

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

I. FINANCIAL AND COMPLIANCE AUDIT

Unaccounted Property Plant and Equipment – ₱24.1 billion

1. *The total reported carrying amount of the Agency's Property Plant and Equipment (PPE) amounting to ₱24,142,405,240.88 representing 80.42% of the entity's total assets remained not fully and properly accounted for due to (a) lack of reliable subsidiary records and non-submission of a complete Report on the Physical Count of Property Plant and Equipment (RPCPPE) owing to the (i) limited functionality of the entity's Integrated Financial Management System (IFMS), and the Procurement and Property Management Department's (PPMD) stand – alone inventory system; and (ii) lack of adequate manpower; (b) prior year's deficiencies and discrepancies which remained unacted upon such as the undocumented demolished buildings amounting to ₱1,095,575,641.60 which are still recognized in the books, and the doubtful existence and valuation of the land and land improvements and the buildings and structures accounts costing ₱23,472,295,260.25 which have been part of the recurring findings as stated in the previous audit reports thus, indicative of the entity's continuous failure to comply with the existing standards, rules and regulations already cited in the previous recommendations; and (c) the non-application of the capitalization threshold of ₱15,000.00 as required under COA Circular 2016-006 and Section 4, Chapter 10 the Government Accounting Manual which resulted in the overstatement of the PPE by ₱8,354,431.24.*

1.1 PAS 16 defines property, plant and equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period. As of December 31, 2016, the balances of the following major account classification of property and equipment appeared in the Statement of Financial Position:

Account	2016	2015	Difference
Land and Land Improvements	₱18,907,646,007.89	₱18,899,938,852.43	₱ 7,707,155.46
Accumulated Depreciation	<u>2,844,671,459.57</u>	<u>2,713,095,116.71</u>	<u>131,576,342.86</u>
Carrying amount	₱16,062,974,548.32	₱16,186,843,735.72	(₱123,869,187.40)
Building and Building Structures	₱19,556,267,374.03	₱19,554,481,546.75	₱ 1,785,827.28
Accumulated Depreciation	<u>11,944,537,113.61</u>	<u>11,687,620,375.56</u>	<u>256,916,738.05</u>
Carrying Amount	₱ 7,611,730,260.42	₱ 7,866,861,171.19	(₱55,130,910.77)
Furniture and Other Equipment	₱ 2,487,747,556.88	₱ 2,469,739,025.93	₱ 18,008,530.95
Accumulated Depreciation	<u>2,020,047,124.74</u>	<u>1,955,657,665.62</u>	<u>64,389,459.12</u>
Carrying amount	₱ 467,700,432.14	₱ 514,081,360.31	(₱46,380,928.17)

Account	2016	2015	Difference
Total carrying amount-PPE (excluding CIP)	₱24,142,405,240.88	₱24,567,786,267.22	(₱425,381,026.34)
Total Assets	₱30,018,781,419.12	₱29,235,554,082.68	₱ 783,227,336.44
Percentage of PPE to total assets	80.42%	84.03%	

1.2 As shown above, out of the total reported assets of the SBMA amounting to ₱30,018,781,419.12 in 2016, 80.42% or ₱24,142,405,240.88 was comprised of the main PPE accounts. However, our examination of the account balances disclosed deficiencies which render the said amount doubtful and unreliable.

a. *Lack of Subsidiary Records to support the details of the controlling accounts- ₱9.5 billion*

1.3 As part of our audit procedures, a verification of the Integrated Financial Management System (IFMS) subsidiary ledgers (SL) was made and it was disclosed that there were no ledger balances for the following accounts:

Account	Balance per GL
Land Improvements (LI)- Water Supply System-Pastolan, Subic 2Funded	₱11,305.56
Fully Depreciated- Land Improvements	734,013,196.98
B&S-Custom Entry Post	18,433,655.83
B&S-Water Supply Head Controls, Reservoirs, Pumping Stations and Conduit	1,336,276.40
B&S-Electrification	81,078,688.30
B&S-Port Development	7,777,505,480.19
Fully Depreciated-Buildings and Structures	351,005,248.43
Vessels & Boats-Port Development	514,618,823.46
Technical and Scientific Equipment	1,114,502.00
Water Supply Equipment	1,103,644.55
Security Equipment	15,016,523.00
Total	₱9,495,237,344.70

1.4 The absence of such detailed subsidiary records preclude the determination of the correctness of the balances of the controlling accounts. This runs counter to Section 12 of the Manual on the New Government Accounting System (MINGAS) which prescribes the subsidiary ledger as a book of final entry containing the details or breakdown of the balance of the controlling account in the general ledger (GL). It is further provided that postings to the SL shall generally come from the source documents and that the totals of the SL balances shall be reconciled with their respective control accounts regularly or at the end of each month.

1.5 Our audit covering the Calendar Year 2016 once again showed that the concerned departments failed to comply with these requirements.

1.6 According to Management, the transactions prior to the implementation of the IFMS in 2003 have not been captured by the system, thus the subsidiary ledger balances for the said accounts are not included in the IFMS and that the Accounting Department had to manually maintain the subsidiary ledgers for the said accounts.

No Complete Report Evidencing the Conduct of Actual Physical Stock-Taking

1.7 In addition, we requested the submission of the Report on the Physical Count of Property Plant and Equipment (RPCPPE) as of December 31, 2016. However, no such complete report was submitted to show the results of actual inventory-taking which is required to be done annually by the agency, and to be witnessed by a representative from the audit team. Section 42 of the Government Accounting Manual prescribes the RPCPPE to be used in reporting the physical count and condition of PPE by type as at a given date, including those which are unrecorded and those which could not be accounted for. It shows the balance of PPE based on property cards and based on count and the resulting overage or shortage, if any. The report shall be rendered by the Inventory Committee, on its yearly physical count of properties owned by the entity, to be submitted to the Office of the Auditor not later than January 31 of each year.

1.8 In like manner, the lack of a complete and correct RPCPPE renders the balances of the PPE accounts doubtful since there were no bases to support the amounts appearing in the Statement of Financial Position. Said observation has already been noted in the previous audit reports therefore the continuous failure to conduct the actual inventory is indicative of Management's lack of resolve to comply with previously cited rules and regulations on the matter.

1.9 In the Audit Observation Memorandum (AOM) issued to Management, we recommended that the concerned departments be required to explain the causes of the recurring deficiencies. According to Management, the non-submission of a complete RPCPPE was due to the following reasons: the lack of manpower to perform the inventory of all SBMA property in the Freeport, and the problems /limitations brought about by the computerized inventory system being used by the Procurement and Property Management Department (PPMD). As stated in the Management's reply, said system could not generate reliably the required reports. It was also mentioned that a request to purchase a new system – the Fixed Asset Management System (FAMS) was already initiated by the PPMD, however, this was not pursued due to SBMA's plan to procure another system, the Enterprise Resource Planning System (ERPS), which is aimed at integrating the other functions/ requirements of various SBMA departments.

b. Non-Existent Buildings and Structures still recognized in the books – P1.1 billion and doubtful existence and valuation of immovable PPE- P23.5 billion

1.10 Aside from the deficiencies presented above, the previous year's findings on the structures which are no longer existing but still carried in the books remained unacted upon thus, the Building and Structures account remained to be overstated by at least P1,095,575,641.60. As mentioned in the previous year's audit report, a total of 405

buildings, structures and utilities were still included in the total assets of the SBMA while these have already been demolished in various years and therefore no longer existent as of year-end.

1.11 Relative to this, prior year's observation on the questionable validity and reliability of the reported valuation and existence of the land and land improvements as well as the buildings and structures accounts in the total amount of ₱23,472,295,260.25 still holds true as of the end of the Calendar Year 2016 considering that no status report showing any corrections or adjustments related thereto had been presented to the audit team. The absence of such corrections/adjustments means that the same amount remains to be part of the year-end balance as reported by Management, the reliability and actual composition of which cannot still be substantiated as of year-end.

1.12 Management commented that the Land and Asset Development Department (LADD) together with the Accounting Department have already started taking the corrective actions with regard to the non-existent buildings and structures by identifying the said structures and submitting the available documents and reconciling their records. Likewise, actions to address the discrepancies noted in the SBMA's total land area had already been made.

c. *Overstatement of PPE due to non-compliance with the prescribed capitalization threshold - ₱8.4 million*

1.13 PAS 16 presents the following criteria for recognition of PPE:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably

1.14 In addition, with the issuance of the Revised Chart of Accounts for Government Corporations under COA Circular No. 2016-006 and as provided in Section 4, Chapter 10 of the Government Accounting Manual, the capitalization threshold of ₱15,000.00 has been established, representing the minimum cost of an individual asset recognized as a PPE on the Statement of Financial Position. In the same vein, Section 10, Chapter 8 of the Manual provides that tangible items costing ₱15,000.00 shall be accounted as semi-expendable property and shall be recognized as expenses upon issuance to the end-user. However, an Inventory Custodian Slip (ICS) shall be issued to the end-user to establish accountability over them.

1.15 Our audit showed that items costing below the prescribed threshold were still carried in the books of SBMA thereby misstating the total PPE as well as the Government Equity by ₱8,354,431.24. A summary of these items is presented hereunder:

ACCOUNT TITLE	ACCOUNT CODE	ACQUISITION COST	ACCUMULATED DEPRECIATION	CARRYING AMOUNT
Office Equipment	207-001	₱743,703.06	₱658,504.12	₱85,198.94

ACCOUNT TITLE	ACCOUNT CODE	ACQUISITION COST	ACCUMULATED DEPRECIATION	CARRYING AMOUNT
It Equipment And Software	207-002	333,222.00	229,633.88	103,588.12
Machineries	207-003	9,750.00	8,775.00	975.00
Communication Equipment	207-004	2,355,883.08	418,003.87	1,937,879.21
Firefighting Equipment And Accessories	207-005	102,014.00	91,116.15	10,897.85
Medical, Dental And Laboratory Equipment	208-001	334,688.87	301,219.98	33,468.89
Technical And Scientific Equipment	218-001	10,200.00	9,180.00	1,020.00
Hand tools	225-001	171,725.48	138,386.25	33,339.23
Water Supply Equipment	225-002	23,590.00	21,231.00	2,359.00
Security Equipment	225-004	160,500.00	144,450.05	16,049.95
Equipment-Task Force Subic	225-005	72,960.31	65,682.98	7,277.32
Other Equipment	225-015	7,381,088.18	4,318,525.92	3,062,562.27
Furniture And Fixture	226-001	12,416,239.21	9,363,413.74	3,052,825.47
Library Books	227-001	49,650.00	42,660.00	6,990.00
TOTAL		₱24,165,214.19	₱15,810,782.95	₱8,354,431.24

1.16 Management assured us that the necessary adjustments will be made in conformity with the new capitalization threshold.

1.17 In order to address the aforementioned issues and deficiencies,

1.18 We recommended and Management agreed to (a) consider the upgrading of the existing IFMS as well as the system being used by the PPMD or the acquisition of new functional systems whichever is more advantageous to the entity, pending the materialization of the more integrated Enterprise Resource Planning System (ERPS); (b) prioritize the conduct of a complete inventory of all property, plant and equipment items owned by SBMA and the reconciliation of the accounting, the land and asset department, and the property department records by augmenting the personnel assigned to the inventory team in order to establish the actual existence, quantity and amount of the same by effecting the necessary adjustments in order to present fairly the account balances in the financial statements; and (c) effect the necessary adjustments pertaining to the capitalization threshold on PPE, and to henceforth adopt the existing regulation on the same.

Unreliable inventory account balances and non-existent inventories - ₱109.83 million & ₱86.72 million respectively

2. The total balance of the various inventory accounts as of December 31, 2016 in the amount of ₱109,834,857.68 cannot be relied upon due to ineffective inventory management system and lack of adequate manpower which resulted to (a) lack of adequate reports and documents to support said balance such as the complete Report on the Physical Count of Inventory, Reports on Supplies and Materials Issued, Supply Ledger Cards thus, resulting in unreconciled balances between the Accounting and the Property Records; and (b) long outstanding, unaccounted balances, and non-existent Fuel, Oil, and Lubricants, Spare Parts, Office Supplies, Maintenance Supplies, and Inventory Items for Sale-Promo Items accounts registered at ₱20,957,080.24, ₱36,670,950.49, ₱18,930,640.44, ₱7,804,145.05, and ₱2,352,643.98, respectively, or a total of ₱86,715,460.20 representing 79% of the total balance, thus violating the provisions of Section 43 of the Manual on the New Government Accounting System and Section 17 of the Government Accounting Manual, and failing to fully meet the criteria or qualitative characteristics of useful financial information as embodied in the Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board, thereby resulting to misrepresentation of the accounts in the Statement of Financial Position.

2.1 Our audit showed the following balances of the inventory accounts as appearing in the accounting records:

Account Name	December 31 2106	December 31, 2015	Increase/Decrease
Office supplies and Materials- direct issuance	₱ 80,339.38	₱ 349,771.43	(₱269,432.05)
Office Supplies and Materials	18,930,640.44	18,930,640.44	0
Office Supplies and Materials- Stocking	2,467,925.10	2,258,876.63	209,048.47
Total Office Supplies	₱21,478,904.92	₱ 21,539,288.50	(₱60,383.58)
Medical, Dental and Laboratory Supplies	₱ 3,861,426.1	₱ 2,235,972.42	₱ 1,625,453.68
Fuel, oil, lubricants- stocking	₱ 499,518.53	₱ 530,188.50	(₱30,669.97)
Fuel, oil, lubricants	20,957,080.24	20,957,080.24	0
Total Fuel, Oil and Lubricants	₱ 21,456,598.77	₱ 21,487,268.74	(₱30,669.97)
Inventory Items For Sale - Tourism	₱ 2,359,755.52	₱ 2,359,755.52	0
Maintenance Supply Inventory- Direct Issuances	₱641,062.93	₱ 1,325,480.89	(₱684,417.96)
Maintenance Supply Inventory	7,804,145.05	7,804,145.05	0
Maintenance Supply Inventory - Stocking	4,109,335.65	3,417,187.71	692,147.94
Total Maintenance Supply Inventory	₱ 12,554,543.63	₱ 12,546,813.65	₱7,729.98
Foreclosed/Garnished Property	₱685,500.00	₱685,500.00	0

Account Name	December 31 2106	December 31, 2015	Increase/Decrease
Spare Parts-Direct Issuances	₱217,835.00	₱ 315,425.00	(₱97,590.00)
Spare Parts	36,670,950.49	42,008,742.35	(5,337,791.86)
Spare Parts-Stocking	8,965,399.12	3,660,578.78	5,304,820.34
Total Spare Parts Inventory	₱ 45,854,184.61	₱ 45,984,746.13	(₱130,561.52)
Construction Materials Inventory	₱ 459,225.69	₱ 212,251.32	₱ 246,974.37
Accountable Forms	₱ 1,124,718.44	₱ 792,572.46	₱ 332,145.98
Total	₱109,834,857.68	₱ 107,844,168.74	₱ 1,990,688.94

2.2 Based on the Report on the Physical Count of Inventories (RPCI) submitted by the Procurement and Property Management Department (PPMD) showing the result of the Semi-Annual inventory-taking conducted by the committee as of December 23, 2016, a total of ₱10,205,365.13 consisting of 1863 line items were found on hand, which is broken down as follows:

Particulars	Amount
Batteries	₱ 168,248.64
Chemical	1,180.00
Ecology-Spare parts	1,904,657.61
Government Owned Properties	4,018.00
Hardware	1,201,094.06
Office Supplies	2,671,164.38
Oils and Lubricants	500,004.57
Spare parts	1,618,769.83
Tires	1,309,174.80
Toiletries	827,053.24
Total	₱ 10,205,365.13

2.3 As can be gleaned from the aforecited figures, there is a big disparity between the recorded amount of inventories in the books of accounts and the amount of inventories per property records, as shown below:

Per accounting records	₱ 109,834,857.68
Per property records (PPMD)	<u>10,205,365.13</u>
Difference	₱ 99,629,492.55

2.4 Our audit further disclosed that out of the total reported inventories of ₱109,834,857.68, as of December 31, 2016, the balances of the following accounts have remained dormant and unaccounted for since the installation and adoption of the Integrated Financial Management System (IFMS) in 2003, viz:

Account Name	Amount
Fuel Oil, lubricants	₱ 20,957,080.24
Spare Parts	36,670,950.49
Office Supplies	18,930,640.44
Maintenance Supplies	7,804,145.05

Account Name	Amount
Items for Sale- Promo (Tourism)	2,352,643.98
Total	₱ 86,715,460.20

2.5 Based on our interview with the accounting personnel handling these accounts, said balances remained unaccounted/unreconciled due to lack of documents to support the said amounts which have been transferred to the system during the time of transition or migration from the manual accounting system to the IFMS. This means that out of the total amount of ₱109,834,857.68 inventories appearing in the financial statements, ₱86,715,460.20 or at least 79% cannot be accounted for, thus, rendering the total current asset figure unreliable.

2.6 As part of our audit procedures, an actual /ocular inspection was conducted by the team together with the representatives from the accounting department and the PPMD to determine the status of the aforementioned dormant inventory items. Based on our validation, we found out that the fuel, oil, lubricants, office supplies, spare parts, maintenance supplies, and the tourism promo items with aggregate reported amount of ₱86,715,460.20 were no longer existing as of the end of the calendar year 2016, contrary to what was presented in the Statement of Financial Position.

2.7 Aside from this deficiency, the unreconciled balances between the property records and the accounting records further render the other account balances doubtful considering that the reported results of the actual inventory-taking differs materially from the reported figures in the Statement of Financial Position. A good internal control system requires that perpetual inventory records should be checked periodically through physical count and that the total value obtained from the count should be balanced with the controlling account. Section 43 of the Manual on the New Government Accounting System and Section 17 of the Government Accounting Manual explicitly present the required records, forms and reports to be prepared and /or maintained with respect to the control and accounting for inventories, which were not fully complied with.

2.8 This observation had already been brought to Management's attention in the previous Annual Audit Reports. However, the same infractions exist as at the end of the reporting period, thus, rendering the financial statements unreliable. Moreover, this is contrary to what is provided for in the Conceptual Framework which states that if financial information is to be useful, it must be relevant and faithfully represent what it purports to represent.

2.9 In reply to our AOM, Management cited the following causes of the abovementioned recurring deficiencies: 1) absence of an effective Inventory Management Software- PPMD is currently using an in-house automated system, the Supply Inventory Management System (SIMS) which is not linked with the accounting records; 2) lack of documents to support the issuances made in the previous years; and 3) lack of adequate manpower specifically in the accounting department to handle the maintenance of the supplies ledger cards and the reconciliation of the records.

2.10 It is worthy to note that Management's action plan to address the aforesaid deficiencies was also presented which include the following measures such as the acquisition of a more effective ERPS, and the augmentation of the personnel handling the maintenance of required records and reports.

2.11 In view of the above, we recommended and Management agreed to (a) conduct a thorough study and proper planning to determine the appropriate and effective automated system that will address the needs of the agency; (b) augment the workforce involved in the inventory management system; and (c) direct the concerned heads of the accounting and the property departments to closely monitor the progress/status of the reconciliation of the records, the preparation, maintenance and submission of the required documents such as the Stock Cards, the Supplies Ledger Cards, the Reports of Supplies and Materials Issued, and the Reports on the Physical Count of Inventories, among others.

Doubtful validity and accuracy of Construction- In Progress account balances - P15.99 million

3. *Management's assertion on the validity and accuracy of the reported balance of Construction In Progress (CIP) accounts could not be relied upon due to (a) long outstanding and unsupported ending balance in the IFMS amounting to P15,985,666.56 and unreconciled balances of the controlling accounts and the IFMS subsidiary ledgers amounting to P2,582,787,572.14; (b) terminated project amounting to P8,279,000.00 still recognized in the books; and (c) progress payments for the renovation of the Subic Bay Exhibition and Convention Center (SBECC) and the Slope Protection Structure charged to repairs and maintenance amounting to P13,870,398.94 and to Land Improvements account amounting to P3,843,882.31, respectively contrary to Sections 12 and 41 of the Manual on the New Government Accounting System (MNGAS), Philippine Accounting Standard (PAS) 16, and Sections 24 and 25 of the Government Accounting Manual (GAM) thus, affecting the fair presentation of the accounts in the financial statements.*

3.1 Our review of the Construction In Progress accounts with reported balance of P15,985,666.56 as of December 31, 2016, showed the following breakdown, to wit:

Account Code	Account Name	Amount as of December 31, 2016
242-001	CIP L & LI - Perimeter Fence	P 0.00
242-002	CIP L & LI - Port Development	1,809,605.10
242-003	CIP L & LI - Airports, Landing Fields & Terminals	0.00
242-004	CIP L & LI - Street Lightings	0.00
242-005	CIP L & LI - Subic II Funded Projects	0.00
242-006	Plaza, Parks & Monuments (L&LI)	1,154,931.30
242-007	Forest Adventure Park	1,153,286.10
242-008	Electrification	661,001.18
242-015	CIP L & LI - Others	8,804,234.70

Account Code	Account Name	Amount as of December 31, 2016
244-001	CIP – Buildings	1,351,003.18
244-005	CIP - B & S - Port Development	0.00
244-015	CIP - Others, Buildings and Structures	1,051,605.00
Total		₱15,985,666.56

3.2 Our evaluation further revealed the following observations:

a. *Long outstanding, unsupported CIP balances of ₱15,985,666.56 and unreconciled balances of controlling accounts and IFMS subsidiary ledgers in the amount of ₱2,582,787,572.14*

3.3 In May 2008, the SBMA adopted the Revised Government Chart of Accounts as prescribed under COA Circular 2008-001 dated January 29, 2008. The amount of ₱46,806,466.73 was the opening balance of CIP as a result of the conversion of the accounts that was made through Journal of General Ledger (JGL) No. 08-05-000497.

3.4 Review of the General Ledgers (GL) of CIP accounts present below the corresponding beginning balances, increases and decreases in amount, as well as the ending balances for the years 2015 and 2016:

	CIP L & LI - Port Development	CIP L & LI - Plaza, Parks and Monuments	Forest Adventure Park	Electrification	CIP L & LI - Others	CIP - Buildings	CIP - Others, Buildings and Structures	Total
Opening Balance on 5/31/2008	1,809,605.10	2,160,500.40	3,500,465.15	14,749,504.26	3,519,638.20	16,954,356.28	4,112,397.34	46,806,466.73
Total Increase in Amount 2008-2015	0	375,431.20	0	360,856.02	238,706,358.05	4,869,099.31	141,589.02	244,453,333.60
Total Decrease in Amount 2008-2015	0	1,381,000.30	2,347,179.05	14,449,359.10	233,421,761.51	20,472,452.41	3,202,381.36	275,274,133.73
Balance as of 12/31/2015 and 2016	1,809,605.10	1,154,931.30	1,153,286.10	661,001.18	8,804,234.70	1,351,003.18	1,051,605.00	15,985,666.56

3.5 During our audit, we checked the composition of the individual CIP accounts. However, the validity of the opening balances with total amount of ₱46,806,466.73 as well as the other amounts appearing in the GL cannot be counterchecked against the subsidiary ledgers (SL) in the IFMS which were either lacking or showing amounts different from that reflected in the controlling account as illustrated on the next page of the report:

CIP Account	Amount per GL	Amount per SL (IFMS)	Difference
Port Development	₱1,809,605.10	₱0	₱1,809,605.10
Airports/Landing fields/Terminals		(1,719,718.62)	1,719,718.62
Subic II Funded Projects		(3,486,059.27)	3,486,059.27
Plaza, Parks and Monuments	1,154,931.30	361,184.30	793,747.00
Forest Adventure Parks	1,153,286.10	0	1,153,286.10
Electrification Land/Land	661,001.18	0	661,001.18
Improvements Others	8,804,234.70	7,940,751.94	863,482.76
Buildings	1,351,003.18	(11,992,838.08)	13,343,841.26
B & S Port Development	0	2,607,538,249.93	(2,607,538,249.93)
Others-			
Buildings/Structures	1,051,605.00	131,668.50	919,936.50
Total	₱15,985,666.56	₱2,598,773,238.70	₱(2,582,787,572.14)

3.6 As can be gleaned from the above schedule, there was a big difference between the balances of the general and the subsidiary ledgers in the amount of ₱2,582,787,572.14 which is contrary to Section 12 of the Manual on the New Government Accounting System Volume II which states that *Subsidiary Ledger (SL) is a book of final entry containing the details or breakdown of the balance of the controlling account appearing in the GL. Posting of the SL generally come from the source documents. Xxx the totals of the SL balances shall be reconciled with their respective control account regularly or at the end of each month.*

3.7 Individual SL should be maintained for each CIP account for internal control purposes and to present the account details. As presented above, account CIP - Land and Land Improvement (LI) - Port Development amounting to ₱1,809,605.10 has been dormant for almost eight years, from CY 2008-2016. This implies that the construction project has been on-going for the last eight years. However, based on our audit no details of said project can be found in the subsidiary records.

3.8 Management attributed the unaccounted figures mainly to the beginning balances pertaining to prior years' transactions which remained undocumented and unuploaded in the IFMS. During the exit conference we were assured that the Accounting and the Management Information System Departments will study the possibility of uploading the necessary data to arrive at the reconciled balances.

b. *Terminated project amounting to ₱8,279,000.00 still recognized in the books*

3.9 Verification of the GL disclosed the total amount of ₱8,279,000.00 still lodged in the CIP -Land and Land Improvements (LI)- Others account since 2008. In response to our AOM, Management confirmed that the said amount pertains to the payments and

accruals made for the Consulting Services for the Detailed Engineering and Construction and Supervision for the proposed construction of the New Magsaysay Bridge in 2008. However, it was also mentioned that said contract was terminated under Board Resolution No. 16-01-5631 but remained recognized in the books as of year-end thus, overstating the account by the same amount, and violating paragraph 2, Section 41 of the Manual on the New Government Accounting system (MNGAS) which requires that *during the construction period, property, plant and equipment shall be classified and recorded as Construction in Progress (CIP) with the appropriate asset classification. As soon as these are completed, the CIP account shall be transferred to the appropriate asset accounts.*

- c. *Construction in Progress directly charged to expenses amounting to ₱13,870,398.94 and progress billing amounting to ₱3,843,882.31 directly recorded under PPE-Land Improvement (LI)-Others*

3.10 Our audit disclosed that for the year 2016, there were no charges made to the CIP accounts. Review of Projects, Programs and Activities (PPA) and the related accounting entries made disclosed that cost of the progress payments and final payments of the construction projects implemented by SBMA amounting to ₱71,278,976.27 and ₱3,843,882.31 were charged to various repairs and maintenance expense accounts and PPE account under LI-Others account, respectively. The details of the amount are presented as follows:

DATE	REFERENCE	PARTICULARS	AMOUNT
Repairs & Maintenance - Roads, Highways & Bridges (802-002)			
24-AUG-16	JAP-16-08-000603	Payment of Last and Final Billing on Periodic Road Maintenance Project 2014.	₱422,036.38
23-SEP-16	JAP-16-09-000472	Payment of 1st Progress Billing for the Periodic Road Maintenance Project 2015.	26,567,608.91
29-SEP-16	JAP-16-09-000671	Payment of Last and Final Billing for the NSD Road Network-Phase I Project.	3,787,317.61
14-DEC-16	JAP-16-12-000309	Payment of 2nd Progress Billing on Periodic Road Maintenance Project for 2015.	23,544,740.36
Sub-total			₱54,321,703.26
Repairs & Maintenance-Roads (804-002)			
02-MAR-16	JAP-16-03-000014	Payment for 2nd Progress Billing on Pavement Repairs at Subic Bay International Airport.	1,827,300.50
09-AUG-16	JAP-16-08-000238	Payment for Final Billing on Pavement Repairs at Subic Bay International Airport.	1,259,573.57
			₱3,086,874.07
Repairs & Maintenance - Other Gov't. Facilities (804-004)			

DATE	REFERENCE	PARTICULARS	AMOUNT
04-FEB-16	JAP-16-02-000033	Payment of Second Progress Billing for the Renovation of Subic Bay Exhibition and Convention Center Phase-1.	₱ 5,582,828.22
08-MAR-16	JAP-16-03-000201	Payment of 3 rd Progress Billing of Renovation of Subic Bay Exhibition and Convention Center Phase-1.	5,678,453.50
18-OCT-16	JAP-16-10-000353	Payment of Last and Final Billing on Renovation of Subic Bay Exhibition and Convention Center Phase-1.	2,609,117.22
Sub-total			₱13,870,398.94
Grand Total			₱71,278,976.27

3.11 Based on the table presented above, out of the ₱71,278,976.27, the amount of ₱57,408,577.33 pertains to the road repair maintenance projects which according to Management were approved by the Department of Budget and Management under Maintenance and Other Operating Expenses. However, the amount of ₱13,870,398.94 pertaining to the progress billings for the renovation of the Subic Bay Exhibition and Convention Center were erroneously treated as Repairs and Maintenance Expenses which resulted in misstatements of the entity's assets and expenses at year-end.

3.12 Moreover, payment for the 1st progress billing for the construction of Slope Protection Structure at Beta Street, Binictican, SBFZ amounting to ₱3,843,882.31 was directly charged to PPE under Land Improvement (LI) – Others, with account code (202-015), instead of debiting the CIP account as prescribed under the chart of accounts for government corporations.

3.13 Under PAS 16, an entity needs to evaluate all its property, plant and equipment (PPE) costs at the time they are incurred. These costs include those incurred initially to acquire or construct an item of PPE and costs incurred subsequently to add to, replace part of, or service it. Relative to this, paragraph 12 of the same standard mentioned that the entity does not recognize in the carrying amount of an item of PPE the costs of day-to-day servicing of the item. Rather, these costs described as repairs and maintenance are recognized in profit or loss as incurred.

3.14 However, under Section 24 of the Government Accounting Manual (GAM), repairs and maintenance may be categorized into major and minor repairs. Minor repairs shall be charged directly to expense account Repairs and Maintenance while major repairs shall be added to the carrying amount of the PPE. It is only in cases where cost cannot be easily differentiated between a minor and major repair, shall it be treated as an expense.

3.15 Section 25 of the GAM further provides that *an entity shall capitalize the cost incurred for repair, betterment, enhancement, expansion or upgrade of existing PPE if the amount is material and a) where the expenditure results in an effective increase in the*

future economic benefits or service potential that is expected to be derived from using the asset and the increase in the future economic benefits or service potential will be realized; b) there has been an effective increase in the quality of the services provided by the asset beyond that previously determined; or c) there has been an effective extension to the asset's useful life as a result of the expenditure.

3.16 In the case of the SBMA, no cost of projects undertaken relative to pertinent PPE items were capitalized during the year as stated earlier.

3.17 It is worthy to mention however, that as stated in the management's reply and as discussed during the exit conference corrective actions have already been taken by Management to address some items cited in our AOM particularly those needing corrections or adjustments.

3.18 We recommended and Management agreed to (a) account for the beginning balances of the CIP accounts by submitting subsidiary records/details thereof as uploaded in the IFMS, for our verification and tracking of the movements of the amounts recognized; and (b) identify the reconciling items and make the necessary corrections/adjustments in order to arrive at reconciled ending balances of the general and the subsidiary ledger accounts.

Uncollected receivables-₱3.9 billion

4. *Total receivables were understated by at least \$21,944.46 or ₱1,091,103.41 due to unrecorded receivable from Hualong International, Inc. Moreover, of the Total Receivables of ₱4,268,222,966.43 for locators and residents as of September 30, 2016, ₱1,547,852,059.59 or 36.26% (excluding the dormant accounts of Financial Building Corp, Home Guaranty Corporation and Legenda International Resorts Limited aggregating to ₱2,050,221,252.81) were doubtful since their existence and correctness were not ascertained. Relative to this, a discrepancy in the confirmed balances amounting to ₱132,457,871.35 was noted. Likewise, instances of laxity in the implementation of the provisions of the lease agreements and existing policies on delinquent/defaulting lessees have been noted which further resulted in uncollected accounts. Lastly the inefficiency of Management to collect receivables resulted in the accumulation of Doubtful Accounts of ₱3,908,308,166.14 or 86.73% of the Total Receivables, leaving only a net realizable value (NRV) of ₱598,082,488.46 or 13.27% as of December 31, 2016.*

4.1 We have audited the account Receivables, on a test basis, with reported net realizable value of ₱598,082,488.46 as of December 31, 2016, arrived at as follows:

	Current	Non-Current	Total	Percentage based on Total Receivables
Locators	₱349,419,024.93	₱3,848,828,975.65	₱4,198,248,000.58	93.16%

	Current	Non-Current	Total	Percentage based on Total Receivables
Residential	12,531,981.93	230,820,117.40	243,352,099.33	5.40%
Equitable Card Net Inc.	888,742.05	0.00	888,742.05	0.02%
Trade Receivables	362,839,748.91	4,079,649,093.05	4,442,488,841.96	98.58%
Non-Trade Receivables	6,803,429.14	57,098,383.50	63,901,812.64	1.42%
Total Receivables	369,643, 178.05	4,136,747,476.55	4,506,390,654.60	100.00%
Less: Allowance for doubtful accounts	(67,760,086.30)	(3,840,548,079.84)	(3,908,308,166.14)	86.73%
Net Realizable Value	₱301,883,091.75	₱296,199,396.71	₱598,082,488.46	13.27%

4.2 In the course of audit, we noted the following deficiencies:

Unrecorded receivables -₱1.1 million

4.3 SBMA is mandated to develop the Subic Special Economic Zone into a self-sustaining, industrial, commercial, financial and investment center to generate employment opportunities in and around the zone, and to attract and promote productive foreign investments. Its mission is to generate broad-based business and job opportunities by offering unique maritime, eco-tourism and high-tech industrial services to the world as a showcase of Philippine economic progress and development. Relative to this, SBMA's main revenue sources include the following: land and building leases, housing leases, seaport and airport operations, regulatory fees, tourism and others.

4.4 The bulk of the revenue of SBMA emanates from lease agreements with locators which are governed by the terms and conditions stipulated in the contracts and are normally captured in the financial records as receivables.

4.5 As presented above, total receivables amounted to ₱4,506,390,654.60 as of December 31, 2016. Our examination, however, revealed that receivables amounting to \$21,944.46 were not recorded in the books. These were outstanding unpaid charges and penalties due from Hualong International, Inc. involving the three vessels billed by SBMA Seaport Department on March 29, 2010. A query was made to the Accounting Department if these receivables were booked but no particular account under the name of said debtor was documented. Likewise, our validation in the Integrated Financial Management System (IFMS) yielded no record of such account. However, based on available source documents the details of the said charges are as follows:

Name of Vessel	Particulars	Amount (USD)	TOTAL (USD)
1 F/B Xiang Shun Da			
	Berthing Fee	33.96	
	Harbor Cleaning Fee	1210.00	
	Pilotage	9.00	
	Additional Charges	3,022.32	
	Berthing Fee and Harbor Cleaning Fee	4,705.64	9,280.92
2 F/B Rue Chang Xing			
	Berthing Fee	507.84	
	Harbor Cleaning Fee	1,840.00	
	Harbor Fee	3.67	
	Pilotage	12.00	
	Additional Charges	3,022.32	
	Berthing Fee and Harbor Cleaning Fee	4,705.64	10,091.47
3 F/B Shun FA Xing			
	Berthing Fee	17.68	
	Harbor Cleaning Fee	5.89	
	Harbor Fee	40.00	
	Pilotage	9.00	
	Penalty (SBMA Seaport 94006)	500.00	
	Penalty (SBMA Seaport 94007)	2000.00	2,572.57
TOTAL			21,944.96

4.6 The above unrecorded amount understated the total receivables by \$21,944.96 or ₱1,091,103.41 (based on the prevailing exchange rate of ₱49.72). Moreover, since the account pertains to a CY 2010 transaction which remained uncollected, this further shows Management's lapses in the recording and monitoring of its accounts, thus resulting in high rate of uncollected receivables.

4.7 In their reply to our AOM, Management cited that based on the review made by the Accounting Department, they found out that the Seaport Department issued various billing assessment for Seaport Fees and Penalties to Hualong International, Inc. way back in 2008 to 2009. However, since then, the Accounting department did not receive any endorsement of the said unpaid receivables for billing and booking purposes.

4.8 It was also mentioned that the SBMA Board had authorized the seizure and impoundment of the vessels of said company under Board Resolution no. 09-07-3168 dated July 3, 2009 due to the non-payment of the said Seaport Fees and Penalties and to the alleged involvement of the three vessels in the suspected transporting of illegal drugs which were intercepted by SBMA on May 25, 2008. Subsequently, the SBMA Board approved the forfeiture of the two vessels F/B Xiang Shun Da and F/B Rue Chang Xi under Board Resolution No. 10-04-3594 dated April 8, 2010. These two vessels are currently under SBMA's custody. The forfeiture of the 2 vessels was considered as payment of the fees

and penalties due from the Hualong International, Incorporated and thus, considered the same as having been collected. However, there were no documents presented to the team pertaining to the said arrangement or accounting treatment of said transaction.

4.9 Relative to this, we were informed that Management will direct the concerned departments to take the proper action in order to determine the value of the vessels and that the necessary entries will be made in order to adjust the accounts.

4.10 Based on the comments presented by Management, there were lapses in the past system as shown by the unbilled/unbooked assessment for the seaport fines and penalties, as well as in the unrecorded vessels due to lack of adequate coordination between the concerned units. Likewise, this was evident in the forfeiture/impoundment of only two vessels instead of the original three vessels.

Discrepancy in the confirmed receivable balances – ₱ 132.5 million

4.11 The Audit Team confirmed a total of 74 accounts through letters sent to selected samples consisting of 39 residents and 35 locators to substantiate at least 36.36% of the total trade receivable balance of ₱4,268,222,966.43 as of September 30, 2016. The results of the confirmation are summarized below:

Results of Confirmation	Residents (Housing)		Locators		Total			% to total Receivables – trade
	No. of Request	Amount	No. of Request	Amount	No. of Request	%	Amount	
1.Reply without exception	0	0.00	0	0.00	0	0.00	0.00	0.00%
2.Reply with exception	1	1,550,439.36	3	138,183,039.21	4	5.41	139,733,478.57	3.27%
Sub-total	1	1,550,439.36	3	138,183,039.21	4	5.41	139,733,479.57	3.27%7
3.Returned mail	21	48,933,472.88	13	492,148,095.78	34	45.95	541,081,568.66	12.68%
4.No reply	17	95,272,993.39	19	771,764,018.97	36	58.65	867,037,012.36	20.31%
Sub-total	38	144,206,466.27	32	1,263,912,114.75	72	97.30	1,408,118,581.02	32.99%
Total Amount Subject for Confirmation	39	145,756,905.63	35	1,402,095,153.96	74	100.00	1,547,852,059.59	36.26%
Total Receivables – Trade as of September 30, 2016 (Locators and Residents)							4,268,222,966.43	100.00%

4.12 As presented above, the total amount for confirmation was ₱1,547,852,059.59 or 36.26% of the total receivables as of September 30, 2016, which was the initial cut-off date established for the purpose of the preparation of an interim audit report. Of the total samples selected, only 5.41% replied. Based on the replies received, there was a total discrepancy of ₱132,457,871.35 which comprised of ₱1,550,439.36 under one residential account, and ₱130,907,431.99 consisting of 3 locator accounts as shown hereunder.

Locators		Amount per Book	Amount per Confirmation	Difference
1	Philippine Amusement and Gaming Corp.	₱87,447,702.87	₱0.00	₱87,447,702.87
2	The Manila Times College of Subic Inc. [Formerly George Dewey/Global City Innovative College Subic]	39,546,677.21	4,850,000.00 (100,000.00xP48.50)	34,696,677.21
3	Philippine Coastal Storage & Pipeline Corp.	11,188,659.13	2,425,607.22 (50,012.52 x P48.50)	8,763,051.91
Total		₱138,183,039.21	₱7,275,607.22	₱130,907,431.99

4.13 Based on the information gathered from the management's reply to our AOM, the above discrepancies may be attributed to the following issues involving the said accounts which remained unresolved as summarized below:

LOCATOR	DIFFERENCE	REMARKS
1. Philippine Amusement and Gaming Corporation (PAGCOR)	₱87,447,702.87	<p>This pertains to the storage fee of US\$0.33/square meter /day being charged to PAGCOR by SBMA which started in April 2010 in connection with the properties of Legenda International Resorts Ltd. (LIRL) which have been the subject of a writ of preliminary attachment in Civil Case No. 04-10372 issued by the RTC of Manila Branch 22 in the case filed by PAGCOR against LIRL.</p> <p>Said storage fee is being contested by PAGCOR citing the above court case and on account that they are powerless to remove said properties which are in custodial egis (in custody of the law) of the RTC of Manila, Branch 22.</p>
2. The Manila Times College of Subic, Inc. [Formerly George Dewey/Global City Innovative College Subic] (TMTCSI)	₱34,696,677.21	<p>This pertains to the accounts being contested by the locator relative to the Assignment of Leasehold Rights of Subic Bay Medical Center, Inc. (SBMCI) to TMTCSI who maintained that the latter should not be held liable for the former's obligations including the 5% escalation rate imposed on the Lease Agreement of SBMCI.</p> <p>It was further informed that the previous SBMA Board approved the payment scheme for the uncontested portion of TMTCSI's arrears and the rest be resolved in court as presented by the AdHoc</p>

LOCATOR	DIFFERENCE	REMARKS
		Committee handling the issue back then. To date however, no Amendment to the Lease Agreement containing the said approval was signed and the payment scheme was not perfected.
3. Philippine Coastal Storage & Pipeline Corp. (PCSPC)	₱8,763,051.91	<p>According to management, the PCSPC, had actually been contesting the whole amount of Php11,188,659.13, with the following breakdown:</p> <p>1. Php5,408,495.08 – billed CUSA fees covered by a court case under Civil Case No. 130-0-2012: Injunction against the imposition of CUSA STATUS: RTC Branch 72 resolved to grant the injunction against the imposition of CUSA filed by petitioner Philippine Coastal. SBMA filed an appeal before the Court of Appeals but was denied. SBMA consequently filed a Petition for Review on Certiorari before the Supreme Court. The Supreme Court however denied SBMA's petition as well as the Motion for Reconsideration of the resolution denying the Petition for Review on Certiorari.</p> <p>This was adjusted due to the court resolution in favor of the PCSPC.</p> <p>2. Php5,780,164.05 (US\$119,178.64) – contested by PCSPC due to their allegation of undelivered Petroleum, Oil Lubricant (POL) areas in the Pier Compound.</p> <p>The stand of management however was that in fact SBMA had over-delivered, if all areas occupied by PCSPC are to be considered.</p>

4.14 Based on the comments presented by Management, the above were sample cases needing further attention on the part of Management in order to arrive at a resolution that

is advantageous on the part of the entity. Appropriate steps should be taken in order to collect the accounts based on existing documents and evidence showing SBMA's valid claims against the subject parties. Likewise, necessary disclosure on the actual status of the said accounts should be made.

4.15 On the other hand, it should be mentioned that for this year, the following dormant accounts were no longer included in the samples for confirmation because during our yearly confirmation for the last three years (2013-2015) no reply was received from them, viz:

Locator	Amount
Financial Building(Subic Bay) Corp	₱879,088,148.39
Legenda International Resorts Ltd.	768,494,191.59
Financial Building Corp./Home Guaranty Corporation	402,638,912.83
Total	₱2,050,221,252.81

4.16 It should be mentioned however, that the above uncollected accounts represent the top three receivable accounts of the SBMA thus, further affecting the net realizable value of the accounts.

4.17 Although the results of the confirmation showed a very small percentage of response from the sample-locators, it is still an indication that discrepancies between the reported balances and the actual amounts due from the entity's debtors may exist as presented above.

4.18 A confirmation as of year-end was no longer made since this will involve the same accounts.

4.19 As part of our audit procedures, we also inquired on the status of the sample accounts of locators and residents who failed to reply. The following information was gathered from the accounting department showing the status of said accounts as of December 31, 2016:

	Result of Inquiry	Residents	Locators
1	Taken over by SBMA	0	10
2	With court case	4	6
3	Issued notice of default	0	4
4	With payment scheme	1	4
5	Being Contested	0	2
6	Issued notice of demand	5	2
7	Inactive	0	1
8	Paid	0	1
9	With offsetting agreement	0	1
10	Referred to Legal Department	28	1
	Total	38	32

4.20 During our interview with the concerned accounting personnel, we were informed that the contracts of the 28 residential accounts that were referred to the Legal Department were pre-terminated, and that the subject properties were repossessed by SBMA and leased out to other residents.

Failure to strictly impose the contract provisions on financial considerations due from lessees

4.21 In the audit of sample delinquent receivable accounts, the following data were gathered:

a) Palm Horizon Gateway Subic Inc.

Lease Term	50 years (April 8, 2011-April 8, 2016)
Consideration	US\$ 1,400,000.00 (US\$100.00/sq. m.) Upon signing of contract, 15% upfront payment or amount of US\$210,000.00 Balance of US\$1,190,000.00 shall be paid in five equal annual installments, subject to a 5% interest rate per annum April 8, 2012- US\$274,860.01 April 8, 2013- US\$274,860.01 April 8, 2014- US\$274,860.01 April 8, 2015- US\$274,860.01 April 8, 2016- US\$274,860.01
Security Deposit	Equivalent to 2 months' rent or US\$4,666.66 upon signing of lease agreement
Development Commitment	-Developments at Subic Bay Freeport by constructing a Commercial Center Complex at a minimum development cost amounting to: P15,000,000.00 – for Phase I within a period of 1-2 years from the commencement of the lease. P60,000,000.00 – for Phase II within a period of 3-5 years from the commencement of the lease.
Performance Bond	-To employ 40-50 personnel at Subic Bay Freeport 5% of P75.0M if in cash or manager's check upon signing of lease agreement 10% of P75.0M if in bank guarantee 30% of P75.0M if in surety bond.

4.22 Based on the Summary of Receivable Accounts in the IFMS, the lessee has an outstanding payable of \$1,584,300.05 to SBMA covering the upfront payment of \$210,000.00, equal annual installments of \$274,860.01 from April 8, 2012 to April 8, 2016, totaling to \$1,374,300.05 all converted to P78,771,398.49, in addition to the Common Use Service Area (CUSA) fee of P1,565,491.20. The total charges recorded in the books as of

year-end was ₱80,336,889.69 only, which was actually understated by ₱3,750,000.00 representing the unpaid performance bond which was part of the financial considerations due from the lessee upon signing of the lease agreement. Per validation made, it was revealed that no such performance bond was paid either in cash, manager's check, bank guarantee or surety bond.

4.23 We inquired on the status of the said account and we were informed that a Notice of Default was issued on September 5, 2012 while letters of Meeting Invitation dated August 22, 2013 and March 25, 2014 were likewise issued to the lessee.

4.24 According to the SBMA Accounting Department, the locator's account still exists due to the absence of any correspondence or information from the Account Officer (AO) regarding the pre-termination and delisting of said account. Furthermore, our inquiry from the concerned AO confirmed that said locator continues to hold its office without any Certificate of Registration and Tax Exemption (CRTE).

b) Atmos Holdings, Inc.

Lease Term	50 years (September 19, 2011- September 18, 2061)
Consideration	On or before February 18, 2012, the lessee shall pay US\$2,170,830.00: Lot A5 Burgos St. beside Causeway Area, Central Business District- US\$1,700,040.00 Lot A6 Causeway Area, CBD- US\$470,790.00
Security Deposit	US\$ 8,282.30 upon signing of agreement
Development Commitment	-To develop Lot A-5 of the Leased Property into a super yacht service facility of international standard at a development cost of at least ₱12,000,000.00 within one year from the signing of the lease.
Performance Bond	5% of ₱12.0M if in cash or manager's check payable within ten days upon signing of the lease agreement 10% of ₱12.0M if in bank guarantee 30% of ₱12.0M if in surety bond.

4.25 Our evaluation of the account showed that the aggregate amount of ₱115,320,563.70 which consists of ₱107,933,667.60 (\$2,170,830.00) lease contract obligations due on February 18, 2012 and the Common Use Area (CUSA) fee of ₱7,386,896.10 continued to be outstanding as of December 31, 2016.

4.26 As per status inquiry made, we were informed that the Management issued a notice of default on December 3, 2012. We also gathered that since there has been no formal advice from the account officer pertaining to the pre-termination of the agreement of the subject account, the same remains in the accounting records.

4.27 Based on the samples illustrated above, cases of non-implementation of the contract provisions exist. In the case of the foregoing, it was noted that the financial obligations due from the lessees such as the upfront payments, security deposits, performance bond, and even rentals and the corresponding penalties were not strictly imposed contrary to what was provided in the lease agreements.

4.28 Presented below are sample contract provisions which explicitly cite the aforementioned financial obligations together with the corresponding sanctions/penalties:

CONSIDERATION

Section 1. Rental Payment – Within ninety days (90) days from the signing of the lease agreement, the lessee shall pay the lessor the rent xxxx.

Payment of rental fees from the commencement of the lease agreement shall be made regardless of whether or not the lessee utilized the leased propertie[s].

Section 2. Security Deposit – In addition to the foregoing payments, upon signing of this lease agreement, the lessee shall remit to the lessor xxxx to serve as security deposit for any unpaid utility bill[s].

Section 3. Payment of Rental and Security Deposit- The lessor will not make available nor turn over the leased property to the lessee unless the rental and the security deposit have been fully paid xxxx. Should the lessee enter the leased property without paying the said rental and security deposit, the lessor has the right to eject the lessee from the leased property.

4.29 Section 5. Committed Investment/Employment:

Accordingly, LESSE's failure to comply with any of the foregoing commitments shall authorize LESSOR to pre-terminate this lease, cancel the LESSEE's Certificate of Registration/Permit to Operate or impose such other appropriate penalty/ies the LESSOR may determine in is direction without the need of prior judicial determination.

4.30 Section 6. Performance Bond

The Performance Bond shall be a pre-requisite for the renewal of Certificate of Registration and Tax Exemption/Registration Certificate (CRTE/RC) of the LESSEE. In case of failure to post a Performance Bond, penalties shall be imposed in accordance with the SBMA Policy on Imposition of Performance Bond and its Applicable Rates.

The LESSEE shall submit to the LESSOR annual report on the progress of the above committed development project. The report shall contain the progress of the committed project total incurred costs and updated plan for the implementation of the said project.

Upon completion of the development works on the Leased Property in accordance hereof, the LESSEE shall submit a letter of compliance to the LESSOR subject to verification by the SBMA Engineering Department. Xxx

4.31 Article VIII Section 1 on Late Payments:

Additional rent shall be payable hereunder, by way of penalty, in respect of any Rental Payment or other sum payable hereunder to LESSOR (including sums forwarded by LESSOR hereunder due to failure by LESSEE to perform its obligations hereunder) which shall not have been paid within five (5) days after the date on which the same shall be due and payable (an "Overdue Payment") in an amount equal to Twelve Percentum (12%) per annum of the amount of any Overdue Payment; or portion thereof, during which any Overdue Payment shall remain unpaid, such additional rent to be due and payable upon the earlier of: (a) the payment of the Overdue Payment to which it related; or (b) Three (3) Days after demand for payment therefor by LESSOR.

4.32 A review of the usual salient provisions of the contracts/lease agreements governing such matters as the required committed investments on the part of the lessee, the payment/posting of the performance bond, the payment of rental and security deposits as well as other special provisions disclosed the sanctions which should have been imposed by Management such as the non-issuance of the permits to operate, Certificate of Registration, non-turnover of property to the lessee, as well as the other grounds for cancellation of the agreements which Management failed to impose as shown in the above samples which were randomly selected for audit.

4.33 As presented in the two sample cases above, Management failed to impose sanctions and penalties relating to the lessees' late payments which resulted in uncollected funds and probable losses on the part of SBMA.

4.34 Relative to this, we requested from the SBMA Engineering Department copies of verified reports on development commitment which was a requirement cited in the lease agreements. Based on the letter-reply issued by the Engineering Department, verification of development works by locators pertaining to physical structure improvements, constructions or the likes as initiated by their transmittal of letters of compliance are undertaken by the SBMA Building Permit and Safety Department through endorsement by the SBMA Business Group. We further confirmed from the said department (Building Permit Department) that no such development commitment reports were issued by them.

4.35 As stated in our AOM, we recommended that Management require the concerned units to explain the reasons for the uncollected financial obligations due from the lessees and for the non-imposition of the penalties/sanctions as stipulated in the contracts. Presented below are management's comments on the findings pertaining to laxity in the implementation of the provisions of the lease agreements:

a) On the account of Palm Horizon Gateway Subic, Inc. (PHGSI)

On September 5, 2012, a Notice of Default was served to PHGSI giving the same 30 days within which to pay its outstanding obligation and to comply with its development commitment.

In a letter dated October 4, 2012 PHGSI contested the Notice of Default citing as reason its negotiation with the Manila North Tollways Corporation (MNTC) concerning its contractual commitment to fund the Tipo-Sunset Street Road, SBFZ project. The said letter was then endorsed by Legal Department to the Business and Investment Department for Leisure (BID-L) for their comment and/or appropriate action.

On the other hand, Legal Department received a letter dated December 7, 2012 from PHGSI requesting for SBMA's intervention and assistance to fast track the approval of the Tipo-Sunset Street Road, SBFZ access by the Toll Regulatory Board (TRB). Legal Department subsequently responded to PHGSI that its request will be discussed with the BID-L in view of the jurisdictional issues with the TRB on approval of projects along the Subic Freeport Expressway.

Thereafter, several letters of invitation were sent by this Department in 2013 and 2014 to PHGSI to discuss its proposed payment of its outstanding obligations with SBMA and the status of its development commitment.

While the Business Group had again recently endorsed the account of PHGSI for the issuance of a Notice of Default, Legal Department however is currently preparing a memorandum back to BID-L to request for presentation before the SBMA Board for the pre-termination of the lease agreement with PHGSI pursuant to provisions of the Board approved (Resolution No. 12-01-4260) Imposition of Stringent Policies to Collect SBMA Receivables.

As to the rental and CUSA fees, these were properly billed and booked

b) On the account of Atmos Holdings, Inc.(AHI)

A Notice of Default dated December 3, 2012 was issued by the Legal Department anent AHI's outstanding obligations and non-compliance with its development commitments under the lease agreement.

AHI sought SBMA's consideration where it requested to extend the period to cure its contractual default which was approved by the SBMA Board on January 8, 2013 through Board Resolution No. 13-01-4655.

Despite considerations given by SBMA, still AHI failed to settle its financial obligations and comply with its development commitment. Thus, on June 16, 2016, through Board Resolution No. 16-06-5793, the SBMA Board of Directors resolved to terminate and/or no longer renew AHI's leases.

The Legal Department thereafter, upon instructions of the Management, drafted a Notice of Pre-termination, Repossession, Disconnection and Take-Over with Demands to Pay and Vacate and set to serve against AHI in September 2016. However, the same was not served as it was conveyed that AHI will request an audience to the SBMA Board and seek reconsideration.

Currently, as the account of AHI was endorsed again by the Business Group, Legal Department will push through the issuance of the said notice of pre-termination immediately.

The SBMA was able to forfeit the Cash Bond posted by AHI on May 13, 2013 as per Treasury Department. As to the rental and CUSA fees, these were properly billed and booked.

4.36 Based on the reply submitted by management, The Notices of Default were issued way beyond the prescribed period under Board Resolution No. 12-01-4260 treating on the Imposition of Stringent Policies to collect SBMA Receivables. Moreover, while there were actions taken as cited above, the laxity and the lapses noted in audit still resulted in uncollected funds on the part of the entity.

Uncollected receivables – ₱3.9 billion

4.37 As presented earlier, out of the total receivables of ₱4,506,390,654.60, 86.73% or ₱3,908,308,166.14 remained uncollectible as of year-end thereby resulting in a very low 13.27% net realizable value of the said accounts. Such huge amount of uncollectible revenues which continuously accumulated over the years were indicative of the entity's weaknesses and inefficiencies within the systems involved in this particular area of operations, thus depriving the SBMA and the government as a whole of much needed funds to finance programs and projects in the pursuit of its mandate.

4.38 According to Management there were approximately 1,550 locators with past due accounts. We were informed that they were now in the process of reconciling and checking the same in order to apply the advances to the past due accounts. In addition, they cited that after exerting all efforts in the collection of said receivables, Management will proceed with the request for write-off of the uncollected accounts pursuant to COA Circular No. 2016-005.

4.39 Further, it was mentioned that the Accounting Department A/R Housing Division had updated the lessees' billing addresses to ensure that the resident lessees receive their billing statements on time. Relative to this, it was cited that part of the uncollected amounts were the old accounts which also resulted to difficulties in the confirmation of the same since the housing units have already been assigned to other lessees without obtaining clearance from SBMA.

4.40 We recommended and Management agreed to (a) direct the accounting department and the concerned units to study, determine and effect the appropriate accounting treatment for the uncollected fines and penalties from Hualong Inc., and recognize the same in the books if the recognition criteria are met pursuant to PAS 39; (b) review the claims of SBMA against PAGCOR, Manila Times College of Subic, Inc. and Philippine Coastal Storage and Pipeline Corporation as well as the other accounts with pending unresolved issues and take appropriate steps to expedite and arrive at concrete resolutions which are advantageous on the part of the entity; (c) strengthen, and improve the control and monitoring system to stop the lessee's practice of assigning the housing units to other parties/lessees without prior clearance from SBMA; and (d) (i) revisit the existing policies and sanctions for the uncollected financial considerations due from lessees especially the proper implementation thereof within the prescribed period as stipulated in the lease agreements; (ii) institute reforms in the enforcement of the lease agreement provisions as well as in the monitoring and collection of all amounts due from lessees in order to curtail the increasing rate of uncollectible accounts, and thus promoting the interest of the SBMA.

Doubtful balance of Accounts Payable account - ₱146.96 million

5. *The correctness, validity and reliability of the reported balances of the Accounts Payable amounting to ₱146,956,682.91 as of December 31, 2016 could not be determined due to (a) the results of the confirmation showing net discrepancies of ₱248,535.32; and (b) the long outstanding payables aggregating to ₱71,496,901.05 or 48.65% of the reported balance as of year-end contrary to the Conceptual Framework for Financial Reporting and Section 73 of the Manual on the New Government Accounting System (MNGAS) requiring the faithful representation of the accounts in the Financial Statements thereby affecting the total liabilities figure as well as that of the corresponding expense accounts.*

5.1 We have audited the Accounts Payable, on a test basis, with reported balance of ₱207,234,842.10 and ₱146,956,682.91 as of September 30, 2016 and December 31, 2016 respectively, and we noted the following deficiencies/errors:

5.2 Chapter 4 of the Framework mentions liabilities as one of the elements of financial statements. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

5.3 In the case of the SBMA, Accounts Payable form part of the entity's financial liabilities. Our audit showed the following breakdown of the reported balances as of September 30, 2016 and December 31, 2016:

Account Code	Account Name	Amount as of September 30, 2016	Amount as of December 31, 2016
401-001	Accounts Payable- Unliquidated Obligations/Vouchers	₱102,660,012.38	₱22,914,807.69
401-002	Accounts Payable-Miscellaneous	617,405.12	617,405.12
401-003	Unpaid Salaries and Benefits	134,990.00	134,990.00
401-004	Accounts Payable-Personal Services	5,047,897.28	8,790,163.91
401-005	Accounts Payable-MOOE	13,410,482.48	8,159,982.37
401-006	Accounts Payable- CAPEX	4,830,075.03	4,830,075.03
401-008	Accounts Payable- Current Year	51,759,605.17	63,058,883.37
401-009	Accounts Payable- Current Year- Personal Services	7,448,211.89	4,032,038.05
401-010	Accounts Payable- Current Year- CAPEX	20,000.00	3,554,398.80
401-011	Accounts Payable- Current Year- Guaranty fees	8,870,839.34	18,416,449.26
401-101	Accounts Payable- Long Term	12,435,323.41	12,447,489.31
	Balance per General Ledger	₱207,234,842.10	₱146,956,682.91

5.4 In order to verify the existence of the outstanding obligations of SBMA as of September 30, 2016 (the initial cut-off date for the interim audit), the Audit Team sent 36 confirmation letters to SBMA's creditors. Said letters covered ₱176,198,294.51 or 85.02% of the ₱207,234,842.10 recorded payables. Of the 36 confirmation letters, ten creditors responded, four letters were returned, undelivered to the addressees while the remaining 22 creditors failed to respond to the confirmation letters.

5.5 Based on the replies which we received from the ten creditors, a net variance of ₱1,041,105,129.84 was arrived at as follows:

	Creditors	Per Confirmation	Per Books, September 30, 2016	Difference
1	Landbank of the Philippines	₱1,113,075,000.00 (\$22,950,000 X ₱48.50)	₱69,448,342.00	₱1,043,626,658.00
2	Bureau of the Treasury	12,871,216.59	8,870,839.34	4,000,377.25
3	Subic Enerzone Corporation	0.00	8,482,790.84	(8,482,790.84)
4	Berkman Systems, Inc. & Center For Environmental Studies & MGT (CESM)	4,507,066.18	2,318,871.32	2,188,194.86
5	Development Academy of the Philippines	889,846.65	889,825.65	21.00
6	Torres, Paquito Tolentino	406,432.2	501,202.14	(94,769.94)
7	Motas, Magdalena Platon	309,363.19	405,363.19	(96,000.00)
8	Caser, Apollo V.	320,000.00	320,000.00	0.00
9	Fernandez, Jo Raymundo O.	280,000.00	280,000.00	0.00
10	Alviz, Condrado Mendoza	106,937.64	143,498.25	(36,560.61)
	TOTAL	₱1,132,765,862.45	₱91,660,732.73	₱1,041,105,129.72

5.6 The audit team further validated the outstanding payables of SBMA as of December 31, 2016 by sending 44 confirmation letters with accounts totaling to ₱99,444,682.91 or 67.67% of the balance of accounts payable as of said date. Out of the said samples, three were returned to sender, 34 had no response, and the remaining seven creditors responded showing disparities as presented below:

	Creditors	Per Confirmation	Per Books December 31, 2016	Difference
1	Subic Water and Sewerage Company, Inc.	₱4,461,200.55	₱4,366,767.66	₱94,432.89
2	Berkman Systems, Inc. Center for Environmental Studies and Mgt. (CESM)	4,507,066.18	2,318,871.32	2,188,194.86
3	Freeport Mansion Leisure Corporation	14,333.25	1,000,000.00	(985,666.75)
4	Contel Communications, Inc.	316,450.00	917,705.00	(601,255.00)

	Creditors	Per Confirmation	Per Books December 31,2016	Difference
5	Patient Care Corporation	488,289.40	483,406.51	4,882.89
6	Office of the Solicitor General	0.00	431,000.00	(431,000.00)
7	Trends and Technologies	337,429.46	358,483.03	(21,053.57)
	TOTAL	P10,124,768.84	P9,876,233.52	P248,535.32

5.7 As can be gleaned from the above schedule, the results of the confirmation as of December 31,2016 showed a net effect of P248,535.32 which is an indication of an understatement in the balance of the Accounts Payable as of year-end. It should be mentioned that such misstatement likewise affects the total expenses for the year by the same amount, which is contrary to Section 73 of the Manual on New Government Accounting (MNGAS) requiring all financial data to be accurate and reliable.

5.8 In reply to our AOM, Management informed us that some of the discrepancies noted have already been identified, analyzed and the necessary adjustments have been effected while the recommended measures are being continuously taken to address the items that remain to be validated.

5.9 In our audit of accounts payable, alternative procedures have likewise been made by checking the subsequent disbursements pertaining thereto or other records to provide evidence to support the existence assertion relative to the liability accounts, that is to establish if the reported balance as of year-end actually existed. The audit team examined the subsequent disbursements made by SBMA after the year- end pertaining to the 34 creditors who failed to respond and the three confirmation letters that were returned. Based on our analysis and evaluation, the subsequent transactions showed the existence and active status of the subject accounts except for the following which were found to be part of the dormant accounts:

	Creditor	Amount
1	Power Sector Assets & Liabilities Management Corporation	P25,826,552.41
2	Subic Homes, Inc.	7,323,051.03
3	Proconsult Inc.	4,801,129.47
4	Mcx Motor Phils, Inc.	2,990,000.00
5	Subic Bay Yacht Club, Inc.	2,162,933.36
6	Subic International Hotels Corp.	1,366,922.42
7	Onlite LED Lighting Technologies Int'l Corp.	1,210,000.00
8	Development Academy of the Philippines	899,825.65
9	NPC-GENCO	617,405.12
10	EGCCV Trading	384,000.00
11	Clerk of Court VI RTC-OCC Olongapo City	223,466.55
	Total	P47,805,286.01

5.10 The balance of ₱47,805,286.01 from 11 creditors was analyzed based on the aging of payables submitted by Management and the team found out that nine out of the 11 accounts were already outstanding for more than two years as shown below:

Creditor	Amount	Booking Date	Age of Payable as of December 31, 2016
1. Power Sector Assets & Liabilities Management Corporation	₱25,826,552.41	October 11, 2012	Over 730 days (more than two years)
2. Subic Homes, Inc.	7,323,051.03	October 9, 2008-September 12, 2011	Over 730 days (more than two years)
3. Proconsult Inc.	4,801,129.47	December 30, 2008-January 6, 2010	Over 730 days (more than two years)
4. Mex Motor Phills, Inc.	2,990,000.00	December 29, 2016	1-30 days
5. Subic Bay Yacht Club, Inc.	2,162,933.36	December 28, 2004-December 31, 2012	Over 730 days (more than two years)
6. Subic International Hotels Corp.	1,366,922.42	January 31, 2007-December 31, 2014	Over 730 days (more than two years)
7. Onlite LED Lighting Technologies Int'l Corp.	1,210,000.00	December 29, 2016	1-30 days
8. Development Academy of the Philippines	899,825.65	December 30, 2009-January 12, 2011	Over 730 days (more than two years)
9. NPC-GENCO	617,405.12	October 29, 2004	Over 730 days (more than two years)
10. EGCCV Trading	384,000.00	October 24, 2014	Over 730 days (more than two years)
11. Clerk of Court VI RTC-OCC Olongapo City	223,466.55	December 1, 2009	Over 730 days (more than two years)
TOTAL	₱47,805,286.01		

5.11 Further review of subsidiary ledgers disclosed that a total ₱71,496,901.05 or 48.65% of the reported accounts payable balance remained to be outstanding for more than two years as of December 31, 2016, the summary of which is presented as follows:

Account Code	Account Name	Amount (dormant over 2 years as of December 31, 2016)
401-001	Accounts Payable- Unliquidated Obligations/Vouchers	₱2,452,646.34
401-002	Accounts Payable-Miscellaneous	617,405.12
401-003	Unpaid Salaries and Benefits	134,990.00
401-004	Accounts Payable-Personal Services	4,076,338.17
401-005	Accounts Payable-MOOE	7,922,371.59

Account Code	Account Name	Amount (dormant over 2 years as of December 31, 2016)
401-006	Accounts Payable- CAPEX	4,830,075.03
401-008	Accounts Payable- Current Year	36,718,882.37
401-009	Accounts Payable- Current Year- Personal Services	2,296,703.12
401-101	Accounts Payable- Long Term	12,447,489.31
	Balance per General Ledger	₱71,496,901.05

5.12 The presence of these long outstanding payables in the books is an indication of the questionable validity of the said balances considering that they remained dormant and unpaid for several years. Likewise, the corresponding expenses pertaining to these accounts may have been misstated.

5.13 Management replied that the concerned divisions/ personnel of the Accounting Department have analyzed the discrepancies noted in the confirmation of certain SBMA payables. Following are the results of the analysis made:

	Creditors	Difference as of Sept. 30, 2016	Management Remarks
1	Landbank of the Philippines	₱1,043,626,658.00	Already corrected as of Dec. 31, 2016
2	Bureau of the Treasury	4,000,377.25	Amount per confirmation represents the billing of Bureau of Treasury as of Sept. 2016; while balance per books is the accrual made for the month of Aug. & Sept. 2016
3	Subic Enerzone Corporation	(8,482,790.84)	Balance per book represents estimated power charges for the month of Sept. 2016
4	Berkman Systems, Inc. & Center For Environmental Studies & MGT (CESM)	2,188,194.86	For further verification/validation
5	Development Academy of the Philippines	21.00	The amount accrued by the Accounting Department was based on the approved budget per attached BUR No. 09-07-02551
6	Torres, Paquito Tolentino	(94,769.94)	Adjusted final pay paid on Feb. 28, 2017 under CH-17-00597
7	Motas, Magdaleno Platon	(96,000.00)	Book balance represents salary adjustment and CY 2015 PBB amounting to ₱390,363.19 and ₱15,000.00, respectively. Recorded and paid under APV 16-09-0184 / CH 16-03367 and APV 16-11-0284/ CH 16-03848
10	Alviz, Condrado Mendoza	(36,560.61)	Balance per book is the unpaid balance of terminal leave which is subject to presentation of SBMA clearance before payment. Confirmed amount is equivalent to his payable to SBMA

Creditors	Difference as of Sept. 30, 2016	Management Remarks
TOTAL	₱1,041,105,129.72	

Creditors	Difference as of Dec. 31, 2016	Management Remarks
1 Subic Water and Sewerage Company, Inc.	₱94,432.89	Management will coordinate with the Utilities Department. Necessary adjustments will be made accordingly.
2 Berkman Systems, Inc. Center for Environmental Studies and Mgt. (CESM)	2,188,194.86	For further verification/validation
3 Freeport Mansion Leisure Corporation	(985,666.75)	Amount of ₱14,333.25 are personal expenses of Director Philip G. Camara, paid under OR No. 21003 dated 03/17/17; amount per books of ₱1 million represents refund of performance bond which was disbursed on Jan. 2017
4 Contel Communications, Inc.	(601,255.00)	Amount per books pertains to unclaimed checks amounting to ₱601,255.00 which was disbursed on Jan. 2017; and outstanding amount of ₱316,450.00 which was processed on Jan. 2017 and disbursed on Feb. 2017
5 Patient Care Corporation	4,882.89	Difference refers to EWT which was remitted on Jan. 2017
6 Office of the Solicitor General	(431,000.00)	Amount per books represents monthly allowance as legal counsel to SBMA in connection with Task Force Morong and Redondo for the period May 2016 to Dec. 2016 which was disbursed on Jan. 2017
7 Trends and Technologies	(21,053.57)	Amount per books represents outstanding account of ₱328,483.03 which was processed on Jan. 2017 & disbursed on Feb. 2017; the remaining amount of ₱30,000.00 represents unclaimed bidder's bond.
TOTAL	₱248,535.32	

5.14 Management likewise assured us that the concerned personnel from the three divisions of the Accounting Department will ensure that delivery and acceptance of goods and services takes place before they recognize and record these as payables. On the other hand, the results of review made by management on certain payables which include those outstanding for more than two years was provided to the team and is shown below:

Creditor	Amount	Management Remarks
12. Power Sector Assets & Liabilities Management Corporation	₱25,826,552.41	SBMA filed a request for mediation with the Office of the Government Corporate Counsel (OGCC) on Jan. 6, 2017 and still waiting for the outcome of the case

Creditor	Amount	Management Remarks
13. Subic Homes, Inc.	7,323,051.03	Subject to review of all pertinent documents available in AR Housing Division and will immediately effect the adjustments to reflect the contested claim
14. Proconsult Inc.	4,801,129.47	Adjusted already under JGL-17-02-000383. The basis of the said adjustment was the termination of contract as per Board Resolution No. 16-01-5631
15. Mex Motor Phils, Inc.	2,990,000.00	Waiting for the procurement and all relevant documents to be forwarded to the Accounting Department for processing of the payment
16. Subic Bay Yacht Club, Inc.	2,162,933.36	Subject to validation of supporting documents on accrual made. Management will request from the SBYC the details of transaction and will immediately effect the adjustments
17. Subic International Hotels Corp.	1,366,922.42	Subject to validation of supporting documents on accrual made. Management will request from the SIHC for the details and will immediately effect the adjustments
18. Onlite LED Lighting Technologies Int'l Corp.	1,210,000.00	Waiting for the procurement and all relevant documents to be forwarded to the Accounting Department for processing of the payment
19. Development Academy of the Philippines	899,825.65	For further verification/validation by Management
20. NPC-GENCO	617,405.12	Related to Power Sector Assets & Liabilities Management Corporation account, Management will immediately adjust the balance as soon as the result of mediation is received from OGCC
21. EGCCV Trading	384,000.00	Payment will be made upon issuance of Certification of Final Acceptance from Fire Department
22. Clerk of Court VIRT-C- OCC Olongapo City	223,466.55	Accounting Department will immediately close the accounts because the said amount has been reprocessed under APV 09-12-0058 & APV 09-12-0057 and paid under LA 09-00528 & LA 09-00529, respectively
TOTAL	P47,805,286.01	

5.15 We recommended and Management agreed to (a) continuously analyze the discrepancies noted in the confirmation and effect the adjustments where necessary; and (b) ensure that recording of accounts payable is based on valid claims evidenced by actual delivery of goods and rendition of services. A review of the long outstanding payables should be made and effect necessary management actions thereon. If deemed necessary, revert the corresponding amounts to the appropriate equity account in accordance with existing rules and regulations.

41 dormant asset and 24 liability accounts – P26.81 billion and P10.72 million, respectively

6. The balances of 41 asset and 24 liability accounts totaling to P26,812,209,632.12 and P10,721,472.57 representing 89.32% and 0.09% of total assets and total liabilities respectively, remained unsubstantiated and/ or dormant for more than five years (based on a 2011 cut-off), thus, casting doubt on their validity and reliability thereby affecting the relevance and faithful representation of the financial information as presented in the Financial Statements contrary to the requirements set forth under the Conceptual Framework for Financial Reporting, Philippine Accounting Standard (PAS) 1, and Sections 72 and 73 of the Manual on the New Government Accounting System (MNGAS).

6.1 Financial statements are the means by which the information accumulated and processed in financial accounting is periodically communicated to the users. PAS 1 mentions the financial statements as the structured representation of the financial position and financial performance of an entity. They are the end product or main output of the financial accounting process. Likewise, Sections 72 and 73 of the MNGAS provide that the generation and the fair presentation of financial statements and supporting schedules rests with the management of the reporting entity.

6.2 Our financial audit covering the calendar year 2016 revealed that there were 65 accounts which remained unsubstantiated or non-moving/dormant since 2011 as shown below:

(# of Accounts) / Account Code	ACCOUNT TITLE	Ending Balance CY 2016
ASSETS		
149-006	Receivables - Treasurer's Peso Cash Collection	322,296.18
149-008	Receivables - Treasurer's Dollar Cash Collection	1,393,880.79
111-215	Receivables - Rent - Land, Building, and Equipment-Residential	196,385.81
279-004	Missing Peso Cash on Hand	856,754.66
124-003	Due from GOCC - GIF/GSIS	5,000.00
178-011	Prepaid Taxes - Equitable Card Network, Inc.	26,557.60
189-001	Deferred Charges - Asset - Utilities	73,499.76
103-001	Cash - Disbursing Officer - Corporate Treasurer	3,017.14
134-003	Advances to Officers & Employees (Intelligence Fund)	10,414.57
149-015	Other Receivables	2,559.80
152-002	Medical, Dental, and Laboratory Supplies Inventory-Botika ng Bayan	2,069.59
(11)	Sub-total (this AOM)	2,892,435.90
various	6 Inventory accounts included in AOM No. 2017-01 (2016) dated 2/6/17	P32,014,367.74

(# of Accounts) / Account Code	ACCOUNT TITLE	Ending Balance CY 2016
various	5 Construction in Progress accounts included in AOM No. 2017-003 (2016) dated 2/13/17	6,026,500.56
various	19 Property Plant and Equipment accounts included in AOM No. 2017-005 (2016) dated 2/20/17	26,771,276,327.92
(30)	Sub-total (previous AOMs)	26,809,317,196.22
(41)	GRAND TOTAL - ASSETS	P26,812,209,632.12
LIABILITIES		
412-029	Withholding Tax on Rental of Properties and Equipment-CAPEX-5%	P10,000.00
413-003	GSIS - Employees Compensation Insurance, Employer's Share	288.71
413-009	GSIS - Multi-purpose Loan	251.96
413-013	GSIS - Employer/Employee Contribution, Voluntary	106,874.17
413-015	GSIS - Summer One-Month Salary Loan (SOS)	3,821.65
413-501	Due to PSALM - Power Universal Charges	803,047.25
422-017	Due to Other Funds - CD Ventures	455,711.50
422-018	Due to Other Funds - Home Guaranty Corp. (HGC)	4,625,327.70
422-019	Due to Other Funds - Le Video (Adidas)	351,811.92
422-021	Due to Other Funds - JFI	846,825.25
422-024	Due to Other Funds - Asiapro Cooperative	303,754.20
422-029	Due to Other Funds - Crystal Water	15,632.00
422-031	Due to Other Funds - Pag-ibig/GSIS Incentives	21,978.74
422-043	Due to Other Funds - Sports & Defense Specialist	149,600.00
422-047	Due to Other Funds - Lovely.K Corp	143,235.20
424-004	Cash Bond - Port Charges	650,000.00
451-102	Security Deposit - Others	867,805.00
422-023	Due to Other Funds - Freeport A-Plus	169,200.00
422-025	Due to Other Funds -Outlet People (Nike)	515,432.00
422-027	Due to Other Funds - Global Skyways & Resort Corp./FBC	15,840.00
451-004	Interest on Security Deposit	25,273.13
451-005	Guarantee Deposit - Port	300,000.00
451-006	Security Deposit - Others	111,309.60
459-103	Deferred Credits - Royalty Income	228,452.59
(24)	GRAND TOTAL - LIABILITIES	P10,721,472.57

6.3 As presented above, in addition to the 30 asset accounts totaling P26,809,317,196.22 which were already discussed in separate Audit Observation Memoranda (AOMs), our analysis further disclosed that there were still 11 other asset accounts which remained dormant with an aggregate amount of P2,892,435.90 thus, arriving at a total dormant asset account balance of P26,812,209,632.12 or 89.32% of the total reported assets in the Statement of Financial Position. In the case of the liability accounts, our examination disclosed that there were 24 dormant accounts aggregating to P10,721,472.57.

6.4 Our verification further showed the following:

- a) the amounts of ₱1,158,197.83 and ₱1,365,507.32 pertaining to the dormant assets and liabilities respectively, were part of the account balances which were reclassified in 2008 under General Journal Entry Voucher No. JGL 08-05-000497 dated May 31, 2008 which remained unsubstantiated up to this time. The breakdown of the said amounts is shown below:

Account Title	Ending Balance CY 2016	Existing Balance Since
Receivables - Rent - Land, Building, and Equipment- Residential	196,385.81	5/31/2008
Missing Peso Cash on Hand	856,754.66	5/31/2008
Due from GOCC - GIF/GSIS	5,000.00	5/31/2008
Prepaid Taxes - Equitable Card Network, Inc.	26,557.60	5/31/2008
Deferred Charges - Asset - Utilities	73,499.76	5/31/2008
Total	1,158,197.83	
Due to Other Funds - Freeport A-Plus	169,200.00	5/31/2008
Due to Other Funds -Outlet People (Nike)	515,432.00	5/31/2008
Due to Other Funds - Global Skyways & Resort Corp./FBC	15,840.00	5/31/2008
Interest on Security Deposit	25,273.13	5/31/2008
Guarantee Deposit - Port	300,000.00	5/31/2008
Security Deposit - Others	111,309.60	5/31/2008
Deferred Credits - Royalty Income	228,452.59	5/31/2008
Total	1,365,507.32	

- b) part of the dormant accounts are the Receivables-Treasurer's Peso Cash Collection in the amount of ₱322,296.18 and Receivables - Treasurer's Dollar Cash Collection of \$25,315.67 or ₱1,393,880.79 (based on reported fixed peso equivalent) in connection with a robbery which occurred in the Treasury Department and which remained uncollected since 2005; and

- c) missing peso cash on hand (account no. 279-004) amounting to ₱856,754.66 remained non-moving since 2008.

6.5 It should be mentioned that items (b) and (c) above had already been the subject of previous AOMs. However, the same remained unacted upon.

6.6 Based on the foregoing, the materiality of the amounts as well as the number of accounts involved and the length of the period of dormancy may affect the relevance and the faithful representation of the financial information presented in the Financial Statements. This is in contravention with the requirements and the qualitative characteristics set forth under the Conceptual Framework for Financial Reporting.

6.7 The responsibility for the fair presentation and reliability of financial statements rests with the management of the reporting agency, hence, all appropriate steps should have been taken to ensure that all financial data presented were accurate, reliable and truthful.

6.8 Management replied that the Accounting Department will comply with our recommendation to review the non-moving and dormant accounts. We were informed that the concerned departments have already exerted efforts to locate the necessary documents to support the adjustments, reclassification or closing of the dormant accounts accordingly.

6.9 We recommended and Management agreed to (a) require the Accountant to exert more efforts to review the non-moving/dormant accounts, locate the necessary documents to substantiate their balances, and effect the necessary corrections/adjustments; (b) take appropriate action to recover the amounts due arising from the robbery that transpired in 2005 and to substantiate the missing peso cash on hand account balance and effect applicable measures to recover the same; and (c) see to it that the presentation of all financial information are in accordance with the Conceptual Framework and existing standards in order to be useful to all stakeholders and users thereof.

Unrecognized impairment losses/ Non-compliance with PAS 36

7. *The accounting department failed to comply with the provisions of PAS 36 on the assessment of assets and recognition of any impairment thereof thus, failing to present a more reliable carrying value of the assets considered obsolete, unserviceable or damaged, therefore affecting the fair presentation of the assets and the income in the Statement of Financial Position and in the Statement of Comprehensive Income, respectively.*

7.1 PAS 36 prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the assets. If such is the case, then the asset is considered as impaired and the entity is required to recognize an impairment loss.

7.2 Impairment reflects a decline in the utility of an asset to the entity that controls it. Under the aforementioned standard an entity is required to assess at the end of each reporting period whether there is an indication that an asset may be impaired. In doing so, the entity may consider the external sources of information such as the significant decline in the asset's market value as a result of the passage of time or normal use, and significant changes with adverse effects on the entity's technological, market, economic or legal environment. Likewise, internal sources of information may also be considered such as obsolescence or physical damage of the asset, significant changes with adverse effect to the entity such as the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date

or available evidence that indicates the economic performance of an asset is, or will be, worse than expected.

7.3 In the case of the SBMA, we noted that only the receivables are being assessed for any indication of impairment although they are still using the old allowance for doubtful account instead of the allowance for impairment account as prescribed under the new chart of accounts.

7.4 The scope of PAS 36, which is among the standards for implementation in 2016, covers the accounting for impairment of all assets other than inventories, assets arising from construction contracts, deferred taxes, among others because there are other standards which are applicable to said accounts.

7.5 Under the Revised Chart of Accounts for Government Corporations which was issued under COA Circular 2015-010, dated December 1, 2015, the following are sample impairment accounts to be used if warranted:

- Allowance for Impairment-Receivables
- Allowance for Impairment - Inventories
- Accumulated Impairment Losses – Land, Land Improvements
- Accumulated Impairment Losses – Infrastructure Assets
- Accumulated Impairment Losses – Building Structures
- Accumulated Impairment Losses – Machinery Equipment
- Accumulated Impairment Losses – Transportation Equipment

7.6 As can be gleaned from the above, all of these assets are subject for testing for impairment. Based on the definition provided in PAS 36, carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses thereon. It is therefore important for the agency to conduct the assessment and to recognize the impairment of assets, if deemed appropriate based on the procedures provided in the standard, to reliably reflect the carrying amount. Otherwise, if only the depreciation is recognized then the carrying amount of the assets which are also considered impaired may be overstated.

7.7 Our audit disclosed that in the case of the motor vehicles alone, showing total cost of ₱157,858,993.47 and total accumulated depreciation of ₱129,534,545.22, an assessment of the impairment of the entity's vehicles should have been made since we have gathered some evidences showing that there were a lot of these vehicles which are no longer serviceable, actually damaged and awaiting disposal as presented below:

Type of Vehicle	Serviceable	Unserviceable	For Disposal	Total
Light Vehicle	107	57	57	221
Heavy Equipment	27	47	27	101
Total	134	104	84	322

7.8 As appearing in the above schedule, out of the 322 transportation equipment only 134 are serviceable while the remaining 188 or 58% are actually considered unserviceable, damaged or awaiting disposal. Based on the reported carrying amount of ₱28,324,448.25, only the depreciation was considered when in fact the condition and performance of majority of the said assets were no longer beneficial to the entity. If the impairment is not recognized, then the realizable value and the resulting carrying amount appearing in the Statement of Financial Position may not be fairly presented. Likewise, the reported net income is overstated due to unrecognized impairment losses

7.9 Management assured us that they will take the appropriate steps to implement our recommendation. The concerned departments (PPMD, LADD, and Maintenance and Transportation Department) were directed to prepare an action plan and timetable to initiate and ensure the assessment and valuation of assets under their direct supervision. Appropriate action will be taken upon receipt of the final appraisal report which would be used as basis in adjusting the Accounting Department's records. The concerned departments were directed to prepare an action plan and timetable to initiate and ensure the assessment and valuation of assets under their direct supervision. Appropriate action will be taken upon receipt of the final appraisal report which would be used as basis in adjusting the Accounting Department's records.

7.10 We recommended and Management agreed to direct the accounting department to comply with PAS 36 by assessing the conditions of its assets subject for impairment and to recognize the impairment loss if warranted, to reflect the realizable value of the assets which is also necessary for the Financial Statements to fairly present the account balances and thus, become more useful to the stakeholders and users of the same.

Lapses in internal control system - ₱1.47 billion

8. *Disbursement amounting to One Billion Four Hundred Sixty Six Million Six Hundred Eighty Eight Thousand Pesos (₱1,466,688,000.00) representing the power subsidy granted to HHIC-PHIL, Inc. for the period November 2009-December 2015 was made in spite of the absence of the proper validation of the claims made which is an indication of lapses in the Corporation's internal control system, thus, casting doubt on the propriety, validity, accuracy and reliability of the huge amount involved in the said transaction.*

8.1 On February 28, 2006 SBMA and HHIC –PHIL entered into a lease agreement covering 199++ hectares of the inland and coastal areas at Mt. Redondo, located at the Subic Bay Freeport Zone, to be used in HHIC-PHIL's shipyard operations.

8.2 In order to provide incentive to its foreign investment undertaking, Executive Order (EO) No. 701 dated February 22, 2008 was issued by then President Gloria Macapagal Arroyo directing all concerned government entities to support the power infrastructure requirements and the investment of HHIC-PHIL in Subic and in Mindanao. Under Section

4 of the said EO, HHIC was provided discounted generation and transmission rates by the National Power Corporation (NPC) and the National Transmission Corporation (TRANSCO), respectively, at \$0.0491 for year zero to year six and \$0.0600 for year seven to year ten in its shipyards located in the Subic Bay Freeport Zone and in Mindanao.

8.3 Based on the 4th addendum to the lease agreement which was notarized on December 30, 2013, said discounted power rates were discontinued with the privatization of the NPC and the TRANSCO. However, with the Philippine government's desire to continue the provision of discounted power rates to the HHIC PHIL and in order to honor its commitment to the promotion of foreign investments, annual subsidies to the various investment promotion agencies like the SBMA were provided, intended for the utilization in a manner that shall have the effect of continuing the provision of discounted power rates in accordance with EO No. 701.

8.4 Among other terms and conditions, the following were cited in the aforementioned agreement which was signed by the President of HHIC-PHIL and then SBMA Chairman and Administrator as authorized and approved by the SBMA Board of Directors to wit:

Section 3. SECURING POWER SUBSIDY FROM THE NATIONAL GOVERNMENT FOR DISCOUNTED POWER RATES – SBMA shall propose, request and/or apply for a subsidy from the National Government, to be sourced from or through the pertinent allocations in the General Appropriations Act (GAA) of 2014, 2015, 2016, 2017 and 2018, if there be any, for the purpose of extending discounted power rates to HHIC-PHIL in accordance with the following combined generation, transmission and distribution rates: (i) P3.00/kwh for the period July 2013 to December 2015; and (ii) P4.00/kwh for the period covering January 2106 to February 2018.

8.5 Our audit showed that Special Allotment Release Order (SARO) No. BMB-C-16-0000411 dated January 27, 2016 amounting to Two Billion Twenty Nine Million One Hundred Eight Thousand Pesos (₱2,029,108,000.00) was issued to cover the release of the National Government subsidy to the SBMA to cover power subsidy granted to HHIC-PHIL. Likewise, advice of Notice of Cash Allocation (NCA) of even date, in the amount One Billion Four Hundred Sixty Six Million Six Hundred Eighty Eight Thousand Pesos (₱1,466,688,000.00) was issued by the Department of Budget and Management (DBM) to partially cover the cash requirement of the aforementioned allotment.

8.6 Our audit disclosed further that on February 17, 2016 Letter of Authority (LA) Voucher no. 16-00042 in the amount of One Billion Four Hundred Sixty-Six Million Six Hundred Eighty-Eight Thousand Pesos (₱1,466,688,000.00) was approved for payment of initial subsidy granted by the National Government to the HHIC PHIL covering the period December 2009 to November 2015. Said transaction was paid through LBP Subic Branch Manager's Check No MC 0000008467 of the same date.

8.7 Based on our examination of the supporting documents attached to the voucher we noted the following deficiencies:

- There was no evidence presented showing that a proper and complete validation of the power consumption and bills of the HHIC PHIL covering the period stated in the voucher (December 2009- November 2015) was made to establish an accurate and reliable basis for the payment of the whole amount of ₱1,466,688,000.00 to the investor.
- Perusal of the documents showed that it was provided in the attached flowchart pertaining to the power subsidy payment, that upon receipt of the HHIC PHIL's claim for reimbursement, the Utilities Department is required to validate the claim as well as the supporting documents submitted. The duly authorized official is then required to sign the reviewed summary sheet as a proof of the correctness of the amount being paid as well as the completeness and authenticity of the supporting documents presented by the claimant.
- Our audit, however, disclosed that no such proof of complete validation was attached contrary to the requirement as set forth in the flowchart. Instead, a memorandum from the OIC of the Public Works and Technical Services Group (PWTSG), Utilities Department was submitted stating therein the initial observations and discrepancies noted in connection with their on-going review of documents, as follows: 1) there was no copy of receipt of payment for the period May 26, 2011 to June 26, 2011; 2) Records showed only payment for the generation charge for the period May 26, 2010 to June 26, 2010 in the amount of \$677,430.05 instead of power billing in the amount of ₱100,557,204.99.
- It was likewise mentioned in the memorandum that since the checking and validation of records would take time and that the initial subsidy represents only about 40% of the total HHIC-PHIL's claims, therefore, it was recommended that the Budget Utilization Request for the whole amount be approved, and that corrections will just be made on the succeeding billing(s) in case of any discrepancy found on the documents during the review later on.
- The payment of such subsidy to HHIC-PHIL amounting to ₱1,466,688,000.00 without fully establishing the correctness of the amount considering that there were discrepancies which were already noted during the initial phase of their review is an infraction of the basic principles of internal control. Internal control system policies and procedures are primarily designed to safeguard assets and resources of the entity as well as the accuracy and reliability of information by preventing and detecting errors on a timely basis. Accurate information is needed by management to carry out operations since reliable information is used in making critical management decisions especially if it involves such material amount.

- In our AOM, we likewise requested the submission of documents for reference in our audit of the said transaction

8.8 In response to our AOM, Management commented that there were no deficiencies committed by any of the concerned SBMA officials since the transaction was supported by the necessary documents such as the Special Allotment Release Order (SARO), Notice of Cash Allocation (NCA), and the Budget Utilization Request (BUR). Likewise, it was mentioned that the amount of ₱1,466,688,000.00 was already validated and determined by the Department of Budget and Management (DBM) based on records received from other agencies involved under EO 701 such as the Department of Trade and Industry (DTI), the National Transmission Corporation (TRANSCO), and the National Power Corporation (NPC). According to Management, SBMA's utilities department was actually re-validating the claim and not actually validating the same for the first time.

8.9 Management also mentioned that the entire transaction must be viewed from the perspective of the National Government and the national interest as a whole and not just from the view of a routine disbursement by the SBMA. It was also cited that HHIC is one of the biggest foreign investments in the Philippines which resulted to generation of employment for the Filipinos.

8.10 Finally, Management commented that further delaying the release of the subsidy to HHIC until the Utilities Department would have finished its own re-validation would serve to prolong and aggravate the injustice suffered by HHIC which faithfully abided by all of its commitments and obligations despite the national government's failure to comply with its obligations under EO 701.

8.11 We recommended that Management adhere to the prescribed financial controls prior to disbursement of funds especially those involving huge amounts in order to fully safeguard the interest of the government and likewise avoid any audit suspension or disallowance.

AUDIT TEAM'S REJOINDER:

8.12 While the team recognizes the significant contribution of the HHIC to the Philippine economy through the creation of jobs for Filipinos, among others, we reiterate our stand on the need to fully substantiate the re-validation made prior to the disbursement of government funds (National Government's Subsidy to HHIC-Phil) through SBMA pursuant to existing rules and regulations on the matter.

8.13 Management is reminded that the necessary internal control procedures must always be applied since the SBMA is one the implementing agencies where all material disbursements are made and therefore in case of deficiencies or lapses, the concerned officials and employees of the entity may be held responsible or liable.

Lack of adequate logistics and equipment for entity's mandate on environmental protection and management

9. *The entity's mandate on environmental protection and management could have been better attained had there been more adequate logistics and equipment support to ensure the full implementation of and monitoring of the compliance to environmental standards within the Subic Freeport Zone (SFZ). Likewise, the objective of providing world-class facilities and services responsive to the needs of stakeholders could have been better achieved had the four marine vessels (two patrol, one rescue, and one garbage collection and firefighting vessel) and the eight transportation equipment (three garbage compactors and five dump trucks) intended for solid waste disposal been fully operational.*

9.1 Republic Act 7227 created the Subic Bay Metropolitan Authority (SBMA) as the operating and implementing arm of the Bases Conversion and Development Authority to operate, manage, develop and administer the Subic Special Economic Zone. The SBMA's mandate is to develop the Freeport zone into a self-sustaining, industrial, commercial, financial and investment center to generate employment opportunities in and around the zone, and to attract and promote productive foreign investments.

9.2 Among the Authority's powers and functions presented in Section 10 of RA 7227 is the adoption and implementation of measures and standards for environmental pollution control of all areas within its territory, including but not limited to all bodies of water and to enforce the same.

9.3 Chapter IX of RA 7227 deals on the environmental regulations within the economic zone. It is stated under Section 95 that SBMA recognizes the importance of maintaining a high degree of environmental quality as a precursor to the sustainable economic development of the areas both under and adjacent to its jurisdiction.

9.4 Relative to this, SBMA's Ecology Center is the unit primarily responsible for the protection of the environment and natural resources within the SBF and/or jurisdiction of the SBMA. It is responsible for the implementation of all environmental and natural resources conservation and protection programs adopted or assumed by the SBMA. It undertakes functions associated with environmental management, including enforcement, monitoring, permitting, training and education, and contingency and emergency planning. Among its principal functions are the following:

- Enforce environmental rules, laws, regulations and guidelines within the SBF;
- Issue permits and clearances based on Philippine environmental rules, laws and regulations;
- Conduct regular monitoring and inspection on proposed project sites and locator premises to ensure compliance of project proponents and existing locators to environmental standards in all stages of the project cycle, i.e., pre-construction, construction, operation, abandonment;

- Initiate actions relative to the implementation of environmental laws, rules, regulations, and guidelines, as well as SBMA's guidelines on fines and penalties; and
- Promulgate rules and regulations on environmental protection, conservation, compliances and improvement.

9.5 SBMA had set the following strategic priorities and goals/objectives for the year 2016 in support of its vision and mission statements:

- Develop the Subic Bay ports to be the preferred logistics gateway in Northern and Central Luzon;
- To make Subic Bay Freeport a better, safer, cleaner and healthier place;
- To make Subic Bay Freeport the premier and unique playground for meetings, incentives, conferences/conventions, and events (MICE), sports and eco-tourism activities in the Philippines;
- Develop world-class infrastructure facilities and services responsive to the needs of stakeholders; and
- To develop an efficient delivery of quality administrative support services.

9.6 As shown above, one of the priorities set for the year was to make SBF a better, safer, cleaner and healthier place. On the part of the Ecology Center, its four divisions had likewise set its targets aligned to the aforementioned goals, to wit:

1. Permitting and Environmental Quality Management Division

Functions:

- Oversee the evaluation of all incoming business proposals in relation to its possible impact to the environment;
- Ensure the implementation of the Philippine Environmental Impact System during the evaluation process of all incoming investors;
- Issue in a timely manner all relevant environmental permits and clearances related to the handling and disposal of toxic and hazardous wastes, tree cutting/trimming, tourism related businesses and operation of pollution control devices;
- Conduct monitoring of new locators in compliance to environmental standards in its construction stage; and
- Review and recommend the issuance of Building and Occupancy Permit to ensure that all environmental mitigating measures are incorporated in the plans.

Presented below are the division's accomplishments vis-à-vis its plans/targets for the year:

Plans/Targets	Major Accomplishments
Handling of complaints within 60 minutes	71/71 complaints processed within 40 minutes

Plans/Targets	Major Accomplishments
Process 90% of environmental permits and clearances	4,564/4,564 environmental permits and clearances processed
Conduct of environmental monitoring: Monitor 90% of locators for their environmental compliance Monitor 90% of biodiversity sites	413/350 locators inspected for environmental compliance 72/51 biodiversity sites inspected
Conduct 3 environmental fora, events and related activities for PCOs, EOs and other stakeholders	Conducted 6 environmental fora, events

2. Protected Area Management Division

Functions:

- This division is in charge of monitoring ambient water, bio-physical and air quality within SBF.
- Conducts research and updates on environmental statistics (water and air quality, flora and fauna)
- Implements and manages biodiversity conservation programs
- Responds to hazard calls as needed.

Plans/Targets	Major Accomplishments
Conduct 90% biodiversity monitoring reports	Action on 90% biodiversity monitoring reports
	Forest monitoring, river monitoring, Buffer zone monitoring, bat counting, mangrove monitoring, marine/coastal monitoring Hazard calls responded

3. Policy and Monitoring Division

Functions:

- Responsible in the monitoring of existing SBFZ locators in their compliance to environmental standards, particularly in the operations stage and based on the issued Environmental Compliance Certificate or submitted Environmental Management Plan.
- Respond to environmental hazard calls and pollution incident reports.
- Initiates the issuance of notice of Violations, warning letters and conducts hearings related thereto.
- Initiates the imposition of fines and penalties on violations.
- Establishes linkages between the Ecology Center and locators to promote self-regulation in pollution control and prevention.

PLANS/TARGETS	Major ACCOMPLISHMENTS
Act upon complaints and hazard calls within the prescribed time of 60 minutes	Responded to 71 hazard calls and pollution incident reports within the required time Conducted 413 environmental compliance monitoring of locators

4. The Social Development Division

- Tasked to promote environmental awareness and initiate coordination and cooperation projects/programs with different stakeholders

PLANS/TARGETS	Major ACCOMPLISHMENTS
Conduct four environmental fora, events and related activities for stakeholders	Conducted four environmental fora and related activities Community extension work

9.7 A comparison between the reported accomplishments and the plans/targets set for the year would show that the Ecology Center performed well during the year. However, it was noted that there were no accomplishments reported pertaining to sanctions applied on the violations noted or monitored specifically on the violations against the environmental laws, rules, regulations and guidelines set within the SBMA. While there were reported hazard calls responded and complaints acted upon, there were no data submitted on the violations, fines and penalties imposed, if any.

9.8 During our inquiry with the Manager of the Ecology Department, we were informed that there were constraints which hindered the full monitoring and implementation of the Center's functions. Among these were the inadequate equipment such as the lack of sufficient means of transportation for mobility around the Freeport area, and the lack of adequate personal protective equipment needed during inspection.

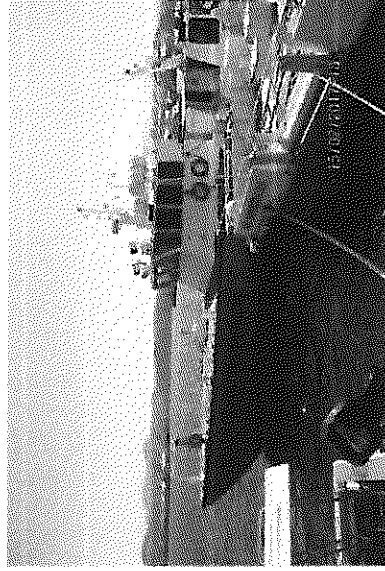
9.9 Relative to this, we also inquired from the Seaport Department and the Maintenance Department which are also concerned with the aforementioned target priority area of making SBMA a cleaner and a healthier/safer place, and we noted the following: four out of the seven motor vessels owned by SBMA remained unserviceable, non-operational and need repair, namely:



1. MV Ilanin- patrol vessel



2. MV Cubi – patrol vessel



3. MV Redondo – rescue vessel



4. MV Kalayaan – garbage collection and firefighting vessel

9.10 Considering the intended use of the above vessels, the continuous non-operation of the same would further mean the non-provision of the services needed to be rendered to the entity's stakeholders, which is contrary to the goals and objectives set during the year.

9.11 In addition, it was also noted that due to non-availability of fully operational garbage trucks, SBMA had to rent two dump trucks incurring additional cost amounting to P1,850,220.00 in 2016. Furthermore, based on the status report submitted by the Maintenance Department, only four out of the 12 vehicles/equipment assigned for solid waste disposal are serviceable, thus affecting the quality of service being rendered pertaining to solid waste management which is supposed to be one of the areas being regulated and monitored by the entity.

9.12 In response to our AOM, the Senior Deputy Administrator for Operations informed us that the Seaport Department, PPMID as well as the Bids and Awards Committee for Goods and Services are now working to fast-track the procurement of a service provider for the repair and rehabilitation of the subject vessels.

9.13 Likewise, the Manager of the Maintenance Department and the Deputy Administrator for Public Works, Technical Services Group (PWTSG) informed us that the procurement of additional garbage trucks is now on-going.

9.14 We recommended and Management agreed to revisit its priorities to include actions geared towards addressing the mandate of the SBMA as a whole, specifically in the attainment of its goal of making SBMA a safer, healthier, and a cleaner place as embodied in the agency's set goals and objectives.

Gender and Development

10. Total budget for GAD during the year in the amount of P5,412,620.00 was 97.8% below the required threshold as set forth under the Philippine Council on Women/ National Economic and Development Authority/Department of Budget and

institutionalize gender mainstreaming within the entity. Likewise, lapses have been noted in the GAD focal point system's project implementation as in the case of diaper changing stations which remained uninstalled, and the continuous lack of GAD impact assessment tool. Moreover, lapses in the documentation of GAD-related activities/transactions have been noted.

10.1 We examined the agency's CY 2016 appropriation for Gender and Development (GAD), verified reported accomplishments in relation to the agency's approved GAD work plan and budget, and audited actual and attributed GAD-related expenditures for the year, and noted the following observations:

a. Deficient budget for GAD

10.2 Section 14, Article II of the Philippine Constitution provides "The State recognizes the role of women in nation-building, and shall ensure the fundamental equality before the law of women and men." Relative to this, numerous laws and regulations have been passed and established to enshrine this policy. Pursuant to RA 9710 or the Magna Carta for Women (MCW), all sectors of the government shall formulate their annual GAD Plans and Budgets (GPBs) within the context of their mandates to mainstream gender perspectives in their policies, programs and projects. GAD planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least 5% of their total budgets.

10.3 For CY 2016, the SBMA's Corporate Operating Budget was ₱4,827,076,000 as approved by the Department of Budget and Management (DBM). Of the said amount, ₱5,412,620.00 was allotted for GAD programs, activities and projects intended to address the gender issues of the agency. However, such amount was 97.8% below the required budget of ₱241,353,800.00. Under the Philippine Commission on Women/National Economic and Development Authority/ Department of Budget and Management (PCW/NEDA/DBM) Joint Circular No. 2012-01, the budget for GAD should at least be 5% of the approved total budget of the entity which in the case of SBMA was not met as shown below:

Particulars	Amount
Approved Corporate Operating Budget	₱4,827,076,000.00
Threshold	5%
Required budget for GAD purposes	241,353,800.00
Reserved budget for GAD purposes	5,412,620.00
Difference (Deficiency)	₱235,941,180.40

10.4 As can be seen above, the amount allotted for GAD during the year was way below the required amount of ₱241,353,800.00, thus failing to meet the requirements set forth under the guidelines for the preparation of GAD plans and budgets. Relative to this, expenses that should have been charged to the budget such as the salaries of the agency personnel doing GAD-related work had already been discussed in the previous year's report. However, the same have not been considered in the preparation of this year's budget.

b. GAD Budget not fully utilized/lapses noted in project implementation

10.5 Our audit showed that as of December 31, 2016, SBMA spent ₱4,133,820.70 or 80.34% of the total budget allocated for GAD-related activities based on the certified amount of expenses issued by the Accounting Department, details of which are as follows:

GAD Objective/Activity	Approved Budget	Actual Expenditure
Unimplemented PAPs		
Formulation of GAD Impact Assessment Tool for the Agency	₱300,000.00	₱0
Partially Implemented PAPs		
Installation of diaper changing areas in public comfort rooms in the SBFZ areas	125,000.00	98,712.90
Launching of the Agency's Bi-Annual GAD Magazine "WE Speak" and GAD Komiks "Juana" and radio program "The Gender Hour"	732,950.00	533,785.00
Sub-total	₱857,950.00	₱632,497.90
PAPs Exceeding Allotted Budget		
Gender Sensitivity Seminar to SBMA Employees	400,000.00	608,700.00
Benchmarking activity addressing Violence Against Women Cases (VAWC) in the Agency's Women's Desk	200,000.00	234,283.07
Sub-total	₱600,000.00	₱842,983.07
PAPs Not Included in the Approved Plan		
Capital expenditures such as purchase of communication equipment, information and technology items, furniture and fixtures, and advocacy materials and installation/establishment of GAD Center/interior office renovation	642,011.00	95,527.00
Completed PAPs		
Holding of Women's Month Celebration and Conduct of 18-day Anti-Violence against Women and their Children Awareness Campaign	500,000.00	459,510.72
Promotion of GAD awareness among Indigenous People and vulnerable women in SBFC	300,000.00	297,842.86
Conduct of Gender Awareness Seminars and Fora to SBFC Locators and Schools	100,000.00	72,425.00
Gender Analysis Training for SBMA Management	300,000.00	215,091.00
Gender Analysis, Gender Mainstreaming Training for members of the GAD Focal Point System departmental representatives, and concerned employees	1,545,000.00	1,517,973.15
Sub-total	₱2,745,000.00	₱2,562,842.73
Total	₱5,144,961.00	4,133,820.70
Percent of utilization		80.34%

10.6 As can be seen above, there was underutilization of the amount allotted for GAD. The appropriated amount for GAD PAPs that remained not fully utilized resulted in non-achievement of the targets set in the Annual GAD plan, while the partial implementation

of the other projects hindered the optimum realization of benefits that could have been derived therefrom.

10.7 Review of the GAD Accomplishment Report (AR) for CY 2016 as submitted and generated from the Gender Mainstreaming Monitoring System (GMMS) maintained by the Philippine Commission on Women (PCW) further showed the following observations pertaining to the utilization of the GAD budget during the year:

- Based on report submitted, there was an approved budget of ₱300,000.00 for the formulation of GAD Impact Assessment Tool for the Agency. However, inquiry with the GAD Focal Person disclosed that the project has not been implemented due to change in management.
- Such failure to formulate and adopt an impact assessment tool precludes the evaluation of the effectiveness of the GAD projects and the determination as to whether the gender issues identified have been actually addressed not only through the outputs but through the attainment of the desired outcomes as well.
- In line with addressing the GAD issue on non-gender sensitive public comfort rooms within the Freeport, procurement of five diaper changing stations in the amount of ₱98,712.90 was made during the year. Records showed that these have already been delivered in June 2016. However, as of this writing, said diaper stations have not yet been installed hence, the benefits that could have been derived from the project were not realized.

10.8 Our audit further disclosed that there were instances where the GAD PAPs' actual expenditures exceeded the allotted budget. In our review of the Accomplishment Report (AR), there were no documents presented to show the approval of the incurrence of the expenses in excess of the budget for the two GAD activities, details as follows:

GAD Objective/Activity	Approved Budget	Actual Expenditure	Variance
Gender Sensitivity Seminar to SBMA Employees	₱400,000.00	₱608,700.00	₱(208,700.00)
Benchmarking activity addressing VAWC cases in the Agency's Women's Desk	200,000.00	234,283.07	(34,283.07)
Total	₱600,000.00	₱842,983.07	₱(242,983.07)

10.9 Section 9.2 of the PCW/NEDA/DBM Joint Circular No. 2012-01 states that *Agencies shall inform the PCW in writing if there are changes in the PCW-endorsed GAD Plan and Budget as a result of revising the GPB based on the approved GAA and or the need to implement additional PAPs relevant to current gender issues or GAD-related undertakings as needed. PCW, in turn, shall acknowledge receipt of adjusted GPB and shall inform the agencies if the GAD PAPs or activities in the adjusted GPB are acceptable.*

10.10 Furthermore, our examination disclosed that the amount of ₱95,527.00 was incurred for the purchase of communication equipment, advocacy materials and supplies,

installation/establishment of GAD Center/Interior Office renovation and purchase of information and technology items. However, said activities were not part of Agency's PCW-endorsed GAD Plan for CY 2016, hence, inconsistent with the provision of PCW-NEDA-DBM Joint Circular No 2012-01 which, provides that *PAPs that are not in the agency's PCW-endorsed GAD Plan cannot be charged to GAD budget.*

10.11 On the other hand, the total amount pertaining to completed PAPs for the year was ₱2,562,812.73. Further review and post-audit of supporting documents relating thereto was made and we noted deficiencies, some of which are presented herein:

On the conduct of Gender-Sensitivity Seminars for Indigenous People

10.12 In line with the promotion of GAD awareness among indigenous people and vulnerable women in the Subic Bay Freeport Zone, the following activities were undertaken, to wit:

Particulars	Amount
Gender Sensitivity seminar for the Tribong Kababaihan ng Pastolan held in Baguio City on April 19-21, 2016	₱107,142.86
Gender Sensitivity seminar for the Tribong Kalalakihan ng Pastolan held in Clark, Pampanga on August 17-19, 2016	177,500.00
TOTAL	₱284,642.86

10.13 As part of our audit procedures, a review of the list of attendees/participants was made. We noted that based on the list of indigenous people employed by SBMA which we obtained from the Human Resource Department, only 12 or 40% out of the 30 attendees of the Seminar for Tribong Kababaihan ng Pastolan while nine or 42.9% out of the 21 participants of the Seminar for Tribong Kalalakihan ng Pastolan were among those appearing in the master list, which means that more than one-half of the number of attendees were actually non-indigenous people contrary to the primary objective of the activity.

c. Lapses in the documentation of transactions

10.14 In our audit of disbursement vouchers (DVs) for the payment of expenses of various seminars conducted/attended on GAD-related issues during the CY 2016, we noted the need for further documentation on the following:

- *Attendance to GAD International Training/Seminar*

On June 6-10, 2016 the Chairman of the GAD Focal Point System of the SBMA attended the seminar on Introduction to Participatory Gender Audit for Facilitator Seminar which was held in Turin, Italy with total cost of ₱132,856.00 being subsidized by the entity. Post -audit of transactions disclosed that necessary attachments such as any document justifying/supporting the necessity of attending such training abroad, proof of invitation to attend, and a certification stating that said

training is not being offered in any of the local training institutions like PCW or universities were not part of the documents submitted to the audit team.

10.15 The need to submit the aforesaid documents is pursuant to Section B.2.e.2 of the specific guidelines cited in COA Circular 2014-001 dated March 18, 2014, entitled Revised Guidelines in the Audit of Gender and Development (GAD) Fund and Activities in government agencies which provides that *attendance in trainings abroad on GAD may be allowed provided there is a specific authority from appropriate government oversight agencies, said trainings are not offered in any of the local training institutions or universities and provided that knowledge from such training shall be cascaded to the employees of the concerned agency xxx.*

10.16 Likewise, based on Sections 1.1.4.2 and 1.2.4.2 of COA Circular No. 2012-001 dated June 14, 2012, which prescribes the Documentary Requirements for Common Government Transactions the following should have been part of the documents to support the expenses pertaining to foreign travel/seminar/training:

- Letter addressed to the agency inviting participants (issued by the foreign country)
- Acceptance of the nominees as participants (issued by the foreign country)
- Programme Agenda and Logistics Information
- Certificate of Appearance/attendance from training/seminar/participation
- Narrative report on trip undertaken/Report of Participation

10.17 Management commented that there is now an on-going training program on the Harmonized Gender and Development Guidelines (HGDG) intended to make all concerned departments become aware of the proper attribution of projects and programs and thus, meet the required budget allocation.

10.18 On the lapses noted pertaining to project implementation, we were informed that the plans and activities which were not carried out during the year under audit will be implemented under the current administration. On the other hand, there were documents submitted to our Office for evaluation to determine whether the lapses in the documentation of transactions cited in the AOM have already been addressed.

10.19 We recommended and Management agreed to direct the whole GAD Focal Point System as well as all other units concerned to (a) comply with the existing guidelines for the preparation of the GAD plans and budgets; (b) improve further the project implementation schemes in order to fully attain the desired outcomes as duly assessed and validated; and (c) comply with the necessary documentary requirements related to all GAD transactions in order to avoid audit suspensions.

Compliance with tax laws

11. Withholding taxes amounting to ₱128,384,470.31 were remitted to the Bureau of Internal Revenue (BIR) within the required period in accordance with Revenue

Regulation No. 2-98 dated April 17, 1998 and Revenue Memorandum Circular No. 17-2003 dated March 31, 2003. However, taxes withheld pertaining to previous years in the amount of ₱666,235.51 remain unremitted due to unreconciled records.

11.1 Revenue Regulation No. 2-98 dated April 17, 1998 and Revenue Memorandum Circular No. 17-2003 dated March 31, 2003 provide the guidelines on the remittance of taxes withheld by withholding agents.

11.2 In the case of the SBMA, it was noted that during the year, in addition to the beginning balance of ₱1,908,107.64 expanded withholding taxes withheld and remitted totaled ₱5,819,205.57 and ₱5,983,676.27, respectively. On the other hand, total taxes withheld on compensation during the year amounted to ₱125,924,282.88 while total remittances amounted to ₱122,400,794.04 including the beginning balance of ₱3,618,790.67. A summary of the entity's compliance with the aforementioned tax laws is presented below:

a. Expanded Withholding Taxes

Month	Taxes Withheld	Total (Balances + Current)	Taxes Remitted	Due to BIR (Ending Balance)
Beginning Balance	₱1,908,107.64	₱0	₱0	₱1,908,107.64
January	481,892.14	2,389,999.78	1,247,286.01	1,142,713.77
February	481,535.32	1,624,249.09	447,763.52	1,176,485.57
March	566,491.83	1,742,977.40	451,908.35	1,291,069.05
April	359,956.90	1,651,025.95	578,789.95	1,072,236.00
May	417,378.85	1,489,614.85	321,392.76	1,168,222.09
June	264,092.18	1,432,314.27	433,194.48	999,119.79
July	431,553.58	1,430,673.37	274,522.08	1,156,151.29
August	625,196.19	1,781,347.48	454,721.75	1,326,625.73
September	795,890.36	2,122,516.09	465,055.10	1,657,460.99
October	244,697.91	1,902,158.90	824,886.21	1,077,272.69
November	268,667.70	1,345,940.39	314,280.22	1,031,660.17
December	881,852.61	1,913,512.78	169,875.84	₱1,743,636.94
Total	₱5,819,205.57	-	₱5,983,676.27	

b. Withholding Taxes on Compensation

MONTH	TAXES WITHHELD	TOTAL (Beg. + Current)	TAXES REMITTED	TAX ADJUSTMENT	DUE TO BIR (ENDING)
Beg. Balance	₱3,618,790.67	₱0	₱0	₱0	₱3,618,790.67
January	2,529,565.54	6,148,356.21	2,864,124.27	754,666.40	2,529,565.54
February	2,501,340.69	5,030,906.23	2,529,565.54		2,501,340.69
March	7,328,064.53	9,829,405.22	2,501,340.69		7,328,064.53
April	4,003,975.41	11,332,039.94	7,328,064.53		4,003,975.41

MONTH	TAXES WITHHELD	TOTAL (Beg. + Current)	TAXES REMITTED	TAX ADJUSTMENT	DUE TO BIR (ENDING)
May	4,003,014.39	8,006,989.80	4,003,975.41		4,003,014.39
June	3,986,719.45	7,989,733.84	4,003,014.39		3,986,719.45
July	74,030,303.87	78,017,023.32	3,986,719.45		74,030,303.87
August	5,381,324.57	79,411,628.44	74,030,303.87		5,381,324.57
September	5,062,905.70	10,444,230.27	5,381,324.57		5,062,905.70
October	5,904,016.00	10,966,921.70	5,062,905.70		5,904,016.00
November	4,805,439.62	10,709,455.62	5,904,016.00		4,805,439.62
December	6,387,613.11	11,193,052.73	4,805,439.62		₱6,387,613.11
TOTAL	₱125,924,282.88		₱122,400,794.04	₱754,666.40	

11.3 Analysis and review of the entries in the General Ledger and records from the accounting office showed that the balance of the Due to BIR account as of December 31, 2016 of ₱8,131,250.05 was composed of the unremitted tax for 2016 of ₱7,464,996.54, which was remitted to the BIR in January 2017, and expanded withholding taxes pertaining to previous years amounting to ₱666,253.51, which remained unremitted due to unreconciled records.

11.4 We recommended and Management agreed to instruct the concerned Accounting Department personnel to trace and reconcile the available records pertaining to previous years and make sure that all taxes due the government are withheld and remitted to the BIR within the prescribed period as per BIR Revenue Regulation No. 2-98 and Revenue Memorandum Circular No. 17-2003.

11.5 Management informed the team that the concerned Accounting Department personnel will establish the subsidiary ledgers pertaining to the expanded withholding tax balance and that the necessary adjustments and/or remittances will be made accordingly.

Compliance with R.A. No. 8291, Government Service Insurance System (GSIS) law

12. *Premium contributions, loan amortizations and other amounts due to Government Service Insurance System (GSIS) were deducted and duly remitted to the System in compliance with R.A. No. 8291, the Government Service Insurance System law of 1997, and its Revised IRR. However, the amount of ₱150,661.72 pertaining to forwarded balances from previous years remained unaccounted for as of year-end.*

12.1 Section 14 of the Revised Implementing Rules and Regulations (IRR) of R.A. No. 8291, The Government Service Insurance System (GSIS) Act of 1997, in consonance with Section 6 (b) of the same Act, states the following provisions on remittance of contributions to GSIS:

- a. Section 14.1 - *Each government agency shall remit directly to the GSIS the employees' and government agency's contributions within the first Ten (10) days of the calendar month following the month to which the contributions apply. The*

remittance by the government agency of the contributions to the GSIS shall take priority over and above the payment of any and all obligations, except salaries and wages of its employees.

b. Section 14.2 - The government agency shall also deduct from the fixed monthly compensation of the employee the loan amortizations (consolidated loans, policy loan, emergency loan, housing loan, and other loans), premium payments (optional, pre-need and other non-life insurance) and other amounts due the GSIS.

c. Section 14.3 - The said amounts shall be remitted to the GSIS within the first Ten (10) days of the calendar month following the month when the deductions were effected, accompanied by supporting lists in the form prescribed by the GSIS.

12.2 Audit of the premium contributions, loan amortizations and other amounts due to GSIS for CY 2016 showed that SBMA complied with the provisions set forth by the aforementioned law. Premium contributions, loan amortizations and other amounts due to GSIS amounting to ₱56,293,168.63 were remitted as shown below:

MONTH	GSIS PREMIUM WITHHELD	TOTAL (Beg. + Current)	GSIS PREMIUM REMITTED	GSIS PREMIUM REFUNDED TO SEPARATED EMPLOYEES	DUE TO GSIS (ENDING)
Beg. Balance	₱2,592,598.51	₱0	₱0	₱0	₱2,592,598.51
January	2,234,210.27	4,826,808.78	2,223,134.55		2,603,674.23
February	2,223,235.35	4,826,909.58	2,482,338.14	1,995.40	2,342,576.04
March	4,225,018.90	6,567,594.94	2,220,698.48	1,093.28	4,345,803.18
April	2,904,445.08	7,250,248.26	4,210,193.04	7,707.69	3,032,347.53
May	2,897,022.78	5,929,370.31	2,908,922.03	2,702.61	3,017,745.67
June	2,871,783.84	5,889,529.51	2,883,564.19	11,108.72	2,994,856.60
July	24,019,392.46	27,014,249.06	2,871,783.84	0	24,142,465.22
August	3,277,573.50	27,420,038.72	2,871,037.10	4,066.68	24,544,934.94
September	3,213,141.36	27,758,076.30	8,902,404.29	1,070.80	18,854,601.21
October	3,677,244.34	22,531,845.55	4,471,449.58	979.47	18,059,416.50
November	3,433,417.55	21,492,834.05	17,111,087.58	3,010.68	4,378,735.79
December	3,460,873.87	7,839,609.66	3,136,555.81	8,930.10	₱4,694,123.75
TOTAL	₱58,437,359.30		₱56,293,168.63		

12.3 Inquiry from the accounting department disclosed that the unremitted balance of ₱4,694,123.75 represents premiums amounting to ₱4,543,462.03 which were remitted in January 2017 while the remaining ₱150,661.72 pertains to forwarded balances from previous years which are still subject for analysis and reconciliation.

12.4 We recommended and Management agreed to instruct the concerned Accounting Department personnel to trace, review and reconcile all documents supporting the Due to GSIS account and effect adjustments, if necessary.

12.5 Management informed the team that the concerned Accounting Department personnel will trace, review and reconcile all supporting documents pertaining to the "Due to GSIS" account and that the necessary adjustments or remittances thereof will be effected accordingly.

Enforcement of Audit Suspensions, Disallowances and Charges

13. Audit suspensions and disallowances amounting to ₱970,370.42 and ₱15,451,322.12, respectively, remained unsettled as of year-end contrary to COA Circular No. 2009-006 dated September 15, 2009. Likewise, audit disallowances prior to the effectivity of the aforementioned Circular amounting to ₱140,605,881.78 remained unsettled.

13.1 During the Calendar Year 2016, no notices of charges were issued. However, as of December 31, 2016 the total outstanding/unsettled disallowances stood at ₱15,451,322.12. the breakdown of the said amount is as follows:

	ND No.	Date	Particulars	Amount
1	ND-SBMA 2010-11-001 (2009)	9-Nov-10	Payment of Board of Directors per diem/allowances covering the period from January to December 2009	₱5,740,000.00
2	ND-SBMA 2010-11-002 (2010)	12-Nov-10	Payment of BODs per diem/allowances covering the period from January to December 2010	700,000.00
3	ND# 11-001- (10)	12-Oct-11	Calbayar Trading/JMG Horse Equipment Trading - payments of 10 patrol horses	2,600,000.00
4	ND# 2012-001 (2011)	23-Feb-12	Raffle items during the 2011 SBMA Christmas Party	10,718.21
5	ND# 2012-001 (2011)	23-Feb-12	Sponsorship for the costumes used by the Public Service Group.	9,243.00
6	ND# 2012-001 (2011)	23-Feb-12	Ms. Paulita R. Yee - meals consumed upon attending the wake of the father of an SBMA official	2,928.57
7	Special Audit ND No. 2012- 001 (2011)	26-Mar-12	Payments for the procurement of special and field uniforms of SBMA employees	2,420,603.99
8	ND No.: 2013- 001 (2011)	14-Feb-13	Payment for the consultancy fees of 12 office consultants for CY 2011	3,940,492.01
9	ND No.: 2013- 002 (2012)	18-Feb-13	Payments of various expenses charged against the account "All Other Services"	27,336.34
Total				₱15,451,322.12

13.2 It should be mentioned that during the year no settlement of disallowances was made and that the same status of the above disallowances exists, viz:

Status	Amount
Denied appeals in the disallowances	₱11,460,603.99
Disallowances on appeal	3,987,789.56
With partial settlement	2,928.57
Total	₱15,451,322.12

13.3 In addition to the above, the following are the disallowances and charges prior to the effectivity of COA Circular No. 2009-006 dated September 15, 2009, which remained unsettled as of December 31, 2016:

Particulars	Amount
Outright disallowances	₱498,466.26
Charges	3,952,059.46
Suspensions that matured into disallowances	136,155,356.06
Total	₱140,605,881.78

13.4 On the other hand, total suspensions as of year-end amounted to ₱970,370.42, the details of which are presented below:

	NS No.	Date	Particulars	Amount
1	NS No.2016-001(2015)	06-Oct-16	Payment for meals expenses incurred on meetings re: GAD PAPs	48,137.00
2	Ns No. 2016-002 (2015)	06-Oct-16	Payment for international travels re: GAD PAPs	349,187.79
3	Ns No. 2016-003 (2015)	06-Oct-16	Payment for various expenses relevant to trainings and strategic planning re: GAD PAPs	291,468.43
4	Ns No. 2016-004 (2015)	06-Oct-16	Payment for travelling expenses relative the benchmarking conducted for GAD PAPs	71,577.20
5	Ns No. 2016-005 (2015)	06-Oct-16		210,000.00
Total				₱970,370.42

13.5 It is worthy to note that documents have been submitted in compliance with the requirements set forth under the aforementioned Notices of Suspensions. However, said settlements are still subject to the team's evaluation. Once determined compliant, the corresponding Notice of Settlement will be issued accordingly.

13.6 We recommended that Management cause the immediate settlement of the audit disallowances.

**PART III – STATUS OF IMPLEMENTATION
OF PRIOR YEAR’S UNIMPLEMENTED
AUDIT RECOMMENDATIONS**

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S UNIMPLEMENTED AUDIT RECOMMENDATIONS

Out of the 29 audit recommendations contained in the Annual Audit Report for CY 2015, nine were fully implemented while 20 were partially implemented as shown below:

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>1. <i>The cash balances of P2,759,175,878.81 as of December 31, 2015 were understated by net amount of P355,200.82 due to unrecorded (a) collections of P8,283,618.67; (b) disbursements of P7,438,061.63; and (c) adjustments of P490,356.22.</i></p> <p>We recommended that the:</p> <p>a. Accountant (i) initiate action to facilitate the identification of payors making payments thru telegraphic transfers;</p> <p>(ii) recognize the unbooked collections and disbursements immediately upon identification of the concerned debtors and creditors, respectively; and</p>	<p>CY 2015 AAR Finding No. 1</p>	<p>Management replied that Treasury Department is responsible in the proper identification of the payors making payments thru telegraphic transfers. The said department is constantly making follow up and sends letter request to the SBMA depository banks to identify the payors for the issuance of the appropriate official receipts and recording of the Accounting Department.</p> <p>Last June 23, 2016, the SBMA Board of Directors already approved the Policy and Operating Guidelines on Handling Unidentified Collections</p>	<p>Fully Implemented</p> <p>Fully implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>(iii) determine the status of the long outstanding credit memo and adjust balances; and</p> <p>b. Treasurer submits disbursement vouchers (DVs) and their support documents on time to the Accounting Department for recording of transactions.</p>		<p>that will address the untimely recording of collections. On the issue of unbooked disbursements, we will have a meeting with the Treasury Department to set a deadline for the submission of disbursement vouchers for the timely recording thereof.</p> <p>The treatment for long outstanding credit memos was included in the Policy and Operating Guidelines on Handling Unidentified Collections. Under the said policy, credit memos that remain outstanding for 12 months at year end will be recorded as other income.</p> <p>Management has coordinated the matter to the Treasurer. A meeting with the Accounting and the Treasury will be made to set a deadline for the submission of disbursement vouchers for the timely recording thereof.</p>	<p>Fully implemented</p> <p>Fully implemented</p>
<p>2. <i>Of the Accounts Receivable-Trade balance of P4,106,523,069.14 as of December 31, 2015, P3,494,758,729.88 or 85.10% were doubtful since their existence and correctness</i></p>	<p>CY 2015 AAR Finding No. 2</p>		

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>were not established. Moreover, the reported receivables of P489,327,497.45 or 11.92% of the total trade receivables which had been in the books since CY 2013 with aged three to four years or more which remained non-moving.</p> <p>We recommended that the:</p> <p>a) Accountant (i) take serious efforts to ascertain the validity of the receivables; and (ii) review the long outstanding non-moving accounts for proper disposition; and</p> <p>(b) Database Administrator update the data base for locators in the Integrated Financial Management System (IFMS) particularly on their addresses and status of their accounts.</p>		<p>Management is still waiting for the final court decision before they can proceed to demand for payment or record adjustment. One of the accounts (Subic Bay Industrial Park) had already been adjusted due to the final court's decision in favor of the Locator.</p> <p>Management will comply with the recommendation to update the database for locators in the IFMS. They have recently sought the assistance of the Business Group in obtaining the full information of all the locators including their billing addresses, email addresses, contact numbers etc. for these will also be used for the plan of SBMA to send billings electronically or thru email. This will also help them in sending follow-</p>	<p>Partially implemented</p> <p>Partially implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
		ups for payments of the billings regularly.	
<p>3. <i>There were lapses in the grant and liquidation of cash advances in CY 2015 such as (a) granting of cash advances of ₱14,130,375.75 to SBMA officers who were not duly designated as disbursing officers; and (b) inadequate documentation of liquidations totaling ₱5,543,100.00 contrary to COA Circular Nos. 97-002 and 2012-001 dated February 10, 1997 and June 14, 2012, respectively, and exposed government funds to risks of misappropriation or loss and also cast doubt on their regularity.</i></p>	CY 2015 AAR Finding No. 3		
<p>We recommended that the Accountant refrain from</p>			
<p>a. granting cash advances to officers who are not duly designated as disbursing officers; and</p>		The Accounting Department will ensure that the cash advance shall be granted to duly designated disbursing officers.	Fully Implemented
<p>b. processing of grant and liquidation of cash advances which are not adequately documented.</p>		Likewise, the Accountant shall ensure that cash advance granted to Officers and Employees and the liquidation thereof shall be properly documented and made within the prescribed period of liquidation.	Fully Implemented

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>4. <i>The Inventory account balances as of year-end of P107,844,168.70 were overstated by a net amount of P88,815,332.04 due to (a) unrecorded Spare Parts Inventory of P5,337,791.86; (b) inclusion in the balance of non-existing stocks of P2,361,825.11; and (c) unaccounted inventories of P91,791,298.79 resulting from lack of reconciliation between the accounting and property records in violation of Section 43 of the Manual on the New Government Accounting System (NGAS), Vol. I.</i></p> <p>We recommended that the:</p> <p>a. Accountant investigate and ascertain the causes of the unrecorded spare parts, non-existing and unaccounted inventories of P5,337,791.86, P2,361,825.11 and P91,791,298.79, respectively, then make the proper adjustment thereof; and</p> <p>b. Accountant and Property Officer conduct reconciliation of inventory records on a regular periodic basis.</p>	<p>CY 2015 AAR Finding No. 4</p>	<p>Management had already taken steps to hire additional personnel to handle/assist in the reconciliation of records. We were also informed that they have already adjusted the account Spare Parts Inventory to take up the excess spare parts amounting to P5,337,791.86 as indicated in the CY 2012 Inventory Report of the Inventory Committee.</p> <p>Management concurred with our recommendation to require Property and Accounting Personnel to reconcile their records.</p>	<p>Partially implemented</p> <p>Partially implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
			Reiterated in Observation No. 2 of the 2016 AAR
<p>5. The reported balances of Property Plant and Equipment (PPE) accounts as of December 31, 2015 with net book value of P24,583,771,933.78 were unreliable due to (a) inclusion in the balances the costs of the demolished buildings and other structures totaling P1,095,575,641.60; (b) doubtful existence and valuation of PPE accounts amounting to P23,472,295,260.25; (c) incomplete report on the physical count of assets worth P2,469,739,025.93; and (d) discrepancy in the total land area of the agency's real estate property per accounting and property records by 1,013.22 hectares of undetermined amount.</p> <p>We recommended that:</p> <p>a. Head of the Land and Asset Management Department (LAMAD) (i) furnish the Accounting Department with copies of reports on the demolished buildings, facilities and other structures; (ii) exert effort to follow-up the request from the DENR on</p>	CY 2015 AAR Finding No. 5		
<p>a. Head of the Land and Asset Management Department (LAMAD) (i) furnish the Accounting Department with copies of reports on the demolished buildings, facilities and other structures; (ii) exert effort to follow-up the request from the DENR on</p>		<p>Management informed us that they are conducting an ongoing inventory of all buildings and structures inside the Freeport Zone that were formerly under the US Naval Base Facility and hoping to complete it by the end of the year. They are likewise</p>	Partially implemented

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>the actual result of the survey made for the total land area for business use by the SBMA as basis of adjustments of the accounting records; and (iii) provide the Accounting Department the assessed value of the Land Improvements, Buildings and Other Structures;</p>		<p>looking for some available records of the demolished buildings that can be used as a basis in reporting to the Accounting Department.</p>	
<p>b. Head of Procurement and Property Management Department (PPMD) fast track and complete the inventory of PPE and submit a report thereon the Accounting Department;</p>		<p>Furthermore, they had a meeting with the Community Environment and Natural Resources Office (CENRO)-Zambales concerning the approval of the survey plan for the secured area of SBF. It was recommended during the meeting that SBMA conducts a ground survey of the Subic Bay Freeport so that CENRO can use it as basis of their evaluation and approval. SBMA will hire a private surveyor (consultant) to facilitate the survey.</p>	<p>Partially implemented</p>
<p>c. Heads of LAMD and PPMD furnish the Accounting Department with copies of records of disposal such as Inventory and Inspection Report and auction sale to effect necessary book adjustments for the demolished buildings/structures;</p>			<p>Partially implemented</p>
<p>d. Accountant, after receiving the reports on the demolished buildings and other structures, Inventory and Inspection Report and Auction Sale, effect the necessary adjustments in the books; and</p>		<p>The Accounting Department will ensure that the derecognition of the demolished buildings and other structures will be made upon receipt of the complete documentation</p>	<p>Partially implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
e. Heads of PPMD and LAMD and the Accountant reconcile their records on PPE accounts.		from the LAMD and the PPMD. The Accounting Department will be meeting with the LAMD and the PPMD to discuss the matter and for the continuous reconciliation of the PPE accounts.	Partially implemented Reiterated in Observation No. 1 of the 2016 AAR
<p>6. <i>The balance of Working Animals account as of year-end was unreliable due to the (a) non-inclusion of the values of nine cavalry horses with no appraised values; and (b) inclusion in the balance of the costs of the 19 dead animals totaling P1,021,778.00.</i></p> <p>We recommended that the</p> <p>a. Veterinary Consultant provide the Accounting Office with the appraised value of the cavalry offspring;</p>	CY 2015 AAR Finding No. 6	<p>The Office of the Senior Deputy Administrator for Support Services sent a letter to the SBMA Veterinary Consultant dated March 8, 2016, requesting for the appraised value of nine (9) unbooked work animals to be used by the Accounting Department as basis in booking the said work animals. Management will immediately provide COA with a copy of the Journal Entry pertaining to the booking of the said</p>	Fully implemented

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>b. concerned Accountable Officers file their request for relief with the COA; and</p> <p>c. Accountant book-up the costs of the (i) nine cavalry horses at their appraised value after receiving the appraisal request from the Veterinary Consultant; and (ii) 19 dead animals.</p>		<p>animals as soon as Journal Voucher is prepared and signed.</p> <p>The Senior Deputy Administrator for Support Services, Atty. Ramon O. Agregado has instructed Pgen. Orlando M. Madella to instruct the concerned LED Mounted Police to file request for relief from property accountability.</p> <p>The Accounting Department will immediately prepare the necessary adjusting entries to derecognize the dead work animals and set up the same as Due from Officers and Employees. They will immediately provide COA with a copy of the Journal Entry pertaining to adjustment as soon as said Journal Voucher is prepared and signed.</p>	<p>Partially implemented</p> <p>Fully implemented</p>
<p>7. <i>The accuracy, existence and obligation as assertions to the Accounts Payable balance amounting to P130,720,992.02 as of September 30, 2015 could not be determined due to (a) variance of P22,644,580.58 between the accounting and creditors' records representing 8.29% of the account balance as at said</i></p>	<p>CY 2015 AAR Finding No. 7</p>		

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>date; and (b) non-moving balances of P 10,893,602.94.</i></p> <p>We recommended that the Manager, Accounting Department</p> <ul style="list-style-type: none"> a. coordinate with the 13 creditors whose accounts differ with those of the SBMA subsidiary ledgers (SLs); b. reconcile the net understatement of P10,845,512.96 in the balances of creditors' accounts per creditors' records and SBMA SLs and effect necessary adjustments thereon; c. exert efforts to establish the validity of the five accounts whose balances had been unchanged since CYs 2013 to 2015; and d. update the data base on the creditors to ensure accurate data/information on creditors. 		<p>Separate confirmation will be done by management. Once replies are received, these will be endorsed to the Departments concerned for their appropriate action. Adjustments will be made where necessary.</p> <p>AP Maintenance Administrator, Ms. Mayra DL Begosa, will update the present addresses of the SBMA creditors through the use of their current contract, sales invoices, billing statements, collection/official receipt,</p>	<p>Partially implemented</p> <p>Partially implemented</p> <p>Partially implemented</p> <p>Partially implemented</p> <p>Reiterated in Observation No. 4 of the 2016 AAR</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
		and other corroborative current documents. This is to avoid same situation encountered in the past wherein the confirmation letters were returned due to unknown address.	
<p>8. Copies of contracts together with the documents forming part thereof for projects costing at least P35,591,608.33 were not submitted to the Audit Team as of December 31, 2015 contrary to COA Circular No. 2009-001 dated February 12, 2009 which resulted in the delayed audit action and identification and correction of errors therefrom.</p> <p>We recommended that the Property Officer furnish the Audit Team copies of contracts, among others, documents forming part thereof within the period required by COA Circular 2009-001.</p>	CY 2015 AAR Finding No. 8	Management submitted the certified true copies of the documents.	Fully implemented
<p>9. The SBMA failed to comply with the laws and regulations on planning, budgeting, implementation of programs, activities and projects (PAPs) and the preparation of accomplishment report on Gender and Development (GAD).</p>	CY 2015 AAR Finding No. 9		

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>We recommended that the:</p> <p>a. Chairman of SBMA allocate complete funding and include GAD in the strategic planning to facilitate full attainment of objectives in the pursuit of gender equality and women's empowerment within the context of the agency's mandates;</p> <p>b. SBMA-GAD Focal Point (i) exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets and be cautious in preparing GAD report to include necessary and exclude unnecessary expenditures in the conduct of GAD PAPs; (ii) carry-out the plan to its fullest extent by utilizing the budget allotted to ensure the full implementation of the GAD Plan; (iii) exercise care in the preparation of AR for accurate and precise reporting on GAD-related PAPs; and (iv) seek approval from Philippine Commission on Women (PCW) on the additional activities to be implemented to ensure that the GAD budget is expended only for duly approved PAPs;</p>		<p>Management replied that since personnel including the Expense Account Managers are still going through the comprehensive training on the Harmonized Gender and Development Guidelines HCDG, they have requested the (PCW) through email correspondence addressed to Mr. Macario Jusayan that they will not include the attributed projects on the 2015 GAD Accomplishment Report pending completion of training of all personnel.</p> <p>Also, they have deferred all attributions including salaries of the LED Women's Desk and GAD Focal Points System members, as this requires documentary support to be submitted to the PCW through GMMS.</p> <p>Further, the 2015 GAD Accomplishment Report is still under review by the PCW.</p>	<p>Partially implemented.</p> <p>Partially implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
c. Accountant submits the necessary supporting documents and satisfactory explanation to support the propriety, exigency and authority of the expenses incurred/paid for GAD-related activities.			Partially implemented Reiterated in Observation No. 11 of the 2016 AAR
10. <i>Due to lack of plans to mitigate the risks of loss or reduced clientele, the SBMA apparently neglected the operation and maintenance of the Subic Bay International Airport (SBIA) resulting in (a) non-functional organizational structure of SBIA; (b) idle/obsolete/unmaintained equipment and facilities costing of at least P54,667,827.65 representing 86.63% of the overall airport equipment; and (c) loss of income opportunity caused by lack of comprehensive tourism marketing plan as evidenced by the decrease in passenger and aircraft movements by 82.78% and 44.31% of performance levels, respectively, in CYs 2008 to 2015.</i>	CY 2015 AAR Finding No. 13		
We recommended that Chairman and Administrator: a. review the airport's labor force by carefully regarding the current manpower situation as		SBMA replied that an airport itself does not generate nor create traffic. It is a gateway. If traffic	Partially implemented

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>well as goals that each has, effecting scrutiny on details, number of employees with clear roles in department, long term trend consideration for changes, examination of work load in connection with projected modification and budget requirements;</p> <p>b. assess the performance of the existing airport equipment, analyze their costs and benefits to determine whether to repair or replace them, whichever is more advantageous; and</p> <p>c. carry-out well coordinate efforts with the concerned departments contributing to the implementation of the marketing strategy for the airport and clearly distinguished the scope and limitations of their roles in advancing the common goal of the agency and that of the airport.</p>		<p>comes, economies open and then the trickle-down effect. Local marketing alone would not measure up. It would take a national policy to turn around the downward spiral of SBIA. The premier airport in Manila is fully congested as well as its airspace and in the point of view of air safety, it calls for urgent solution. In spite of the 7.94% growth in the country's aviation sector, SBIA remains extremely underutilized. According to management, solutions to these quagmires are beyond SBMA's sphere of control. They recognized the need to review and correct the SBIA's current staffing structure to conform with the International Civil Aviation Organization's proper manning of personnel. However, SBMA has to improve the SBIA's infrastructure such as its communication, navigational aids and surveillance equipment in anticipation of the traffic that may come as NAIA prepares to decongest itself.</p> <p>Recently, new proponents engaged in Maintenance Repair Overhaul (MRO),</p>	<p>Partially implemented</p> <p>Partially implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
		<p>Fixed Based Operations (FBO), charter flights and aviation school with considerable millions in investments submitted business proposals including the construction of enormous hangars at idle developable areas.</p> <p>SBIA responded to meet their operational requirement by securing Doppler Very High Omni Range (DVOR) and ground to air spare parts from Clark International Airport Corporation (CIAC). Additionally, X-ray machines from Department of Transportation and Communications (DOTC)/Office for Transportation Security (OTS) will soon be transported from Tacloban to SBIA to replace all defective units at no cost to SBMA and at opportune time.</p>	