. 02-2019, the bond was cancelled which took effect on the date of separation from service.
- 10.9 Likewise, inquiry with Management disclosed that no written request for bond cancellation to the concerned BTr District Office or Provincial Office was submitted by the President and CEO and/or Administrator of the AFPRSBS contrary to Paragraph 7.3.1 of TC No. 02-2019. Consequently, the corresponding Confirmation Letter was not issued by the Chief Treasury Operations Officer II confirming the cancellation of the bond. The Audit Team would like to emphasize that while no request for bond cancellation was submitted, Paragraph 4.11 of TC No. 02-2019 expressly states that the cancellation of the bond shall take effect on the date of separation, relief or transfer. Hence, the designated AO is no longer covered with fidelity bond protection during the term of COS as the Treasury Operations Management Officer of the AFPRSBS.
- 10.10 While the AFPRSBS has sought the GCG's guidance on rehiring nine personnel for critical positions, including Collecting Officer and SDOs, the

designated AO currently under COS, cannot be deemed accountable or bondable in handling the treasury operations.

10.11 Foregoing considered, the AO's accountability for the funds no longer exists upon her designation being on a COS status, thus, causing the cancellation of bond protection and further exposing the AFPRSBS for not being indemnified in cases of loss, fraud, dishonesty or irregularity.

10.12 **We recommended that Management:**

- a. **Transfer to the Administrator the accountability for the treasury operations while the request for regularization of the nine COS personnel is pending with the GCG;**
- b. **Follow-up the status of the letter to the GCG seeking guidance for the regularization of the nine COS personnel; and**
- c. **Secure a fidelity bond from the BTr under the account of the Administrator or its designated regular officer pursuant to TC No. 02-2019.**

10.13 The Management commented that the approval of the regularization of certain COS personnel would allow Management to designate the appropriate AOs.

10.14 Meanwhile, the Administrator has an approved accountability limit of P1 million as Check Disbursing Officer/Finance Officer, effective from September 30, 2024 to September 29, 2025. If GCG grants the regularization, the Human Resource Service Unit will facilitate the bonding of the designated AO.

10.15 As a rejoinder, as regards the Administrator's bonding, the Audit Team finds the approved amount of P1 million inadequate to cover the accountabilities for both disbursing and cashiering transactions of the AFPRSBS. As highlighted in the audit observation, the Head of the Cashiering Department, responsible for handling cash collections and disbursements, has a maximum accountability of P100 million. Furthermore, due to the separation from service of the personnel managing the treasury operations, the corresponding bond was automatically cancelled pursuant to Paragraph 4.11 of TC No. 02-2019. As a result, the Administrator, being the only remaining regular employee of AFPRSBS, is the sole individual qualified to manage all fund accountabilities. Given these circumstances, **we further recommend that Management evaluate the total maximum accountability of the Administrator, being a sole regular officer who is responsible for all transactions of AFPRSBS, as a basis in obtaining the fidelity bond protection.**

**11. The AFPRSBS failed to notify the Audit Team of the separation from service of seven AOs prior to the effective date of their separation, resulting in the delayed conduct of mandatory cash examination, contrary to Section 80 of PD**

**No. 1445, otherwise known as the Government Auditing Code of the Philippines.**

11.1 Section 80 of PD No. 1445 on the Final report of AOs, provides:

***(1) An accountable officer, upon ceasing to act in his official capacity as such, shall submit to the auditor of the agency concerned a report of his accountability.***

*(2) Any remaining balance of such accountability shall be deposited in the proper treasury without unnecessary delay.*  
(Emphasis supplied)

11.2 Further, COA Circular No. 2009-006 dated September 15, 2009 defined the term AO as *the officer of any government agency, who by the nature of his duties and responsibilities or participation in the collection/receipt and expenditure/use of government funds, is required by law or regulation to render account to the COA.*

11.3 To take charge of the funds of the AFPRSBS, the President and CEO designated the following regular employees as AOs, as presented in Table 11.1.

**Table 11.1 – Accountable Officers of AFPRSBS designated as SDOs and Collecting Officer**

<b>Concerned AOs</b>	<b>Designation</b>	<b>Accountability</b>	<b>Maximum cash accountability</b>
AO 1	Head, Cashiering Department	Cash collection/ disbursement	P100,000,000
AO 2	Head, Supplies and Property Management Branch, General Services Department	SDO, Corporate Services Group	150,000
AO 3	Property Administrator	SDO, Iloilo Satellite Office	150,000
AO 4	Executive Group Fund Custodian	SDO, Executive Group	85,000
AO 5	Real Estate Group Fund Custodian	SDO, Real Estate Group	85,000
AO 6	Refund Examiner	SDO, Membership Group	35,000
AO 7	Head, Equity and Investment Management Department	SDO, Investment Management Group	25,000

11.4 The seven AOs presented in Table 11.1 were among the 79 separated AFPRSBS employees effective June 30, 2024, of which, five of them were retained in such capacity as approved by the BOL.

- 11.5 Pursuant to that approval, all AOs, except the collecting officer, rendered an accounting of their accountabilities by submitting their respective liquidation reports. Details are presented in Table 11.2.

**Table 11.2 – Liquidation Reports Filed by the Six AOs Designated as SDOs**

<b>Concerned AOs</b>	<b>Designation</b>	<b>Date of liquidation</b>
AO 2	SDO, Corporate Services Group	June 28, 2024
AO 3	SDO, Iloilo Satellite Office	June 28, 2024
AO 4	SDO, Executive Group	June 20, 2024
AO 5	SDO, Real Estate Group	June 28, 2024
AO 6	SDO, Membership Group	May 3, 2024
AO 7	SDO, Investment Management Group	June 20, 2024

- 11.6 As can be gleaned from Table 11.2, all of the SDOs were able to liquidate their respective accountabilities prior to the effectivity of their separation from service on June 30, 2024. As regards the Collecting Officer, Management disclosed that no report was filed before her separation from service, except for the deposit of the remaining undeposited collection as of June 30, 2024, which was made on the next banking day.
- 11.7 However, the Management did not notify the Audit Team about the separation from service of the seven AOs prior to the effectivity of their separation. The Audit Team only had actual knowledge of the said separation when the Management informed the Office of the Supervising Auditor through a letter dated August 5, 2024 about the BOL's approval of the separation from the service of all its regular and contractual personnel effective June 30, 2024.
- 11.8 It is worth noting that while no shortages or negative findings were observed during the post-audit of the liquidation reports, including their attachments, the Audit Team emphasizes the importance of notifying them before the AOs cease to act in their official capacity, to ensure that all government funds in the possession of the AOs actually exist and properly accounted for, which can only be determined through the conduct of a mandatory cash examination.
- 11.9 Since the AFPRSBS is rehiring personnel for regular employment, there would still be a risk that the AFPRSBS may not recover from possible losses of funds, if there is no mandatory conduct of examination of the AOs before their separation from the service, due to the untimely giving of notice to the Audit Team.

11.10 **We recommended and Management agreed to notify the Audit Team in advance of the scheduled separation date of any re-employed regular personnel to conduct the mandatory cash examination of accountabilities of designated AOs, in accordance with Section 80 of PD No. 1445.**

## **12. Compliance with Tax Laws**

In compliance with the requirements set forth under RR No. 15-2010, the information on taxes, duties and license fees paid or accrued during the taxable year 2024 are disclosed under Note 30 to FS. The taxes from income, withholding and other sources amounting to P130.096 million were remitted in accordance with the deadlines for payment/remittance of taxes prescribed by the NIRC.

## **13. Social Security System (SSS) Contributions and Remittances**

In CY 2024, AFPRSBS complied with Implementing Rules and Regulations (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. January to June 2024 remittance amounts to P504,990.

## **14. Philippine Health Insurance Corporation (PhilHealth) and Pag-IBIG Premiums**

14.1 In CY 2024, 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 January to June 2024 totaling P353,701 were promptly remitted to PhilHealth.

14.2 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 January to June 2024 totaling P129,950 were promptly remitted.

## **15. Status of Audit Suspensions, Disallowances and Charges**

15.1 As at year-end, the audit suspensions and charges have no balances, while the audit disallowances amounting to P251,442,707 remain unchanged.

15.2 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.

- 15.3 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.
- 15.4 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.
- 15.5 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 a 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.
- 15.6 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 2<sup>nd</sup> 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.
- 15.7 The details of the other disallowances issued in CY 2016, in the total amount of P1,124,507 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; and (b) granting of cash gift amounting to P325,999.