

Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City

# **ANNUAL AUDIT REPORT**

on the

## **SUBIC BAY METROPOLITAN AUTHORITY**

**For the Year Ended December 31, 2014**



Republic of the Philippines  
**COMMISSION ON AUDIT**

Regional Office No III, City of San Fernando, Pampanga

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[www.coa.gov.ph](http://www.coa.gov.ph)

June 30, 2015

**THE BOARD OF DIRECTORS**

Subic Bay Metropolitan Authority  
Subic Bay Freeport Zone, Olongapo City

Gentlemen:

We are pleased to transmit the Annual Audit Report on the audit of the Subic Bay Metropolitan Authority, Subic Bay Freeport Zone, Olongapo City for the Calendar Year 2014 in compliance with Section 43 of the Government Auditing Code of the Philippines (P.D. No. 1445).

The audit was conducted to a) ascertain the level of assurance that may be placed on management assertions on the financial statements; b) recommend agency improvement opportunities; and c) determine the extent of implementation of prior year's audit recommendations.

We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided a reasonable basis for the audit results. We rendered a qualified opinion on the fairness of presentation of the financial statements of the Authority owing to the exceptions noted in the audit as stated in the Independent Auditor's Report in Part I of the report.

The significant observations and recommendations requiring immediate action are as follows:

1. Collections and payments in CY 2014 made thru the bank amounting to P47,939,338.46 and P292,097.60, respectively, remained unrecorded therefore, understating Cash in Bank by P47,647,240.86. (*Observation No. 1*)

We recommended that the Administrator instruct the Head of the Accounting Department to prepare adjusting entries to record the unbooked collections and payments.

2. The correctness of the net realizable value of Accounts Receivable-Trade amounting to P217,102,686.51 as of December 31, 2014 was not ascertained due to poor results of confirmations sent to locators and residents. (*Observation No. 2*)

We recommended that the Administrator (a) coordinate with the four locators and one resident who replied with exceptions for purposes of bringing into agreement their

respective records; (b) determine the probability or improbability of collecting the amount of P578,733,445.97 from the 33 residents and 12 locators who were not located in their respective leased properties; (c) consider requesting the write-off of said receivables from COA, in case high improbability of collection was established; and (d) follow up the responses for the 35 lessees who failed or chose not to send their replies, notwithstanding the presumption of accuracy accorded to their respective account balances.

3. The accuracy and reliability of the reported balances of Accounts Payable amounting to P187,948,529.38 as of December 31, 2014 cannot be determined due to (a) non-reversion of long outstanding unliquidated balances of payables worth P106,220,846.05 to unappropriated surplus of the general fund; (b) difference of the amount recorded in the books of SBMA and various creditors amounting to P74,373,513.94; (c) unaccounted balances reported in the accounting records amounting to P1,874,195.18; and (d) inadequate functionality of the agency's computerized accounting system resulting in existence of abnormal balances amounting to P1,085,956.17 in the subsidiary records. (**Observation No. 3**)

We recommended that the Administrator (a) require the concerned account officers to assess and examine all recorded payable accounts and to prepare journal voucher to revert all accounts payable that remained outstanding for two years or more. A copy of said journal voucher certified by the Accountant and supported by a list of accounts payable reverted and amounts due each payee should be submitted to COA; (b) require the Accounting Department to coordinate with concerned creditors especially those whose reply were favorable to SBMA to (i) request for breakdown of SBMA payables reported in the creditors' accounting records; (ii) evaluate the accuracy of information supplied by creditors; (iii) effect necessary adjustments in the books of accounts, if warranted; and (iv) inform COA of adjustments made in the accounting records as a result of the reconciliation; (c) provide the concerned Accounting personnel with support staff from the Maintenance Department that could help in locating possible available documents at the COA stockroom and require the Accounting personnel to evaluate the validity of obligations on the basis of obtained relevant documents and, thereafter, prepare journal voucher to revert those obligations, which remained outstanding for more than two years; and (d) direct the Accounting department to coordinate with MIS department accounting concerns affecting the use of IFMS and its functionalities including, but not limited to, the lack of account "SBMA payroll" in the selection option for debit entries and instruct both departments to come up with a common solution that could address errors caused by the system's deficiency and the solution must be able to remove from the subsidiary ledgers all abnormal positive/debit balances caused by the inadequate functionality of IFMS.

4. Payments of various claims against the agency, amounting to P1,203,672.11, were not supported with complete documentation, in violation of Section 4(6) of P.D. No. 1445. (**Observation No. 4**)

We recommended that the Administrator (a) submit the requested documents and information so that the transactions may be passed in audit pursuant to COA Circular No.

2012-001 prescribing the documentary requirements for common government expenditures; (b) review and sign CV No. CH-14-02594 and CH-14-00025; (c) attach booking summary/payment details for CV No. CH-14-02857 and recompute the allowable airfare claims. Require the return/refund of the excess reimbursement equivalent to the amount of airfare of the child; (d) check available and latest DSA rate for the computation of allowable travel expenses; (e) collect P500.00 each from the three employees concerns for the excess of allowable claims for their visa application fee; (f) transmit to COA the Letter of Authority, LA 14-00220 and LA 14-00227 for post audit and review; and (g) secure and submit to COA the required Official Receipt reflecting the same amount in Acknowledgment Receipt, attach the same to its corresponding vouchers.

5. The agency allocated funds for Gender and Development activities below 5% of total budget appropriations, contrary to Section 33 of the General Provisions of CY 2014 General Appropriations Act (GAA), Section 36(a) of R.A. No. 9710, and Paragraph 2 and 6 of PCW/NEDA/DBM Joint Circular No. 2012-01. In addition, the appropriated budget was not fully consumed resulting in the failure to achieve the target sets in the Annual GAD Plan. Several observations were also noted in the audit of expenses. (*Observation No. 5*)

We recommended that the Administrator (a) allot complete funding for its GAD-related and responsive programs, actions and projects in the following years to facilitate full attainment of objectives in the pursuit of gender equality and women's empowerment in the agency; (b) through the created SBMA-GAD Program Committee, exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets and strive to carry out the plan to its fullest extent by utilizing the budget set aside for purposes of ensuring the full implementation of the GAD Plan; and (c) through SBMA-GAD Focal Point (i) be cautious in preparing GAD Accomplishment Report not to exclude necessary or include unnecessary expenditure in the conduct of Gender and Development Programs, Activities and Projects (GAD PAPs) in compliance with the laws, rules and regulations on gender and development; (ii) to attribute 100% of the salaries of LED staff assigned to Women's desk based on gross annual salary and GAD Focal Point Staff assigned to plan, implement and monitor GAD PAPs on a full time or part time basis. Explain the basis of the percentage (%) attribution of salary of the other 36 employees and what GAD activity or activities they assisted or participated into so that the salary attribution would be part of the cost of that GAD activities, programs and projects; (iii) evaluate the repair and maintenance attributed to Gender and Development to identify what specific gender issues it addressed and to use HGDG tool to effectively integrate gender in developing policies, planning, programs and projects; and (iv) assess the funding of social, rest/recreation and religious activities and seek approval from PCW on the capital outlay to be implemented, otherwise, expenditure for projects/activities without a well-defined gender issues to be addressed cannot be considered as a GAD related projects/activities and be excluded in the computation of the mandated appropriation for GAD.

6. Various expenses charged against Extraordinary and Miscellaneous Expenses (EME) funds for the period January to December 31, 2014 amounting to P263,211.42 and

various expenses attributed to GAD amounting to P138,844.40 were suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184. **(Observation No. 6)**


We recommended that the Administrator settle the audit suspension through compliance with the requirements indicated which we will evaluate. Items suspended in audit which are not settled within ninety (90) days from receipt hereof shall become a disallowance pursuant to Section 82 of P.D. No. 1445.

The other audit observations, together with the recommended courses of action, are discussed in detail in Part II of the report. These, along with the prior years' findings not yet or partially acted upon and included in Part III of the report, were discussed with the officials and staff of that **Agency**.

We request that the recommended measures be implemented and we would appreciate receiving an action plan and status report, thru accomplishing the attached **Agency Action Plan and Status of Implementation** form, to be submitted to the Audit Team within sixty days from receipt of this report, pursuant to Section 88 of the General Provisions of the General Appropriations Act of 2014.

We appreciate the invaluable support and cooperation extended to our Audit Team by the officials and staff of that **Agency**.

Very truly yours,

  
**ELENITA DV. LUMONGSOD**  
Assistant Regional Director  
(Officer-in-Charge)

cc: President of the Republic of the Philippines  
Vice-President  
President of the Senate  
Speaker of the House of Representatives  
Chairperson-Senate Finance Committee  
Chairperson-Appropriations Committee  
Secretary of the Department of the Budget and Management  
Governance commission for Government-Owned or Controlled Corporations  
Presidential Management Staff, Office of the President  
The Assistant Commissioner, CGS, COA, Quezon City  
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## EXECUTIVE SUMMARY

### A. Introduction

The Subic Bay Metropolitan Authority (SBMA) was established in November 1992 under Sec.13 of Republic Act No. 7227, otherwise known as the "Bases Conversion and Development Act of 1992". The SBMA is the operating and implementing arm of the Government of the Philippines in developing the 67,000 hectare area of Subic Bay Freeport (SBF) into a self-sustaining industrial, commercial, financial, and investment and academe center to generate, among others, employment opportunities in and around the Zone.

The SBMA plays a key role in the national government's efforts to achieve international competitiveness and provide for its integration with the global economy.

The SBMA is authorized to manage and develop the ship repair and shipbuilding facilities, container port, as well as the oil storage and refueling stations; attract and maintain local and foreign investments to promote the economic and social development of the country primarily in Central Luzon; establish and regulate the operation and maintenance of utilities, services and infrastructure; operate directly and indirectly tourism-related activities; and protect the Freeport's forests.

The audit covered the examination, on test basis, of the accounts and financial transactions of the SBMA for the year ending December 31, 2014. The audit was conducted to (a) verify the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

### B. Financial Highlights

As presented in Table I below, the SBMA's assets, liabilities and equity stood at P28.61 billion, P10.90 billion and P17.71 billion, respectively, as of December 31, 2014. It reported a net income of P1.56 billion in its operations for 2014, an improvement from last year's net income of P446.02 million. This is due primarily on the increase in revenues from leases, port services, tourism services and other operating income.

Table I (In Thousand Pesos)

Financial Position	2014	2013	Increase/ (Decrease)	
			Amount	%
Total Assets	P 28,610,601	P 28,089,039	P 521,562	1.86%
Total Liabilities	P 10,895,918	P 11,114,149	P (218,231)	(1.96%)

Financial Position	2014	2013	Increase/ (Decrease)	
			Amount	%
Stockholders' Equity	P 17,714,683	P 16,974,890	P 739,793	4.36%
Financial Performance	2014	2013	Increase/ (Decrease)	
			Amount	%
Total Revenues	P 3,286,004	P 2,920,916	P 365,088	12.50%
Total Expenses after Income Tax	P 1,729,532	P 1,810,466	P (80,934)	(4.47%)
Total Net Income	P 1,556,472	P 1,110,450	P 446,022	40.17%

The SBMA had a confirmed P2.47 billion budget sourced from corporate internally-generated funds and borrowings, an increase of P222.52 million from P2.25 billion last year. Breakdown for total uses based on the approved budget is shown below, Table II.

Table II (In Thousand Pesos)

Particulars	Approved Corporate Operating Budget		Increase/ (Decrease)	
	2014	2013	Amount	%
Personnel Services (PS)	P 547,668	P 398,271	P 149,397	37.51%
Maintenance and Other Operating Expenses (MOOE)	1,869,538	1,621,706	247,832	15.28%
Capital Outlays (CO)	51,493	226,206	(174,713)	(77.23%)
<b>Total</b>	<b>P 2,468,699</b>	<b>P 2,246,183</b>	<b>P 222,516</b>	

### C. Auditor's Opinion

We rendered a qualified opinion on the fairness of presentation of the financial statements because the Cash in Bank was understated by P47,647,240.86 due to unrecorded collections received thru the banks.

For the above error, we recommended that the Administrator instruct the Head of the Accounting Department to prepare adjusting entries to record the unbooked collections and payments.

### D. Summary of Significant Observations and Recommendations

Summarized below are the significant audit observations noted during the audit and the corresponding recommendations which are discussed in detail in Part II of the report. Management views and comments including those given during the exit conference were incorporated in the report, where appropriate.

1. The correctness of the net realizable value of Accounts Receivable-Trade amounting to P217,102,686.51 as of December 31, 2014 was not ascertained due to poor results of confirmations sent to locators and residents. (*Observation No. 2*)

We recommended that the Administrator (a) coordinate with the four locators and one resident who replied with exceptions for purposes of bringing into agreement their respective records; (b) determine the probability or improbability of collecting the amount of P578,733,445.97 from the 33 residents and 12 locators who were not located in their respective leased properties; (c) consider requesting the write-off of said receivables from COA, in case high improbability of collection was established; and (d) follow up the responses for the 35 lessees who failed or chose not to send their replies, notwithstanding the presumption of accuracy accorded to their respective account balances.

2. The accuracy and reliability of the reported balances of Accounts Payable amounting to P187,948,529.38 as of December 31, 2014 cannot be determined due to (a) non-reversion of long outstanding unliquidated balances of payables worth P106,220,846.05 to unappropriated surplus of the general fund; (b) difference of the amount recorded in the books of SBMA and various creditors amounting to P74,373,513.94; (c) unaccounted balances reported in the accounting records amounting to P1,874,195.18; and (d) inadequate functionality of the agency's computerized accounting system resulting in existence of abnormal balances amounting to P1,085,956.17 in the subsidiary records. (*Observation No. 3*)

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We recommended that the Administrator (a) allot complete funding for its GAD-related and responsive programs, actions and projects in the following years to facilitate full attainment of objectives in the pursuit of gender equality and women's empowerment in the agency; (b) through the created SBMA-GAD Program Committee, exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets and strive to carry out the plan to its fullest extent by utilizing the budget set aside for purposes of ensuring the full implementation of the GAD Plan; and (c) through SBMA-GAD Focal Point (i) be cautious in preparing GAD Accomplishment Report not to exclude necessary or include unnecessary expenditure in the conduct of Gender and Development Programs, Activities and Projects (GAD PAPs) in compliance with the laws, rules and regulations on gender and development; (ii) to attribute 100% of the salaries of LED staff assigned to Women's desk based on gross annual salary and GAD Focal Point Staff assigned to plan, implement and monitor GAD PAPs on a full time or part time basis. Explain the basis of the percentage (%) attribution of salary of the other 36 employees and what GAD activity or activities they assisted or participated into so that the salary attribution would be part of the cost of that GAD activities, programs and projects; (iii) evaluate the repair and maintenance attributed to Gender and Development to identify what specific gender issues it addressed and to use HGDG tool to effectively integrate gender in developing policies, planning, programs and projects; and (iv) assess the funding of social,

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We recommended that the Administrator settle the audit suspension through compliance with the requirements indicated which we will evaluate. Items suspended in audit which are not settled within ninety (90) days from receipt hereof shall become a disallowance pursuant to Section 82 of P.D. No. 1445.

#### **E. Summary of Total Suspensions, Disallowances and Charges at year-end**

The unsettled suspensions, disallowances and charges reflected in the last quarter of 2014 Statement of Audit Suspensions, Disallowances and Charges (SASDC) are summarized below:

	Beginning Balance (As of December 31, 2013)	This Period (January 1 to December 31, 2014)	Settlement this period (January 1 to December 31, 2014)	Ending Balance (As of December 31, 2014)
		NS/ND/NC	NSSDC	
Notice of Suspension	P987,144.75	1,487,186.56	2,432,509.81	41,821.50
Notice of Disallowance	15,557,322.12	10,192.66	112,475.00	15,455,039.78
Notice of Charge	-			
<b>Total</b>	<b>P16,544,466.87</b>	<b>1,497,379.22</b>	<b>2,544,984.81</b>	<b>P15,496,861.28</b>

#### **F. Status of Implementation of Prior Years' Unimplemented Audit Recommendations**

Out of 72 audit recommendations embodied in the Annual Audit Report for CY 2013, seven were fully implemented, 64 were partially implemented and one was not implemented

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## **PART I— AUDITED FINANCIAL STATEMENTS**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. III  
City of San Fernando, Pampanga

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## **INDEPENDENT AUDITOR'S REPORT**

### **The Board of Directors**

Subic Bay Metropolitan Authority  
Subic Bay Freeport Zone, Olongapo City

We have audited the accompanying financial statements of the Subic Bay Metropolitan Authority which comprise the statement of financial position as of December 31, 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Bases for Qualified Opinion*


As discussed in Parts II of this report, collections and payments in CY 2014 made thru the bank amounting to P47,939,338.46 and P292,097.60, respectively, remained unrecorded therefore, understating Cash in Bank by P47,647,240.86.

*Qualified Opinion*

In our opinion, except for the effects and possible effects of the matters described in the *Bases for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Subic Bay Metropolitan Authority as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

**COMMISSION ON AUDIT**

By:

  
**DANILO M. LAGASON**  
Supervising Auditor

February 27, 2015



**SUBIC BAY METROPOLITAN AUTHORITY**  
**OFFICE OF THE CHAIRMAN & ADMINISTRATOR**

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Certificate Number: AJA13/16628

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of Subic Bay Metropolitan Authority is responsible for all information and representations contained in the accompanying Balance Sheet as of December 31, 2014 and the related Profit and Loss Statement and Cash Flow for the year then ended. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities recognized.

  
**ANTONIETTA R. SANQUI**  
Deputy Administrator for Finance

  
**ROBERTO V. GARCIA**  
Chairman/Head of the Agency

**SUBIC BAY METROPOLITAN AUTHORITY**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2014**

(With Comparative Figures for December 31, 2013)  
 In Thousand Pesos

		2014		2013
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash (Note 4)	P	1,996,451	P	1,152,799
Receivables (Note 5)		247,631		332,078
Inventories (Note 6)		110,489		112,026
Miscellaneous Assets (Note 7)		10,421		8,561
<b>Total Current Assets</b>		<b>2,364,992</b>		<b>1,605,464</b>
<b>Non-Current Assets</b>				
Investments (Note 8)		603,292		395,800
Receivables (Note 5)		305,187		621,161
Property, Plant and Equipment (Note 9)		24,975,397		25,409,930
Other Assets (Note 10)		361,733		56,684
<b>Total Non-Current Assets</b>		<b>26,245,609</b>		<b>26,483,575</b>
<b>TOTAL ASSETS</b>	<b>P</b>	<b>28,610,601</b>	<b>P</b>	<b>28,089,039</b>
<b>LIABILITIES AND GOVERNMENT EQUITY</b>				
<b>Current Liabilities</b>				
Payables & Accrued Expense (Note 11)	P	168,978	P	171,479
Loans Payable (Note 12)		302,712		382,873
Accrued Interest		20,120		28,739
Deferred Credits to Income (Note 13)		53,938		57,137
Security Deposits & Advance Rental (Note 14)		202,912		182,202
Trust Liabilities (Note 15)		351,940		260,777
<b>Total Current Liabilities</b>		<b>1,100,600</b>		<b>1,083,207</b>
<b>Non-Current Liabilities</b>				
Other Payables (Note 11)		159,455		173,480
Loans Payable - net of current portion (Note 12)		6,185,160		6,798,686
Deferred Credits to Income (Note 13)		2,951,958		2,588,444
Security Deposits (Note 14)		498,745		470,332
<b>Total Non-Current Liabilities</b>		<b>9,795,318</b>		<b>10,030,942</b>
<b>Total Liabilities</b>		<b>10,895,918</b>		<b>11,114,149</b>
<b>Stockholders' Equity</b>		<b>17,714,683</b>		<b>16,974,890</b>
<b>TOTAL LIABILITIES AND GOVERNMENT EQUITY</b>	<b>P</b>	<b>28,610,601</b>	<b>P</b>	<b>28,089,039</b>

*See accompanying Notes to Financial Statements.*



**SUBIC BAY METROPOLITAN AUTHORITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**For the Year Ended December 31, 2014**  
(With Comparative Figures for December 31, 2013)  
In Thousand Pesos

		2014		2013
<b>REVENUES</b>				
Leases	P	1,269,238	P	1,166,705
Port Services		746,718		450,782
Tourism Services		14,238		11,880
Gain on Revaluation (Note 20)		774,856		854,878
Other Operating Income (Note 21)		480,954		436,671
<b>Total Revenues</b>		<b>3,286,004</b>		<b>2,920,916</b>
<b>OPERATING EXPENSES</b>				
Depreciation		457,008		471,656
Bad Debts Expense		239,247		262,673
Salaries and Benefits		412,604		388,789
Power and Water		89,794		87,026
Supplies, Materials and Fuels		41,066		41,613
Loss on Revaluation (Note 20)		-		-
Others (Note 22)		413,674		503,311
<b>Total Operating Expenses Before Income Tax</b>		<b>1,653,393</b>		<b>1,755,068</b>
Provision for Income Tax		76,139		55,398
<b>Total Operating Expenses After Income Tax</b>		<b>1,729,532</b>		<b>1,810,466</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>P</b>	<b>1,556,472</b>	<b>P</b>	<b>1,110,450</b>

*See accompanying Notes to Financial Statements.*

**SUBIC BAY METROPOLITAN AUTHORITY**  
**STATEMENT OF CHANGES IN GOVERNMENT EQUITY**  
**For the Year Ended December 31, 2014**  
(With comparative figures as of December 31, 2014)

		<b>2014</b>		<b>2013</b>
<b>Paid-in Capital (Note 16)</b>				
Balance at beginning of year	P	19,942,815	P	19,942,815
Additions/(deductions)		-		-
Balance at end of year		<b>19,942,815</b>	-	<b>19,942,815</b>
<b>Appraisal Surplus (Note 17)</b>				
Balance at beginning of year		31,767		31,767
Partial realization of Appraisal Surplus		-		-
Balance at end of year		<b>31,767</b>		<b>31,767</b>
<b>Invested Capital-Held in Trust (Note 18)</b>				
Balance at beginning of year		307		307
Additions/(deductions)		-		-
Balance at end of year		<b>307</b>		<b>307</b>
<b>Donated Capital (Note 19)</b>				
Balance at beginning of year		37,618		37,618
Additions/(deductions)		-		-
Balance at end of year		<b>37,618</b>	-	<b>37,618</b>
<b>Retained Earnings</b>				
Balance at beginning of year		(3,037,617)		(4,259,541)
Net income (loss) for the year		1,556,472		1,110,450
Dividend Paid to the National Government		(185,882)		
Correction of fundamental errors		(630,797)		111,474
Balance at end of year		<b>(2,297,824)</b>		<b>(3,037,617)</b>
<b>TOTAL GOVERNMENT EQUITY</b>	P	<b>17,714,683</b>	P	<b>16,974,890</b>

*See accompanying Notes to Financial Statements.*

**SUBIC BAY METROPOLITAN AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2014 and 2013**  
(In Thousand Pesos)

	<b>2014</b>		<b>2013</b>	
<b>Cash Flows From Operating Activities:</b>				
Cash received from customers	P	987,068	P	684,809
Sale of Unserviceable Properties		-		803
Cash received in payment of customers' account		1,079,145		965,699
Cash received from customers for unearned income		385,681		234,738
Interest received		(604)		(171)
Customers' security deposits		12,207		14,237
Trust fund received non-customers		516,021		243,076
Cash paid to employees and suppliers		(895,923)		(862,417)
Refund of customers' security deposits		(4,166)		(1,812)
Cash paid from non-customers' trust fund		(380,633)		(177,418)
Advances - Payment of FSC's Manpower Reduction Program		-		-
Advances to Contractors		(2,447)		-
Cash paid for financing charges		(157,868)		(189,388)
<b>Net cash provided by operating activities</b>	<b>P</b>	<b>1,538,481</b>	<b>P</b>	<b>912,156</b>
<b>Cash Flows From Investing Activities:</b>				
Investment in Bonds		182,780		16,465
Investment on Dollar Time Deposit - Sinking Fund		-		16,577
Investment in Dollar Bond /TD(LBP)		(357,760)		-
Joint Venture - Subic Water		12,947		14,853
Port Dev. - JBIC II & locally funded projects		(1,115)		(328)
Capital expenditures - Local		(21,995)		(935)
<b>Net cash used in investing activities</b>	<b>P</b>	<b>(185,143)</b>	<b>P</b>	<b>46,632</b>
<b>Cash Flows From Financing Activities:</b>				
Loan Proceeds - LandBank		794,441		305,228
Principal loan repayments - WB1		-		(325,553)
Gain on repayment - WB1		-		(6,666)
Principal loan repayments - WB2		(90,970)		(81,913)
Loss on repayment - WB2		3,922		58
Principal loan repayments - JBIC 1		(16,674)		(17,464)
Loss on repayment - JBIC 1		286		401
Principal loan repayments - JBIC 2		(222,004)		(229,300)
Loss on repayment - JBIC 2		(1,052)		3,471
Principal loan repayments - Eximbank		(426,999)		(14,884)
Loss on repayment - Eximbank		(8,899)		-
Repayment of Loan - LBP		-		(130,000)
Investment in Dollar Bond (LBP)		-		(20,677)
Restricted Cash (\$LBP)- SBMA Debt Service Account		(65,847)		(16,404)
Payment of Dividend		(185,882)		-
DBP- Trust Fund Various		(82,309)		-
LBP- Trust Fund Various		(178,751)		-
Placement of Dollar Time Deposit - Sinking fund		-		(11,463)
<b>Net cash used in financing activities</b>	<b>P</b>	<b>(480,738)</b>	<b>P</b>	<b>(545,166)</b>
Effect of Exchange Rate Changes on Cash		(28,948)		8,305
<b>Net (Decrease) Increase in Cash</b>		<b>843,652</b>		<b>421,927</b>
<b>Cash at Beginning of Year</b>		<b>1,152,799</b>		<b>730,872</b>
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>P</b>	<b>1,996,451</b>	<b>P</b>	<b>1,152,799</b>

See accompanying Notes to Financial Statements.

**SUBIC BAY METROPOLITAN AUTHORITY**  
**Notes to Financial Statements**  
**As of December 31, 2014**

**1. CREATION**

*The Administration*

Sec.13 of Republic Act No. 7227 created the corporate body known as the Subic Bay Metropolitan Authority (SBMA). The SBMA is the operating and implementing arm of the Government of the Philippines in developing the 67,000 hectare area of Subic Bay Freeport (SBF) into a self-sustaining industrial, commercial, financial, and investment and academe center to generate, among others, employment opportunities in and around the Zone.

On March 13, 1992, the Philippine Congress passed Republic Act 7227, known as the Bases Conversion and Development Act of 1992, creating the Subic Bay Freeport in anticipation of the pullout of the US naval base facilities. Section 13 of RA 7227 created the Subic Bay Metropolitan Authority (SBMA) and with free port incentives, an amendment granting tax and duty-free privileges and incentives was inserted during the bicameral committee hearings.

The area for development comprises of 13,600 hectares of leasable land (based on the actual survey made by the DENR) and 53,852 hectares of protected area covering the Subic Bay Freeport (SBF) or what was the former US Naval facility in Subic Bay into a self-sustaining tourism, industrial, commercial, financial, and investment center to generate employment opportunities.

*Agency Roles*

The SBMA plays a key role in the national government's efforts to achieve international competitiveness and provide for its integration with the global economy.

To accomplish this, it shall embark to manage and develop the ship repair and shipbuilding facilities, container port, as well as the oil storage and refueling stations; attract and maintain local and foreign investments to promote the economic and social development of the country primarily in Central Luzon; establish and regulate the operation and maintenance of utilities, services and infrastructure; operate directly and indirectly tourism-related activities; and protect the Freeport's forests.

*SBMA Vision*

By 2030, the Greater Subic Bay Area shall be a (the) premier Freeport Zone in Asia

In line with this goal and vision, SBMA shall undertake to create a business environment that will make us the most competitive Freeport Zone in the country and within the Asian region. To accomplish this, it shall embark on the following:

1. **To make way for a leading and green port.** With the depth of the bay, clean air and water, and biodiversity as its advantage, SBMA aims to be the busiest port in the Philippines and Asia by moving cargoes and tourists by the sea. It shall develop a super yacht haven and a cruise ship destination.
2. **To create a major tourist destination.** We envision Subic as the theme park capital of the country, a venue for major sports events, luxury destinations for casinos and shopping, and medical tourism.
3. **To continue to develop the most protected environment in Southeast Asia.** Residential areas are envisioned to rise in the heart of nature for local and international elite offering high class modern living and investments. Consequently, a bigger per capita income for Freeport constituents is foreseen that will produce more purchasing power that will uplift their lifestyle.

Today, the SBMA continues to attract local and foreign investments for the socio-economic benefit of nearby local communities, as well as Central Luzon and the rest of the country; to sustain an investment-friendly and stable business environment and assist investors in setting up their businesses by providing quality services; to pursue the development of the Freeport not only as an investment site but also as a tourism destination; and to promote environmental protection amidst rapid development.

#### SBMA Mission

To generate broad-based business and job opportunities by offering unique maritime, eco-tourism and high-tech industrial services and infrastructure to the world as a showcase of Philippine economic progress and development.

## **2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE**

#### Basis of Preparation

The financial statements have been prepared on historical cost convention

#### Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires SBMA to exercise its judgement in the process of applying its accounting policies.

Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that SBMA's financial statements therefore present the financial position and results fairly.

*Adoption of New Government Accounting System (NGAS) Revised Chart of Accounts*

The accompanying financial statements were prepared using National Government Accounting System (NGAS) Revised Chart of Accounts per COA Circular No. 2008-01 dated January 29, 2008 superseding COA Circular Nos. 2003-01, 2004-02 and 2004-008 dated June 17, 2003, April 29, 2004 and September 20, 2004, respectively.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Cash and cash equivalents*

Cash and cash equivalents include cash on hand, demand deposits, other short-term highly liquid investments with original maturities of one year or less.

*Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, receivables are reported net of allowance for bad debts. A provision for impairment (allowance for doubtful accounts) is established when there is objective evidence that SBMA will not be able to collect all amounts to be received. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount to be received is impaired.

The Allowance for Doubtful Accounts is established based at certain percentage that considers the age of Accounts Receivable. As approved per Board Resolution No. 14-04-5063 issued on the 22<sup>nd</sup> day of May 2014, "Revised Policy on Allowance for Doubtful Accounts", the following table is used as a basis in determining the Allowance for Doubtful Accounts.

Revised Policy on Allowance for Doubtful Accounts is as follows:

<b>Age of Accounts Receivable</b>	<b>Percentage of Allowance</b>
1-30 days	0%
31-60 days	5%
61-90 days	10%
91-120 days	15%
121-150 days	20%
151-180 days	30%
181 days to 1 year	40%
Over 1 year to 2 years	50%

<b>Age of Accounts Receivable</b>	<b>Percentage of Allowance</b>
Over 2 years to 3 years	65%
Over 3 years to 4 years	80%
Over 5 years	100%

### Bond Investment

Straight line method is being adopted in amortizing bond premium.

### Inventories

Inventories are stated at cost and issuances are recorded using the moving-average method. The inventories stated in the financial statements are items held for use in the operation of the agency.

### Investments

#### *a. Subsidiaries*

Subsidiaries are all entities over which SBMA has the power to govern the financial and operating policies generally accompanying a shareholding of an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, and are consolidated.

#### *b. Associates*

An associate is an entity, including an unincorporated entity such as a partnership, over which SBMA has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The equity method is used in accounting for investments in common stock of subsidiaries which are controlled, directly or indirectly, by the investor; and investees where the investment in voting common stock gives the investor the ability to exercise significant influence over the operating and financial policies of an investee even though the investor holds 50% or less of the voting stock.

Percentages of ownership in investments in shares of common stock of the following subsidiary and associates are as follows:

	<b>Percentage of Ownership</b>
Freeport Service Corporation	100.00
Subic Techno-park	49.99
SBDMC	48.60
Subic Water	20.00
BCDA and CDC-SCADC	33.30
Subic Bay Yacht Club	0.37

Investments in shares of common stocks of Freeport Service Corporation (FSC) are accounted for under the cost method. Adoption of the equity method of accounting was deferred since their records were destroyed by fire last January 2004. Also, the deferral of the use of equity method of accounting was concurred by the Commission on Audit pending completion of audit of the 2003 financial transactions and the resolution of the qualification in the audit opinion of FSC's 2002 financial statements because of the wide disparities between the gross profit rates of FSC's business units with the actual gross profit rates of the services being rendered. The Commission gave an adverse opinion on the financial statements of FSC for the years that followed rendering the financial statements unreliable.

Although SBMA is able to exercise significant influence over its investments in SBDMC and SCADC, the cost method is being adopted in accounting for the said investments. Investment in SBDMC is accounted under the cost method pending resolution of issues on the proper accounting of transactions affecting both SBMA and SBDMC concerning the ICDF loan. In our inquiry with the SCAD council, the SCADC is still non-operational, a council called SCAD council is managing the pre operational stage of the SCADC. No Financial Reports for the SCADC is available, thus, pending their actual operation, the cost method of accounting is used for the said investment.

The investments in shares of common stocks of STEP and Subic Water are accounted under the equity method.

#### Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its acquisition cost and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions and major improvements are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the Straight-Line Method that is, Asset Cost less Estimated Residual/ Salvage Value over the estimated useful life of the asset. The estimated useful life of the asset was based on COA Circular 2003-007.

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement for the period.

#### Revenue and Expense Recognition

The modified accrual basis of accounting for income and expenses is being adopted. Penalty on past due accounts and contested accounts receivable are taken up as income upon collection.



Revenues are derived mainly from leasing of land and buildings, seaport and airport operation, tourism, and from various services being rendered by the agency to attend to the needs of the locators, residents and other parties in their conduct of business inside the Freeport like medical services, equipment, furniture and fixtures rentals, PPMD services, regulatory services etc.

#### Foreign Currency Transactions

The peso equivalent of dollar denominated transactions is booked at the Philippine Dealing System (PDS) reference rate at transaction date. Any difference in exchange rate between two related transactions for operations is charged to profit or loss on foreign exchange while differences in exchange rate on transactions pertaining to capital outlays is included in the cost of the asset up to the amount of lower of replacement cost and the amount recoverable from the use or sale of the asset. All foreign currency monetary items (Cash, Account Receivable, Loan Payables, Security Deposit) are revalued at the closing rate at the end of the month.

#### **4. CASH**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Cash in Bank- Foreign Currency	P 1,416,849,846.40	P 751,033,021.40
Cash in Bank- Local Currency	572,570,416.25	378,677,130.94
Cash on Hand- Foreign Currency	417,386.20	5,160,510.42
Cash on Hand- Local Currency	6,610,353.52	17,925,522.75
Cash Disbursing Officers	3,017.14	3,017.14
	<b>P 1,996,451,019.51</b>	<b>P 1,152,799,202.65</b>

The depository banks of the SBMA are Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP).

#### **5. RECEIVABLES**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Trade		
Locator	P 293,809,796.48	P 365,980,016.13
Less: Allowance for Doubtful Accounts	64,479,487.91	55,984,150.05
Net Realizable Value - Locator	229,330,308.57	309,995,866.08
Residential	14,910,657.63	13,531,389.94
Less: Allowance for Doubtful Accounts	2,715,149.44	1,732,928.01
Deferred Lease Revenue (459-008)	.00	276,677.76
Net Realizable Value - Housing	12,195,508.19	11,521,784.17

	2014	2013
Equitable Card Net Inc.	239,601.06	2,200,103.22
Total Trade - Current	241,765,417.82	323,717,753.47
Add: Non-Trade	5,865,617.70	8,360,490.78
<b>Total Current Receivables</b>	<b>P 247,631,035.52</b>	<b>P 332,078,244.25</b>
<b>Non-Current</b>		
Trade		
Locator	P 3,377,955,578.96	P 3,137,465,533.11
Less: Allowance for Doubtful Accounts	3,096,487,648.27	2,305,567,433.58
Deferred Revenues (459-116 to 459-121)	.00	251,891,087.73
Net Realizable Value - Locator	281,467,930.69	580,007,011.80
Residential	211,281,028.42	211,650,397.78
Less: Allowance for Doubtful Accounts	205,413,045.46	157,358,614.86
Deferred Revenues (459-109)	.00	30,849,773.82
Net Realizable Value - Housing	5,867,982.96	23,442,009.10
Total Trade - Non-Current	287,335,913.65	603,449,020.90
Non-Trade	17,851,025.08	17,711,909.10
<b>Total Non-Current Receivables</b>	<b>P 305,186,938.73</b>	<b>P 621,160,930.00</b>

Non-Current Trade Receivable includes the Receivable from the former SBMA Treasurer for the cash (P322,296.18 and \$25,315.67) which were stolen in a robbery that occurred in the Treasury Department in November 2005.

Trade Receivables with age 360 days and below are classified as *Current Trade Receivables* while those with age over one (1) year are reported under *Non-Current Trade Receivables*.

*Non Trade Current Receivables* includes Due from BIR, DBM for procurement, Due from GOCC-GSIS/SSS/PAG-IBIG/PHIC, Advances Officers and Employees and Receivables Treasurer while *Non Trade Non-Current Receivables* includes Interest Receivables from Time Deposits, Bonds, Receivables from NGO/PO's and Receivables from Officers, Employees and former Board of Directors.

The penalty on past due accounts are being recorded as income upon collection.

Following the revision in determining the Allowance for Doubtful Accounts as per revised policy under SBMA Board Resolution No. 14-04-5063 issued on May 22, 2014, the reporting of Accounts Receivable was changed from net of Allowance for Doubtful Accounts and Accounts Receivable from Unearned Revenue to net of Allowance for Doubtful Accounts only.

## **6. INVENTORIES**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Supplies and Materials	P 35,314,013.09	P 35,409,646.05
Accountable Forms	909,731.42	1,021,572.45
Medical and Laboratory Supplies	2,168,182.98	2,303,886.03
Gasoline, Oil and Lubricants	21,713,688.37	21,883,949.47
Spare Parts	46,815,105.12	47,315,220.17
Construction Materials	523,124.11	1,046,398.81
Other Inventory Items	2,359,755.52	2,359,755.52
Foreclosed/ Garnished Properties	685,500.00	685,500.00
	<b>P 110,489,100.61</b>	<b>P 112,025,928.50</b>

The Inventory which includes Un-reconciled Inventory account amounting to P67.8 million and Inventories for Reconciliation of P24.8 million were reclassified per Commission on Audit recommendation with COA-SAOM 2012-004 (2011) under JGL 12-02-0327 and JGL 12-02-331 respectively.. Efforts are being made by various departments to determine the reasonable amount of un-reconciled inventory for probable write-off of non- existing inventory items which are booked under the said accounts. Approval for write off shall be requested from the Commission on Audit upon completion of the actual inventory of existing items to document the unaccounted inventories.

## **7. MISCELLANEOUS ASSETS**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Prepayments	P 4,057,042.29	P 4,637,353.36
Bill/ Guarantee Deposit to Subic Enerzone	3,676,637.33	3,676,637.33
Advances to Contractors	2,687,679.35	246,853.26
	<b>P 10,421,358.97</b>	<b>P 8,560,843.95</b>

Prepayments include prepaid expenses for insurance, licenses, subscriptions and registrations that are subject to regular monthly amortization as expense when incurred.

Guarantee deposits made to Subic Enerzone to guaranty installation of transformers, power lines and power accounts of SBMA.

The Advances to Contractors are for project mobilization or as required in the contract. These amounts are for recoupment against their claims to SBMA for the succeeding periods.

## 8. LONG-TERM INVESTMENTS

This account consists of equity Investment of SBMA on the following Subic Bay Freeport registered companies:

	2014	2013
Freeport Service Corporation	P 5,998,500.00	P 5,998,500.00
Subic Technopark	24,224,646.39	20,272,306.04
Subic Bay Development and Mgt. Corp.	13,007,540.00	13,007,540.00
Joint Venture - Subic Water	183,617,853.57	155,058,567.37
BCDA and CDC - SCADC	2,083,333.33	2,083,333.33
Subic Bay Yatch Club (net)	6,600,000.00	6,600,000.00
<b>Subtotal</b>	<b>235,531,873.29</b>	<b>203,020,246.74</b>
Investment in LBP		
Certificate of Peso Time Dep.	10,000,000.00	10,000,000.00
LBP SBMA Dollar TD Acct.	357,760,000.00	0.00
Bonds	0.00	182,780,001.48
<b>Total</b>	<b>P 603,291,873.29</b>	<b>P 395,800,248.22</b>

The winding up of the Freeport Service Corporation (FSC) corporate affairs started in August 2010 and its entire operation was dormant since September 26, 2010. All FSC employees were retrenched and paid corresponding separation pays. At present, all FSC managed properties and facilities were turned over and operated to/by SBMA. SBMA likewise took over FSC's current sub lessees and directly collects the sublease rentals as payment of FSC's unpaid obligations to SBMA until Sept. 30, 2012. Beginning Oct. 1, 2012, all of FSC's sub lessees were transferred to SBMA as direct lessees. FSC's movable properties were also turned over to SBMA for safekeeping and proper disposition.

## 9. PROPERTY AND EQUIPMENTS

This account consists of the following:

	Land & Land Improvements	Building & Building Structures	Furniture & Other Equipment	Total
At December 31, 2013				
Cost	P 18,883,369,303.62	P 19,560,804,268.32	P 2,401,848,312.82	P 40,846,021,884.76
Construction in Progress	13,511,532.48	2,402,608.18	0.00	15,914,140.66
Accumulated Depreciation	(2,457,092,197.62)	(11,179,184,035.79)	(1,815,729,940.69)	(15,452,006,174.10)
<b>At December 31, 2013</b>	<b>P 16,439,788,638.48</b>	<b>P 8,384,022,840.71</b>	<b>P 586,118,372.13</b>	<b>P 25,409,929,851.32</b>
At December 31, 2013				

	<b>Land &amp; Land Improvements</b>	<b>Building &amp; Building Structures</b>	<b>Furniture &amp; Other Equipment</b>	<b>Total</b>
Cost, December 31, 2013	18,883,369,303.62	19,560,804,268.32	2,401,848,312.82	40,846,021,884.76
Construction In-progress	13,511,532.48	2,402,608.18	0.00	15,914,140.66
Accumulated Depreciation, December 31, 2013	(2,457,092,197.62)	(11,179,184,035.79)	(1,815,729,940.69)	(15,452,006,174.10)
	16,439,788,638.48	8,384,022,840.71	586,118,372.13	25,409,929,851.32
Construction in Progress	375,431.20	0.00	0.00	375,431.20
Additions/ Transfer	33,006.92	(6,322,721.57)	21,850,779.77	15,561,065.12
Depreciation for the Year	(127,695,615.25)	(251,964,428.86)	(70,809,752.63)	(450,469,796.74)
Depreciation Prior Years	0.00	0.00	0.00	0.00
<b>Total December 31, 2014</b>	<b>P 16,312,501,461.35</b>	<b>P 8,125,735,690.28</b>	<b>P 537,159,399.27</b>	<b>P 24,975,396,550.90</b>

An ongoing reconciliation is currently being made by the Accounting Department, the Land and Asset Management Department (LAMMD) and the Procurement and Property Management Department (PPMD) to reconcile the records of the departments on the actual inventory of all existing properties particularly land, buildings, building improvements, furnitures, fixtures and other equipments. This is an initial action to reinstate the assets' value to its realizable amount/ fair value and assure the reliability of the amounts presented in the statement of financial position.

#### **10. OTHER ASSETS**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Restricted Cash (\$LBP)- SBMA Debt Service Acct	P 82,355,496.06	P 16,404,234.46
LBP- - Trust Fund Various	178,751,161.13	0.00
DBP - Trust Fund Various	82,309,281.00	0.00
Arts, Archeological Specimen and Other Exhibits	3,517,000.00	3,517,000.00
Work Animals	9,173,732.45	9,358,732.45
Peso Time Deposit - LBP	0.00	21,488,667.49
Peso Cash on Hand	856,754.66	856,754.66
Due from Officers & Employees	4,769,705.04	5,059,136.63
	<b>P 361,733,130.34</b>	<b>P 56,684,525.69</b>

For the Peso Cash on Hand of P856,754.66, Please note that part of the difference between cash on hand of P856,754.66 has been accounted as rate of exchange difference at the time collection was received and when deposited.

## **11. PAYABLES & ACCRUED EXPENSES**

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
<b>Accounts Payable</b>		
Capital Outlay	P 8,148,858.75	P 7,418,343.61
Unliquidated Obligation	20,063,131.03	25,842,943.52
Unclaimed Checks	-	-
Miscellaneous	2,479,924.30	2,479,924.30
	P 30,691,914.08	P 35,741,211.43
<b>Accrued Expenses</b>		
Maintenance and Operating Expenses	100,880,525.70	104,407,866.36
Due to Officers and Employees	20,868,524.42	16,025,478.63
Guaranty	16,537,120.05	15,304,446.57
	P 138,286,170.17	P 135,737,791.56
<b>Sub Total- Current</b>	<b>P 168,978,084.25</b>	<b>P 171,479,002.99</b>
<b>Non-Current</b>		
Accounts Payable - Miscellaneous	18,970,445.13	18,970,445.13
AP-Due to Officers-Unpaid		
Compensated Absences	140,484,681.73	154,509,257.66
<b>Sub Total- Non-Current</b>	<b>P 159,455,126.86</b>	<b>P 173,479,702.79</b>
<b>Grand Total</b>	<b>P 328,433,211.11</b>	<b>P 344,958,705.78</b>

This account consists of the following:

The payables account includes various obligations to suppliers, contractors and personnel. The obligations incurred are payables for such items of MOOE, Capital Expenditures, (Capex) and Personnel Services (PS). The latter represents accumulated earned leave credits of SBMA employees.

Unpaid Guarantee Fees for the current year are also reported in this section of the statement of financial position.

## **12. LOANS PAYABLES**

This account represents drawdowns from the following bilateral lending institutions net of repayments:

Creditor	Interest	Approved Loan	Total Drawdown In USD/YEN	Total Repayment	In YEN	In USD	2014 (In Peso)	2013 (In Peso)
Foreign Loans								
World Bank I							-	
World Bank II	0.66% p.a.	\$ 60 M	25,528,003.74	19,802,800.00		5,725,203.74	256,031,111.26	345,849,526.06
Exim Bank						-	-	426,999,431.81
JBIC / OECF I	2.50% p.a. (Category A - Consulting) and 2.10% p.a. (Category B - Civil Works)	JPY 1.03 B	797,857,471.00	311,407,471.00	486,450,000.00	4,031,269.45	180,278,370.00	222,702,647.40
JBIC / OECF II	0.95% p.a. (Category A - Consulting) and 0.75% p.a. (Category B - Civil Works)	JPY 16.45 B	15,683,165,570.00	2,324,885,570.00	13,358,280,000.00	110,701,667.44	4,950,578,568.00	5,880,366,234.00
Loan Payable-LBP \$ Loan (Long-Term)	floating rate (prevailing 3 mo. London Interbank Offered Rate (LIBOR) plus a spread of 232 basis points (bps))		24,619,505.87			24,619,505.87	1,100,984,302.51	305,641,343.37
<b>Sub Total - Foreign Loans</b>							<b>6,487,872,351.77</b>	<b>7,181,559,182.64</b>
<b>Domestic Loan</b>								
<b>Total Loans Payable</b>							<b>6,487,872,351.77</b>	<b>7,181,559,182.64</b>
Less Current Portion							302,712,273.60	382,872,878.40
<b>Long-term Portion</b>							<b>6,185,160,078.17</b>	<b>6,798,686,304.24</b>

Foreign loans are recorded at restated value. Revaluation rate as of December 31, 2014 and December 31, 2013 are \$1: P44.72, JPY1: P0.3706 and \$1: 44.40, JPY1: P0.4239, respectively.

Current portion of loans payable as follows:

Creditor	Payment Period		Foreign Currency Amount	Peso Equivalent (Based on Current Exchange Rate)
<b>Foreign Loans</b>				
World Bank II	Jan-15-2015	USD	1,078,100.00	P 48,212,632.00
	Jul-15-2015	USD	1,110,700.00	49,670,504.00
JBIC / OECF I	Sep-20-2015	JPY	19,458,000.00	7,211,134.80
	Mar-20-2015	JPY	19,458,000.00	7,211,134.80
JBIC / OECF II	Feb-20-2015	JPY	256,890,000.00	95,203,434.00
	Aug-20-2015	JPY	256,890,000.00	95,203,434.00
<b>Loans Payable- Current Portion</b>				<b>P 302,712,273.60</b>

### 13. DEFERRED CREDITS

This account consists of the following:

	2014	2013
Deferred Credit to Income Non-Cash	P 39,459.78	P .00
Deferred Credit to Income -Cash	53,898,597.25	57,137,184.86
Current Deferred Credit	53,938,057.03	57,137,184.86
Deferred Credit to Income Non-Cash	312,287,456.03	.00
Deferred Credit to Income -Cash	2,639,670,904.49	2,588,443,772.15
Long Term Deferred Credit	2,951,958,360.52	2,588,443,772.15
<b>Total Deferred Credits to Income</b>	<b>P 3,005,896,417.55</b>	<b>P 2,645,580,957.01</b>

Deferred credits include rentals received in advance from various investors/locators/residents related to long-term lease. In effect of reporting of Accounts Receivable in Net of Allowance for Doubtful accounts only, Deferred Credit to Income Non-cash is reported on 2014 as part of Deferred Credits.

### 14. SECURITY DEPOSITS & ADVANCE RENTAL

This account consists of the following:

	2014	2013
Security Deposit and Advance Rental on Short - Term Lease:		
Security Deposit - Locator	P 37,413,821.67	P 37,381,729.53
Security Deposit - Housing & Others	436,582.73	436,582.73
Advance Rental	165,061,824.01	144,383,826.51
<b>Sub Total</b>	<b>202,912,228.41</b>	<b>182,202,138.77</b>
Security Deposit on Long - Term Lease	498,745,084.66	470,332,631.43
<b>Grand Total</b>	<b>P 701,657,313.07</b>	<b>P 652,534,770.20</b>



The Security Deposits represent cash payments made by tenants as a guarantee for unpaid utility bills at the end of the lease term. While advance rentals represents payments from Locators and Residents to be applied against the last month/s of the customer's occupancy of the leased facility. In no case shall this amount, during the term of the lease agreement, be applied to the customer's unpaid obligation unless the customer has given its intention to vacate the leased property. In the event that there is no outstanding account at the end of the lease term, the advance rental shall be refunded accordingly.

### **15. TRUST LIABILITIES**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
National government	P 37,709,612.20	P 31,221,459.83
BIR	3,104,100.00	1,654,600.00
BOC		
Government Owned and Controlled Corp.		
GSIS	6,765,610.12	6,622,133.24
PAG-IBIG	3,289,244.13	2,968,110.16
PHILHEALTH	670,251.75	624,276.75
SSS	58,698.88	56,447.73
LGUs (2% Share on 5% Preferential Tax)	141,551,985.89	110,663,154.96
Retention Fees	5,111,589.44	5,106,247.77
Various Liabilities	153,678,334.30	101,860,266.78
	<b>P 351,939,426.81</b>	<b>P 260,776,697.22</b>

### **16. PAID IN CAPITAL**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Paid-in Capital:		
Cost of Fixed Assets	P 19,100,000,000.00	P 19,100,000,000.00
Cash Contribution from the Nat'l Gov't	842,815,498.00	842,815,498.00
	<b>P 19,942,815,498.00</b>	<b>P 19,942,815,498.00</b>

### **17. APPRAISAL SURPLUS**

The Appraisal Surplus represents the additional net book value of Buildings and Structures turned over by the U.S. Naval Base in 1993 booked based on the result of the physical inventory completed by the Fixed Asset Inventory Team in December

2003. The piecemeal realization of Appraisal Surplus was initially recorded in July 2005. This represents amortization of appraisal surplus.

The Land and Asset Management Department (LAMD) is currently in the process of verifying the inventory list of all SBMA properties particularly Land and Building. Appraisal and valuation of the properties to its Fair Market Value is being worked out by the LAMD which may affect the Appraisal Surplus account upon recording of the properties to its realizable and fair amounts.

### **18. INVESTED CAPITAL – HELD IN TRUST**

The Invested Capital – Held in Trust includes eight (8) motor vehicle from Hanjin and Summa Kumagai and furniture and office equipments from CPPAP.

### **19. DONATED CAPITAL**

The Donated Capital are composed of the Instrument Landing System (ILS) partly financed by the Federal Express Corp. amounting to P 34,367,662.00 and the 10 mural paintings of Artist Rene Robles amounting to 3,250,000.00.

### **20. GAIN (LOSS) ON REVALUATION**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Gain (Loss) on Foreign Exchange	P (40,532,922.16)	P (12,197,068.56)
Gain (Loss) on Foreign Exchange - Cash	64,777,973.98	(19,914,294.17)
<b>Subtotal- Realized Gain(Loss)</b>	<b>24,245,051.82</b>	<b>(32,111,362.73)</b>
Gain (Loss) on Revaluation of Foreign Loans	735,190,573.14	743,699,721.28
Gain (Loss) on Revaluation of:		
Dollar Accounts Receivable	13,560,146.27	143,459,705.57
Dollar Security Deposits	499,113.58	753,356.96
Dollar Deferred Credits	969,676.60	(1,112,579.74)
Dollar Advances	392,010.68	188,899.75
<b>Subtotal- Unrealized Gain(Loss)</b>	<b>750,611,520.27</b>	<b>886,989,103.82</b>
<b>GRAND TOTAL GAIN(LOSS)</b>	<b>P 74,856,572.09</b>	<b>P 854,877,741.09</b>

Gain (Loss) on Foreign Exchange represents realized gain or loss from transactions such as collection of foreign denominated receivables, payments of foreign denominated loans and other payables, application of advance rentals against outstanding receivables and other transactions with similar cases.

Gain (Loss) on Revaluation represents unrealized gain or loss from translation of foreign denominated accounts to its peso equivalent using the month end rate for the period.

## **21. OTHER INCOME**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Interest Income	P 69,536,519.45	P 46,081,339.16
Regulatory Fees	204,817,136.54	207,598,632.65
Other Gov't Business Income	199,420,281.85	170,411,542.65
Miscellaneous	7,179,888.28	12,579,651.01
	<b>P 480,953,826.12</b>	<b>P 436,671,165.47</b>

## **22. OTHER EXPENSES**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Interest on Loans	P 83,662,139.94	P 106,420,164.74
Guarantee Fees and Other Charges	61,620,426.91	76,871,409.70
Others	268,391,761.11	320,019,534.60
	<b>P 413,674,327.96</b>	<b>P 503,311,109.04</b>

Guarantee Fees are paid to the Bureau of Treasury to guaranty payment of outstanding foreign loans. Full payment was made on February 6, 2014 on International Cooperative & Development Fund (ICDF) loans. Contractual Services-SBMA is included under Other Maintenance and Operating Expenses starting of August 31, 2013 and Other Professional Services-Fuel, Meals, Accommodation & Other Reimbursement, Travel and Communication are included starting April 30, 2014. Contractual Services-SBMA and Total Other Professional Services as of September 30, 2014 are P122,751,091.97 and P4,004,750.49, respectively.

## **23. RELATED PARTY TRANSACTIONS**

The Authority has entered into a service and management contracts with Freeport Service Corporation (FSC), its wholly-owned subsidiary, since FSC's start of operations in 1996. Contracts include FSC's provision of manpower services to SBMA on a reimbursable basis plus 10% overhead mark up. However, the overhead markup has been increased from 10% to 13% effective December 17, 2004. Facilities management contract requires FSC's management of tourism-related facilities of SBMA. Under this arrangement, the term of which lasted until 2009, SBMA paid FSC a management fee of P6 million per month while SBMA received 5% of FSC's gross income on these facilities.

However, in SBMA's effort to wind up the operation of FSC, the management fee of P6 million per month were no longer extended beginning January 2010. With FSC's dormancy of operation beginning September 26, 2010, the provision for gross

revenue sharing had also been stopped since FSC's facilities were taken over by SBMA, based on the Omnibus Agreement between SBMA and FSC, for management by the Tourism Department and the LAMD.

## **24. TAXATION**

As a territorial tax privilege in accordance with Section 43 of RA No. 7227, enterprises located within the Subic Bay Freeport Zone (SBFZ) shall be exempt from all national and local taxes. In lieu of paying taxes, the SBF enterprises, including SBMA, shall pay a final tax of 5% of their gross income earned from sources within the SBFZ. As defined in the same section of RA No. 7227, "gross income earned" shall mean gross sales or gross revenues derived from any business activity, net of returns, discounts and allowances, less cost of sales, but before deduction for administrative expenses and incidental losses during a given taxable period.

## **25. ASIAN ECONOMIC EVENTS**

The Authority had obtained several loans with bilateral lending institutions to finance the infrastructure development of Subic Bay Freeport Zone. Most of these loans were negotiated and became effective before the Asian economic crisis hit the country in late 1997.

The peso depreciation vis-à-vis the US dollar, Japanese yen and Euro have had a great impact on SBMA's debt service requirements. Loans' peso value depreciates when pegged against their original peso value using the negotiated foreign exchange rate at loan dates.

To address the issue on the uncontrolled depreciation and appreciation of peso against foreign currencies from time to time, new lease contracts being entered by SBMA are now peso denominated.

## **26. IMPLEMENTATION OF THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM (IFMS)**

On June 1, 2004, the Authority had implemented the IFMS concurrent with the manual accounting. Three modules were developed to facilitate the recording of all transaction and information presented in duly certified and approved Journal Entry Vouchers. The function of each module is briefly discussed as follows:

- i. **GENERAL LEDGER MODULE (GL).** Facility to record all adjustments, corrections & reversing entries that cannot be recorded in the other modules replacing the manual recording/ reporting in the General Journal.
- ii. **ACCOUNTS RECEIVABLE MODULE (AR).** Facility to record all billing and collection transactions replacing the manual recording/ reporting in the Journal of Bills Rendered and the Journal of Collections and Deposits. The

Journal of Accounts Receivable generated in this module replaces the aforesaid manual books.

Currently, Statement of Account (SOA) and Billing Statements issued to the Locators and residents are IFMS generated reports. The manual preparation of these reports has been stopped since the parallel run on the manual system and the IFMS AR module produced the same outputs.

- iii. **ACCOUNTS PAYABLE MODULE (AP).** Facility to record all obligation and disbursement transactions replacing the manual recording/ reporting on Voucher Payable Register and Journal of Checks Issued. The Journal of Accounts Payable generated in this module replaces the aforesaid manual books.

The Financial Statements are prepared manually based on the IFMS generated reports from the GL module, AR module and AP module. Although the three (3) modules produce reliable reports and outputs, the capability to integrate the outputs of the modules to produce the Financial Statements cannot be relied upon since development in the IFMS System has been stopped because of the Management's plan to require the Enterprise Resource Planning System (ERPS). The parallel run in the IFMS and manual preparation of Financial Statements will continue.

SBMA is planning to adopt the Enterprise Resource Planning System (ERPS) to replace the existing IFMS with integrated, commercially off-the-shelf package software that will reuse existing tools, data and processes. The ERPS is expected to remedy non-integration of data, which became a major dilemma in the implementation of the IFMS.

## **PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS**

## PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

### Financial Audit

*Unrecorded collections and payments under Cash in Bank accounts – P47.65 million*

**1. Collections and payments in CY 2014 made thru the bank amounting to P47,939,338.46 and P292,097.60, respectively, remained unrecorded therefore, understating Cash in Bank by P47,647,240.86.**

1.1 For CY 2014, the Management reported an ending balance of about P1,989,420,262.65 for Cash in Bank. Through replies received from concerned depository banks (LBP and DBP) confirming the reported balance, with few reconciling items, the existence of the amount deposited in banks was ascertained. The composition of the Cash in Bank balance is presented below:

Account Code	Account Name	Balance as of December 31, 2014
107-001 to 107-015	Cash in Bank – Peso Current Account	P 160,120,676.95
107-101 to 107-103	Cash in Bank – Peso Savings Account	15,612,636.44
107-201 to 107-203	Cash in Bank – Peso Time Deposits	396,837,102.86
108-100 to 108-109	Cash in Bank – US Dollar Savings Account	88,622,860.64
108-201 to 108-203	Cash in Bank – US Dollar Time Deposit	1,328,226,985.76
Total		P1,989,420,262.65

1.2 To test whether all transactions affecting Cash in Bank were completely recorded in the book of accounts at year-end, we reviewed the Bank Reconciliation Statement (BRS) and took note of the book reconciling items. The BRS reported a difference between book and bank balances amounting to P48,593,878.72.00 accounted for as follows:

Account Code	Balance per book	Balance per bank	Difference	Remarks
107-001 to 107-014	P160,120,676.95	P162,699,395.77	P2,578,718.82	1) P946,637.86 – Outstanding checks as of year-end. 2) P1,867,080.96 – Collections during the year but remained unrecorded. 3) P(235,000) – Payment of GSIS

Account Code	Balance per book	Balance per bank	Difference	Remarks
				Airport device insurance not yet recorded in books.
107-101 to 107-103	15,612,636.44	16,494,106.07	881,469.63	Collections during the year but remained unrecorded.
107-201 to 107-203	396,837,102.86	396,837,102.86	0.00	
108-100 to 108-109	88,622,860.64	133,756,550.91	45,133,690.27	P45,190,787.87– Collections during the year but remained unrecorded. P(40,221.17) – Airfare of Ronnie Yambao in payment to Amity Travel Corp. not yet recorded in books. P(16,876.43) – Refund of security deposit of Baylux International Inc. not yet recorded in books.
108-201 to 108-203	1,328,226,985.75	1,328,226,985.75	0.00	
Total	P1,989,420,262.64	P2,038,014,141.36	P48,593,878.72	

1.3 The adjusting items presented above were reflected in the Bank Reconciliation Statement. The total difference of P48,593,878.72 included the P946,637.86 outstanding checks as of year-end. The unrecorded collections amounting to P47,939,338.46 and payments amounting to P292,097.60 made thru the bank were the book reconciling items.

1.4 The failure to record the collections and payments made resulted in the understatement of Cash in Bank amounting to P47,647,240.86.

**1.6 We recommended that the Administrator instruct the Head of the Accounting Department to prepare adjusting entries to record the unbooked collections and payments.**

1.7 Management informed that unrecorded collections and payments as of December 31, 2015 were all recorded in January 2015.



Unverified amount of trade receivables – P217.10 million

**2. The correctness of the net realizable value of Accounts Receivable-Trade amounting to P217,102,686.51 as of December 31, 2014 was not ascertained due to poor results of confirmations sent to locators and residents.**

2.1 We have audited the account Trade Receivables, on a test basis, with reported net balance of P217,102,686.51 as of December 31, 2014, presented as follows:

Particulars	Amount	Total
Trade – Current:		
Locator	P 293,809,796.48	
Residential	14,910,657.63	
Equitable Card Net Inc.	239,601.06	P 308,960,055.17
Trade –Non-Current:		
Locator	3,377,955,578.96	
Residential	211,281,028.42	3,589,236,607.38
Less:		
Total Allowance for Doubtful Accounts		
Locator	3,160,967,136.18	
Residential	208,128,194.90	P 3,369,095,331.08
Deferred Lease Revenue		
Locator	279,392,097.10	
Residential	32,606,547.86	P 311,998,644.96
Net Realizable Value of Accounts Receivable – Trade		P 217,102,686.51

2.2 During the year, a total of 85 confirmation letters were sent to pre-selected samples composed of 53 residents and 32 locators to verify at least 85% of the gross trade receivable balance of P3,897,957,061.25 as of December 31 2014. The results of the confirmation were summarized below:

Results of Confirmation	Residents (Housing)		Locators		Total			% Over 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	589,730.50	4	382,078,319.47	5	5.88%	382,668,049.97	9.82%
Sub-total	1	589,730.50	4	382,078,319.47	5	5.88%	382,668,049.97	9.82%
3. Returned mail	33	111,546,073.91	12	467,187,372.06	45	52.94%	578,733,445.97	14.85%
4. No reply	19	80,500,937.07	16	2,275,591,141.85	35	41.18%	2,356,092,078.92	60.44%
Sub-total	52	192,047,010.98	28	2,742,778,513.91	80	94.12%	2,934,825,524.89	75.29%

Results of Confirmation	Residents (Housing)		Locators		Total			% Over total Receivables-Trade
	No. of Requ-est	Amount	No. of Request	Amount	No. of Requ-est	%	Amount	
Total confirmed	53	192,636,741.48	32	3,124,856,833.38	85	100.00 %	3,317,493,574.86	85.11%
Total Receivables- Trade as of December 31, 2014							P3,897,957,061.25	100.00%

2.3 As presented in the above table, of the 53 letters mailed to residents, 33 came back unserved to intended recipients either because lessees have moved out and the new tenants occupying the housing units refused to receive the confirmation letters, or units were unoccupied and no person was present to receive the letters. On the other hand, 12 out of 32 letters sent to locators were unserved because either the locators' businesses have been closed or new locators occupied the leased properties. The poor results of confirmation prevented the audit team from substantiating the existence and determining the accuracy of collectibles amounting to P578,733,445.97, or 14.85% of the gross trade receivable as of December 2014.

2.4 Meanwhile, about 35 letters were sent and duly received by 19 residents and 16 locators who failed or chose not to respond to the confirmation letters. The 35 letters accounted for P2,356,092,078.92 worth of collectibles, or 60.44% of the gross trade receivable as of December 2014. The amount was presumed correct inasmuch as a proviso was written in the confirmation letter saying the failure of respondents to reply by February 19, 2015 would mean an accurate figure carried in the SBMA book of accounts for the concerned respondents' respective accounts.

2.5 Four confirmation letters were mailed to four locators whose combined financial obligations to SBMA summed up to P382,078,319.47, or 4.71% of the total numbers of confirmation letter sent in December 2014. Of the P382,078,319.47 collectibles, only P15,939,701.80 was confirmed leaving a huge difference of P366,138,617.67 for reconciliation. The table below shows the details.

	Locators	Amount per Book	Amount per Confirmation	Difference	Reason
1	Financial Bldg. Corp/Home Guaranty Corp.	260,247,045.74	6,402,485.58	253,844,560.16	No explanation provided.
2	Phil. Amusement and Gaming Corp.	58,697,763.70	0.00	58,697,763.70	No explanation provided.
3	George Dewey Medical College, Inc.	33,588,127.77	5,142,800.00	28,445,327.77	Amount confirmed was \$115,000 multiplied by PDS closing rate of

	<b>Locators</b>	<b>Amount per Book</b>	<b>Amount per Confirmation</b>	<b>Difference</b>	<b>Reason</b>
					P44.72.
4	International Container Terminal Svcs. Co.,	29,545,382.26	4,394,416.22	25,150,966.04	Computation provided by locator.
	<b>Total</b>	<b>P382,078,319.47</b>	<b>15,939,701.80</b>	<b>P366,138,617.67</b>	

2.6 Lastly, one confirmation letter was sent to Tropical Paradise Retirement Village (residential) with a book balance of P589,730.50, having a difference of P2,866.60 as compared to its confirmed amount of P586,863.90, with schedule of computation.

2.7 To summarize, although 60.44% of the gross trade receivable as of December 2014, or P2,356,092,078.92 out of P3,897,957,061.25, was presumed correct, the accuracy of the remaining 24.67%, or P961,401,495.94, remained doubtful. Hence, reliance thereon could not be vouched absent a sufficient corroborating evidence to support its validity.

**2.8 We recommended that the Administrator :**

- a) coordinate with the four locators and one resident who replied with exceptions for purposes of bringing into agreement their respective records;**
- b) determine the probability or improbability of collecting the amount of P578,733,445.97 from the 33 residents and 12 locators who were not located in their respective leased properties;**
- c) consider requesting the write-off of said receivables from COA, in case high improbability of collection was established; and**
- d) follow up the responses for the 35 lessees who failed or chose not to send their replies, notwithstanding the presumption of accuracy accorded to their respective account balances.**

2.9 In response to the recommendation, Management concur and will do their best to work it out with the four Locators on the difference of AR balance.

2.10 For the 12 Locators who where not located in their respective properties they are leasing, Management will initiate action to relocate the whereabouts of the said Locators. If action will be found futile, they will comply with COA's recommendation to request for the write-off of the receivables from the concerned Locators

2.11 Management will initiate action in following up the reply of the confirmation letters that were sent to the 16 Locators

2.12 With regards to the AR from Tropical Paradise which confirmed that their accounts payable to SBMA was P586,863.90 resulting in a discrepancy of P2,866.60, reconciliation of accounts were already made and the discrepancies were already figured out, the necessary adjustment were already done.

2.13 With regards to the probability of collection of the P111,546,073.91 Accounts Receivables from 33 residents, AR-Housing Division in coordination with Land & Asset Management, Treasury and Legal Department were helping each other to collect the said amount. Otherwise, Management might request for write-off once they can no longer collect from the delinquent lessees.

*Accuracy and reliability of Accounts Payable ending balance remained unascertained – P187.95 million*

**3. The accuracy and reliability of the reported balances of Accounts Payable amounting to P187,948,529.38 as of December 31, 2014 cannot be determined due to (a) non-reversion of long outstanding unliquidated balances of payables worth P106,220,846.05 to unappropriated surplus of the general fund; (b) difference of the amount recorded in the books of SBMA and various creditors amounting to P74,373,513.94; (c) unaccounted balances reported in the accounting records amounting to P1,874,195.18; and (d) inadequate functionality of the agency's computerized accounting system resulting in existence of abnormal balances amounting to P1,085,956.17 in the subsidiary records.**

3.1 We have audited the Accounts Payable, on a test basis, with reported balance of P187,948,529.38 as of December 31, 2014, detailed as follows:

<b>Account Code</b>	<b>Account Name</b>	<b>Amount as of December 31, 2014</b>
401-001	Accounts Payable- Unliquidated Obligations/Vouchers	P 20,063,131.03
401-002	Accounts Payable-Miscellaneous	2,479,924.30
401-003	Unpaid Salaries and Benefits	139,790.00
401-004	Accounts Payable-Personal Services	11,723,595.84
401-005	Accounts Payable-MOOE	20,469,412.78
401-006	Accounts Payable- CAPEX	4,830,075.03
401-007	Accounts Payable- Unclaimed Checks	0.00
401-008	Accounts Payable- Current Year	80,411,112.92
401-009	Accounts Payable- Current Year- Personal Services	9,005,138.58
401-010	Accounts Payable- Current Year- CAPEX	3,318,783.72
401-011	Accounts Payable- Current Year- Guaranty fees	16,537,120.05
401-101	Accounts Payable- Long Term	18,970,445.13
	Balance per General Ledger	P187,948,529.38

3.2 In our verification of the above Accounts Payables balances, we noted the following deficiencies:

a. *Non-reversion of long outstanding unliquidated balances of payables worth P106,220,846.05 to unappropriated surplus of the general fund, contrary to DBM/COA Joint Circular No. 99-6 dated November 13, 1999.*

- Paragraph 3 of DBM/COA Joint Circular No. 99-6 dated November 13, 1999 states:

*3.0 – General Guidelines*

*3.1 All documented A/Ps of all funds, which have remained outstanding for two (2) years shall be reverted to the Cumulative Results of Operations – Unappropriated (CROU), except on-going capital outlays projects.*

*3.3 All undocumented A/Ps, regardless of the year they were incurred, shall immediately be reverted to the CROU.*

- Assessment of subsidiary records revealed a total of P106,220,846.05 worth of payable obligated in prior years remained outstanding for a period of more than two years as of December 31, 2014. Said amount pertains to SBMA's payable to 219 private entities (P71,326,278.07), 1,337 individuals (P27,122,789.98), 28 government agencies (P5,897,582.82) and 1 unaccounted accounts with undisclosed payees (P1,874,195.18), as summarized below:

Acct Code	Private Entities		Individuals		Government Agencies		Others (Unaccounted)		Total	
	Qt.	Amount	Qt.	Amount	Qt.	Amount	Qt.	Amount	Qt.	Amount
401-001	103	(8,644,181.11)	149	(1,458,458.94)	11	(839,344.49)	0	-	263	(10,941,984.54)
401-002	3	(605,514.12)	1	(215.00)	0	-	1	(1,874,195.18)	5	(2,479,924.30)
401-003	0	-	38	(134,990.00)	1	(4,800.00)	0	-	39	(139,790.00)
401-004	0	-	150	(8,453,909.42)	2	(10,009.76)	0	-	152	(8,463,919.18)
401-005	57	(15,111,876.87)	242	(2,674,460.92)	2	(2,444,562.07)	0	-	301	(20,230,899.86)
401-006	2	(4,830,075.03)	0	-	0	-	0	-	2	(4,830,075.03)
401-007	0	-	0	-	0	-	0	-	0	-
401-008	30	(30,500,267.02)	293	(5,616,711.90)	8	(1,784,625.05)	0	-	331	(37,901,603.97)
401-009	0	-	92	(2,351,475.09)	2	89,271.05	0	-	94	(2,262,204.04)
401-010	0	-	0	-	0	-	0	-	0	-
401-011	0	-	0	-	0	-	0	-	0	-
401-101	24	(11,634,363.92)	372	(6,432,568.71)	2	(903,512.50)	0	-	398	(18,970,445.13)
TOTAL	219	(71,326,278.07)	1,337	(27,122,789.98)	28	(5,897,582.82)	1	(1,874,195.18)	1,585	(106,220,846.05)

b. *Discrepancy of amounts recorded in the respective accounting records of SBMA and various selected creditors amounting to P74,373,513.94.*

- To determine whether all obligations to concerned creditors were recorded and to test the accuracy balances reflected in the accounting records; 251 confirmation letters were sent to various SBMA's creditors on September 2014. The confirmation letters covered about P105,520,811.11 and accounted for 76.29% of the P138,318,332.87 worth of payables as of August 31, 2014. Of the 251 confirmation letters, 47 creditors replied. 59 letters were returned with remarks on the mailing envelopes: "company moved out", "unknown consignee", "business closed" and "incomplete address". No response was received from the remaining 145 creditors.
- A comparison of figures supplied by the creditors in the confirmation letters as against the figures recorded in SBMA's accounting records initially disclosed an unfavorable peso discrepancy worth P74,373,513.94.

c. *Unaccounted balances reported in the accounting records amounted to P1,874,195.18.*

- Reporting a liability in the financial statement of the agency is an assertion that such liability actually exists as of a given reporting date. To test this existence assertion, a rundown of enumerated payees in the subsidiary ledgers was made. As a result, the procedure revealed one line items without any disclosure as would identify the payees or describe the nature of the obligation, to wit:

Account Code	Account Name	Payee	Amount	Age
401-002	Miscellaneous	Beginning balance	1,874,195.18	Over 730 days
Total			P1,874,195.18	

- The Accounting Department informed that the amount pertained to balances generated under the manual system of accounting that were carried forward in lump sum figure into the computerized system in 2003 when SBMA started using the Integrated Financial Management System (IFMS). The descriptions explaining the nature of the obligation as well as the names of payees were not indicated in the IFMS. Attempts to locate the source manual accounting reports such as journals and ledgers were made in order to determine the validity of the set payables and identify the creditors of said valid obligations, but efforts were unproductive. The responsible Accounting personnel, thereafter, explored on the possibility of obtaining documents that may be available at the COA stockroom.

d. *The inadequate functionality of the agency's computerized accounting system has contributed to the existence of abnormal debit/positive balances worth P1,085,956.17 as of December 31, 2014 in the subsidiary records of accounts payable.*

- As a general accounting rule, the normal balance for liability accounts is the credit balance. It is, therefore, abnormal to see a debit balance in the liability account as such imply an overpayment of payable, which, in turn, should be treated as receivable of the agency.
- The subsidiary ledgers for accounts payable showed a total of P1,085,956.17 worth abnormal balances as of December 31, 2014 broken down as follows:

Account Code	Account Name	Amount
401-001	Unliquidated obligations/vouchers	P156,986.42
401-002	Miscellaneous	14,320.00
401-004	Personal services	182,997.62
401-005	MOOE	252,878.05
401-008	Accounts Payable – Current Year	349,999.23
401-009	Accounts Payable – Current Year Personal Services	97,942.00
401-101	Accounts Payable – Long term	30,832.85
Total		P1,085,956.17

- The debit balances, according to the concerned Accounting personnel, were not actually a result of overpayment. Some were errors in the system brought about by the deficiency in the functionality of the IFMS. For instance, payrolls were accrued by crediting SL code 882 (SBMA payroll account) under sub-account 401-004 (personal services). In cases where only few of the payees were paid, instead of debiting SL code 882 (SBMA payroll account) in order to reduce the earlier set up of accruals, the respective names of payees or claimants were charged, resulting in abnormal positive balances in the subsidiary records. This erroneous procedure in tagging the individual names of payees was attributed to the lack of SL code 882 (SBMA payroll account) among the selection options for debit entries in the accounting system.
- While abnormal debit/positive balances arising from the IFMS deficiency did not warrant an adjustment in the amount of payables reported in the financial statements in view of the fact that said abnormal balances appeared only in the subsidiary ledgers, it was, nonetheless, necessary to cure the system's deficiency in order that only accurate information were obtainable from the accounting records of the agency.

### **3.3 We recommended that the Administrator:**

- require the concerned account officers to assess and examine all recorded payable accounts and to prepare journal voucher to revert all accounts payable that remained outstanding for two years or more. A copy of said**

**journal voucher certified by the Accountant and supported by a list of accounts payable reverted and amounts due each payee should be submitted to COA;**

**b. require the Accounting Department to coordinate with concerned creditors especially those whose reply were favorable to SBMA to (i) request for breakdown of SBMA payables reported in the creditors' accounting records; (ii) evaluate the accuracy of information supplied by creditors; (iii) effect necessary adjustments in the books of accounts, if warranted; and (iv) inform COA of adjustments made in the accounting records as a result of the reconciliation;**

**c. provide the concerned Accounting personnel with support staff from the Maintenance Department that could help in locating possible available documents at the COA stockroom and require the Accounting personnel to evaluate the validity of obligations on the basis of obtained relevant documents and, thereafter, prepare journal voucher to revert those obligations, which remained outstanding for more than two years; and**

**d. direct the Accounting department to coordinate with MIS department accounting concerns affecting the use of IFMS and its functionalities including, but not limited to, the lack of account "SBMA payroll" in the selection option for debit entries and instruct both departments to come up with a common solution that could address errors caused by the system's deficiency and the solution must be able to remove from the subsidiary ledgers all abnormal positive/debit balances caused by the inadequate functionality of IFMS.**

3.4 The Management replied that they will:

a. comply and that the Payable, Cost Accounting and General Accounting Divisions will review the outstanding payable balance of concerned payee/creditors. Once they determine that the accounts payable that remained outstanding for two years or more are appropriate to reverse, reversion of entries will be made, and they will ensure that the COA will be furnished a copy of the JEV and supporting schedules of list of accounts payable reverted and amounts due to each payee.

b. make necessary adjustments and will send letters to creditors with bigger recorded amount as compared to their records, requesting for the full details or breakdown of their collectibles from SBMA, make the necessary reconciliation to evaluate the validity of creditor's claim. All adjustments made will be immediately forwarded to COA.

c. locate first the specific JEV Nos. for them to determine the source of recording. Thereafter, they will immediately collate the relevant supporting documents from COA's stock room before they can revert the unaccounted Accounts Payable



3.5 They also explained that the Accounts payable with a total debit balance of P7,697,995.69 consist of the following:

- a. The P6,354,950.69 represents prepared checks as of August 2014 but were not released during the said period. The NGAS requires that JEV shall be prepared to record the restoration of the cash equivalent to the unreleased checks and recognition of the appropriate payable/liability account. While at the start of succeeding month, the JEV for unreleased checks shall be reversed to restore cash to the correct balance. Their present IFMS entails only released/claimed checks for posting. A JEV is prepared to record unreleased checks at the end of the month, except for the month of December and another JEV is prepared at the start of the following month for the reversal of previous entry.
- b. The P324,524.10 represents debit balance from non-individual payees/suppliers/ contractors, etc. The concerned accounting employee/s will make further analysis and will make necessary adjustments thereof.
- c. The remaining balance of P1,018,520.90 corresponds to debit balance from individual employee. Cost Accounting Division will make reclassification of all debit balances from individual employee to "SBMA Payroll".
- d. Accounting Department and Information Technology Department will schedule a meeting to resolve the above concern. Also, Management will forward the summary of adjustments that were made due to double recording, incorrect account use and other for the years 2013 and 2014.

*Payments of various claims not supported with complete documentation – P1,203,672.11*

**4. *Payments of various claims against the agency, amounting to P1,203,672.11, were not supported with complete documentation, in violation of Section 4(6) of P.D. No. 1445.***

4.1 Section 4(6) of P.D. No. 1445 provides:

Claims against government funds shall be supported with complete documentation.

4.2 Documentation pertains to evidences necessary to support claims against government funds, the review of which is part of the compliance audit. The auditor uses these evidences to evaluate the authenticity and authority of a claim.

4.3 In the performance of compliance audit, the audit team examined all payments of claims, related to travel abroad, made by the agency for CY 2014 and noted that almost none were supported with complete documentation. Based on COA Circular No. 2012-

001 dated June 14, 2012, the following were the deficiencies noted in the conduct of post-audit:

- a) Below were the common supporting documents that Management failed to attach per voucher:
  - a.1.) For Cash Advances of travel (includes direct billing from travel agency)
    - 1. Approved Office Order/Travel Order (Sec. 1 and 2 of EO 459 dated Sept. 1, 2005)
    - 2. Duly approved itinerary of travel
    - 3. Letter of invitation of host/sponsoring country/agency/organization
    - 4. For plane fare, quotations of three travel agencies or its equivalent
    - 5. Flight Itinerary issued by the airline/ticketing office/travel agency
    - 6. Document to show the dollar to peso exchange rate at the date of grant of cash advance
  - a.2.) For Liquidation of travel (includes reimbursement)
    - 1. Paper/electronic plane tickets, boarding pass, boat or bus ticket
    - 2. Certificate of appearance/ attendance for training/ seminar/ participation
    - 3. Narrative report on trip undertaken/ Report on Participation
    - 4. Certificate of Travel Completed
- b) Check Voucher (CV) No. CH-14-02594 amounting to P15,486.66 was not signed by the Releasing Officer/OIC-Treasury Department.
- c) CV No. CH-14-00025 dated January 7, 2014 amounting to P29,801.65 was not signed by Approving Authority.
- d) Based on the Itinerary Receipt attached to CV No. CH-14-02857, the booking was for one (1) adult and one (1) infant, the Concerned Official should not reimbursed the airfare of her child. There should be booking summary/payment details attached to identify the breakdown of airfare reimbursement amounting to P7,560.69 and to identify how much should be return/refunded by the Official, which is equivalent to the airfare of her child.
- e) Appropriate Daily Subsistence Allowance (DSA) should be used in computation of allowable travel expenses, taking note of appropriate hotel rate to be used.
- f) Claims for visa application fee for three employees costing P2,000.00 each totaling to P6,000.00, was disallowed as per Sec. 9 of EO No. 248 –

“Officials and employees authorized to travel abroad shall be entitled to One Thousand Five Hundred Pesos (P1,500.00) commutable pre-departure allowance to cover miscellaneous/incidental expenses, such as taxi fare, passport photographs, immunization, visa fees, tips, porter age, and airport terminal fees”

- g) There were two vouchers not yet transmitted to COA as of this date in relation to travel abroad, these were:

Reference	Voucher Date	Particulars	Amount
LA-14-00220	Nov. 14, 2014	Airfare ticket of Mr. Ronnie R. Yambao for attending the 20th Philippines-Taiwan Joint Economic Conference (JEC) held on October 23-25, 2014 in Taipei Taiwan.	\$481.70
LA-14-00227	Nov. 25, 2014	Airfare tickets of Mr. Ronnie Yambao during his official foreign travel for attending Cruise Shipping Asia Pacific 2014 Conference held last November 19-22, 2014 in Hong Kong China.	\$417.70

4.4 Management attaches, as supporting document, Acknowledgement Receipt (AR) instead of Official Receipt, in violation of COA Circular No. 2004-006 dated September 9, 2004 and Revenue Memorandum Circular No. 9-2006 dated January 25, 2006.

4.5 Paragraph 3.3.1 (a) of COA Circular No. 2004-006 dated September 9, 2004 states that –

*“Official Receipt (OR) – The OR shall be required for disbursements where the payee/recipient is a business establishment required by the Bureau of Internal Revenue to issue Official Receipts for its collections. The OR may also be in the form of cash receipt tape generated by cash register with Bureau of Internal Revenue seal.”*

4.6 Furthermore, Revenue Memorandum Circular No. 9-2006 dated January 25, 2006-

*“II. Transactions and amounts that are subject to VAT  
xxxx. As a matter of course, said acknowledgement receipt is to be forwarded to the customer together with the attached official receipt issued by the third-party service provider in the name of the customer. xxxx*

*III. Transactions and amounts that are subject to expanded withholding tax  
xxxx*

*4. The brokers shall attach to their NON-VAT Official Acknowledgement Receipts (reflecting the amount being reimbursed) the original copy of the official receipts issued by the third-party service providers in the name of the Customers of the brokers; xxxx*

4.7 Review of vouchers for expenses incurred during travel abroad shows that Management attached only AR contrary to the aforecited COA Circular and Revenue Memorandum Circular. These were – (1) CH-14-00025 (P29,147.50); (2) CH-14-02594 (P14,832.86); and (3) LA-14-00221 (\$200.00).

4.8 The Management already provided with the list of 30 vouchers amounting to P1,203,672.11 detailing the payees, references, particulars of payments, amount, and documents/information needed to pass the transactions in audit.

**4.9 We recommended that the Administrator:**

- a. submit the requested documents and information so that the transactions may be passed in audit pursuant to COA Circular No. 2012-001 prescribing the documentary requirements for common government expenditures;**
- b. review and sign CV No. CH-14-02594 and CH-14-00025;**
- c. attach booking summary/payment details for CV No. CH-14-02857 and recompute the allowable airfare claims. Require the return/refund of the excess reimbursement equivalent to the amount of airfare of the child;**
- d. check available and latest DSA rate for the computation of allowable travel expenses;**
- e. collect P500.00 each from the three employees concerns for the excess of allowable claims for their visa application fee;**
- f. transmit to COA the Letter of Authority, LA 14-00220 and LA 14-00227 for post audit and review; and**
- g. secure and submit to COA the required Official Receipt reflecting the same amount in Acknowledgment Receipt, attach the same to its corresponding vouchers.**

4.10 In response, Management already secured a copy of COA Circular No. 2012-001 dated June 14, 2012 and submitted the necessary documents and information to support the payment of the said audited transactions. OR No. 3540088 dated March 6, 2015 amounting to \$7.71 as refund by Ms. Amethya Koval and OR No. 3552849 dated March 6, 2015 amounting to \$12.34 as refund by Ms. Rhea Jane Mallari were submitted.

4.11 Management requested to pull-out the check vouchers in order for the Approving Authority to review and sign accordingly. They will immediately provide a signed copy of the said documents.

4.12 The booking summary/payment details was submitted and the excess reimbursement equivalent to the child airfare amounting to P999.00 was returned/refunded as evidenced by OR No. 3552848.

4.13 Management will comply with the recommendation of checking the latest available DSA rate in computing allowable travel expenses.

4.14 The concerned three employees already returned the excess allowable claims for their visa application fee as evidenced by OR Nos. 01-350014, 01-350020 and 01-350017 all dated March 9, 2015.

### **Compliance Audit**

#### *Incomplete funding for GAD activities*

**5. The agency allocated funds for Gender and Development activities below 5% of total budget appropriations, contrary to Section 33 of the General Provisions of CY 2014 General Appropriations Act (GAA), Section 36(a) of R.A. No. 9710, and Paragraph 2 and 6 of PCW/NEDA/DBM Joint Circular No. 2012-01. In addition, the appropriated budget was not fully consumed resulting in the failure to achieve the target sets in the Annual GAD Plan. Several observations were also noted in the audit of expenses.**

5.1 Executive Order (EO) No. 273 dated September 8, 1995, which approved and adopted the Philippine Plan for Gender-Responsive Development (PPGD) – 1995-2025 directs all government agencies at the national, regional and local levels to institutionalize GAD efforts by incorporating gender concerns when agencies formulate, assess and update their respective annual plans and their inputs to the medium and long term development plans and include GAD in the annual budget proposals and work and financial plans of agencies and local government units.

5.2 In our audit of the implementation, monitoring and evaluation of GAD programs, activities and projects of SBMA in CY 2014, we observed the following violations of laws, rules and regulations governing the preparation, presentation and submission of GAD, to wit:

*a. The agency allocated funds for Gender and Development activities below 5% of total budget appropriations, contrary to Section 33 of the General Provisions of CY 2014 General Appropriations Act (GAA), Section 36(a) of R.A. No. 9710, and Paragraph 2 and 6 of PCW/NEDA/DBM Joint Circular No. 2012-01.*

- The approved Corporate Operating Budget (COB) of the agency for CY 2014 amounted to P2,468,699,000.00 broken down as follows:

Particulars		Approved (P)
Personal Service (PS)		P 547,668,000.00
Maintenance and Other Operating Expenses (MOOE)		1,869,538,000.00
Operating Expenses	P709,997,000.00	
Other MOOE	1,159,541,000.00	
Capital Outlay (CO)		51,493,000.00
Total		P 2,468,699,000.00

(Note: Information stated in the table was from DBM with document barcode number 2014-S09534L)

- Review of the Annual GAD Plan and Budget for FY 2014 showed that Management had earmarked a total of P3,000,000.00 for the GAD Projects, Plans and Activities (PAPs) of the agency. The reserved budget, comprised of only 0.12 % of the agency's approved budget, contrary to the following:

#### Section 33, General Provisions of CY 2014 GAA:

The GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five (5%) of their budgets.

#### Section 36 of R. A. 9710, also known as An Act of Providing for the Magna Carta of Women:

The cost of implementing GAD programs shall be the agency's or the local government unit's GAD Budget which shall be at least five percent (5%) of the agency's or the local government unit's total budget appropriations.

#### Paragraph 2.0 and 6.1 of PCW/NEDA/DBM Joint Circular No. 2012-01:

GAD Planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five percent (5%) of their total budget.

At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD Budget shall be drawn from the Agency's maintenance and other operating expenses (MOOE), capital outlay (CO) and personal services (PS).

- Based on the GAD Plan and Budget of 2014 submitted to PCW, only P2,845,000.00 was endorsed or approved. The Management explained that the

balance amounting to P155,000.00 for the purchase of supplies and capital outlays was not included in the endorsed GAD Plan and Budget due to the transition of GAD Focal Point System of the agency during that period. Still, the allotted fund for Gender and Development is lower than what was required in CY2014 GAA and related laws.

- The implementation of Republic Act No. 7192 entitled “Women in Development and Nation Building Act” mandating agencies to ensure that women benefit equally and participate directly in the development programs and projects of government and also the approved and adopted Philippine Plan for Gender-Responsive Development (PPGD) 1995-2025, which directed government agencies including government-owned and controlled corporations, to take appropriate steps to ensure the full implementation of the policies, strategies, programs and projects outlined in the Plan. In compliance therewith, the Management, through the constituted SBMA-GAD Focal Point System/ Program Committee, formulated a GAD Plan designed to address gender and development issues within the context of their mandate and overall plans and programs towards the achievement of the desired outcomes and goals. Notwithstanding the effort, only few GAD-responsive PAPs were implemented during the year because of limited funding. Had the Management provided the entire budget required by law, more gender responsive program, project and activities could have been conducted and disseminated.

- The allocation of five percent GAD budget cannot be considered excessive when there are strategic and essential GAD activities thus relevant in making the agency’s plans, programs and projects gender responsive.

*b. The appropriated budget for GAD programs, actions, and projects was not fully consumed, resulting in the failure of the Management to achieve the targets set in the Annual GAD Plan.*

- Of the total P3,000,000.00 GAD budget (2.43% of the required GAD budget) to implement the agency’s GAD programs and activities, only P2,845,000.00 was considered in the Annual GAD Plan and Budget for CY 2014 submitted to PCW. Of the P2,845,000.00, only P1,640,123.44 was actually expended as shown in Table below, with a difference of P1,204,876.56.

<b>GAD Mandate/ Gender Issues</b>	<b>Total Agency Approved Budget</b>	<b>Actual Cost/ Expenditure</b>	<b>Variance/ Remarks Under (Over)</b>
<b>Client – Focused Activities</b>			
GAD Mandate/ Gender Issue #1	100,000.00	P1,258,243.25	(1,158,243.25)
<b>Organization-Focused Activities</b>			
GAD Mandate/ Gender Issue #2	2,000,000.00	27,910.00	1,972,090.00
GAD Mandate/ Gender Issue #3	135,000.00	182,064.07	(47,064.07)

GAD Mandate/ Gender Issue #4	200,000.00	40,405.00	159,595.00
GAD Mandate/ Gender Issue #5	355,000.00	124,501.12	230,498.88
GAD Mandate/ Gender Issue #6	55,000.00	7,000.00	48,000.00
Total	2,845,000.00	1,640,123.44	1,204,876.56

- The purpose for signing Executive Order No. 273 and other related laws was to encourage all government agencies including GOCCs to spend the appropriated budget to support the national policy enshrined in Section 14 of the Constitution that provides and ensures the fundamental equality of women and men as well as the government's commitment to the Fourth World Conference on Women.

c. *The following Observations was also noted in the audit of GAA expenditures*

- For 1<sup>st</sup> and 5<sup>th</sup> Gender Issues, the amount of P588,872.00 and P76,185.00, that corresponds to free of charge for the venue of training and program, was included in the actual cost attributed to GAD. The utilization of facility of the agency in an In-house training and program is a privilege of the agency's employees, especially if is for their welfare and development. See presentation below.
- For 3<sup>rd</sup> Gender Issue, the Management used 42% as the basis of attribution of the cost incurred in Supervisory Development Course for Track I, II and III. The performance of this activity in order to achieve its objective was giving equal training opportunities for men and women in the agency. Based on the actual ratio of women participants, the amount should be:

Supervisory Development Course	Actual Cost Incurred	Ratio of Women participants	Should be Amount
Track 1	192,740.43	46/90	98,511.78
Track 2	149,517.50	46/97	70,905.21
Track 3	32,334.50	25/51	15,850.25
Total	374,592.43		185,267.24

- For the 4<sup>th</sup> Gender Issue, training fee in the amount of P60,000.00 paid to Civil Service Commission for the conduct of seminar-workshops on Pre-Retirement Counselling on January 23-24 & February 11-12, 2014 under CV No. CH-14-00507 dated 3/7/2014 was not included.
- The Management used GAD budget for activities explicitly identified by law as non-chargeable against GAD Budget, in violation of PCW/NEDA/DBM Joint Circular No. 2012-01.



- Annex A of PCW/NEDA/DBM Joint Circular No. 2012-01 expressly provided that the following expenses cannot be charged to the GAD Budget:
  - Project, activities and programs that are not in the agency's PCW-endorsed GAD Plan;
  - Personal services of women employees unless they are working full time or part-time on GAD PAPs;
  - Honoraria for agency GAD Focal Point System members or other employees working on their agency GAD program and activities;
  - Salaries of casual or emergency employees unless they are hired to assist in GAD related PAPs;
  - Provision for contingency funds or "other services" of PAPs;
  - Car-pooling, gas masks for traffic/ environmental enforcers, among others;
  - The following expenses may not be charged to the GAD budget unless they are justified as clearly addressing a specific gender issue:
    - Physical, mental and health fitness including purchase of equipment and information dissemination materials;
    - Social, rest and recreation activities;
    - Religious activities and implementation of cultural projects; and
    - Construction expenses.
  - Purchase of supplies, materials, equipment and vehicles for the general use of the agency.
- On February 05, 2015, the Management submitted documents for *Gender and Development Attributed Projects, Activities and Program*. Based on the documents submitted, 5% to 100% of salaries of contractual and regular female employees were attributed to GAD.
- According to the cited reference, only salaries paid to women personnel working full time or part time on GAD PAPs and/or salaries of casual and emergency employees assisting in GAD-related PAPs or other employees working on GAD programs and activities could be charged against GAD budget. In another citation, salaries of women assigned at the Women's Desk were allowable GAD expenditures. For this reason, the salaries of the five (5) police women assigned at Women's Desk, Investigation Division of the LED could be charged to GAD budget based on gross annual salary. Furthermore, in case of GFPS members or agency personnel rendering services on a part time basis or as an additional duty, ONLY the salary or wage proportionate to the time devoted to GAD related work

shall be considered and included in the computation of the cost of the particular GAD activity.

- GAD Attributed Programs, Activities and Projects

<b>GAD Attributed Programs, Activities and Projects</b>			
Particulars	Cost Attributed	Correct Amount	Remarks
Repair of damage culvert at Boton District	PHP 1,177,294.95	0.00	Incorrect Amount
Repair of Gypsum Board ceiling and wall at ladies comfort room and other repair at Building N	9,925.00	9,925.00	
Roofing repair of Building 229	3,167,878.88	3,167,878.88	
Repair and renovation of various infrastructure around the Freeport	3,250,280.76	3,250,280.76	
Re-Flooring, repainting, and retiling of offices at Building 225	320,663.40	320,663.40	
Repair and Repainting of IO Office	302,421.40	302,421.40	
Repair of various offices at ISG	542,421.40	274,360.10	Incorrect Amount
Rehabilitation at Aparri Road, Cubi Distric	1,169,058.00	1,169,058.00	
Repainting of faded pavement markings at NAVMAG	485,400.00	485,400.00	
Repair of Group 6, NAVMAG	1,539,670.17	1,539,670.17	
Various Repairs at Port Operations Group	165,047.00	165,047.00	
Repair and Repainting of SBECC, San Roque Chapel, Board Stage, and Comfort Rooms at Malawaan Area	889,704.75	653,733.30	Incorrect Amount
<b>Total Repair And Maintenance Attributed To GAD</b>	<b>P 18,655,811.96</b>	<b>P 11,338,438.01</b>	<b>(P 7,317,373.95)</b>

- As referred to Harmonized Gender and Development Guidelines (HGDG), all development programs and projects should respond to: what are the gender issues that had been identified under PPGD for 1995-2025 and the Magna Carta of Women or identified by GAD Focal point of the agency and by other related laws were addressed in view of its goals and objectives; and whether gender equality and women's empowerment is promoted by the programs and projects.

<b>GAD Attributed Programs, Activities And Projects</b>			
Particulars	Cost Attributed	Remarks	
PRD Community Projects	P 222,552.20	Livelihood Trainings, etc.	
Subsidy to Aeta Community-Livelihood Assistance	6,474,000.00	100% attribution, the amount includes: Financial Assistance – Fiesta Celebration	P 100,000.00
		Financial Assistance – Annual Christmas Celebration	100,000.00
Communication service by female employees	3,065,932.80	32% of the total communication expenses	
Use of power and electricity and water by female employees	28,734,126.70	32% of the total power and water	
Grants, subsidies and contributions	1,829,000.00	100% attribution , the amount includes: Financial Assistance – Patronal Fiesta at Morong, Bataan: Cash Sponsorship - Pawikan Festival: Sponsorship – Olongapo City Fiesta 2014 Donation – Christmas Party of Senior Citizen of Municipality of Subic Donation – Municipality of Morong Bataan's Christmas Party	60,000.00 150,000.00 150,000.00 39,200.00 50,000.00
Supplies used for GAD related activities	1,029,744.34	5% of the total supplies expense	
Rent-Copying machine	128,844.30	5% of the total rent-copying machine	
Use of fuel, oil, lubricants for GAD related activities and programs	1,023,553.40	5% of the total fuel, oil, lubricants	
<b>TOTAL</b>	<b>P 42,285,201.54</b>		<b>P 649,200.00</b>

- The purchase of supplies and materials for the general use, communication, power, water, fuel and rent of copying machine should not be included in the cost of GAD expenditure UNLESS it was use specifically to a GAD PAPs, used in GAD office if already established, and the actual cost should be included as part of the GAD PAPs.

- Capital Outlay

<b>GAD Attributed Programs, Activities And Projects</b>	
Replacement of reinforced concrete pipes at Boton District	P 6,525,751.00
Capex Attributed To Gender And Development	P 6,525,751.00

- Funds for Gender and Development may be used for capital outlay provided that it is necessary for an identified gender issue and the project was approved by the PCW.
- Below is the total amount that should be charged to GAD:

<b>GAD Mandate/ Gender Issues</b>	<b>Actual Cost/ Expenditure</b>	<b>Should be</b>	<b>Remarks</b>
<b>Client – Focused Activities</b>			
Gender Issue #1	P1,258,243.25	P669,371.25	Excluding free of charge amounting to P588,872.00
<b>Organization-Focused Activities</b>			
Gender Issue #2	27,910.00	27,910.00	No correction
Gender Issue #3	182,064.07	185,267.24	Based on actual number of women participants
Gender Issue #4	40,405.00	100,405.00	Including training fee of P60,000
Gender Issue #5	124,501.12	48,316.12	Excluding free of charge amounting to P76,185.00
Gender Issue #6	7,000.00	7,000.00	No correction
<b>Total</b>	<b>P1,640,123.44</b>	<b>P1,038,269.61</b>	

### **5.3 We recommended that the Administrator:**

**(a) allot complete funding for its GAD-related and responsive programs, actions and projects in the following years to facilitate full attainment of objectives in the pursuit of gender equality and women's empowerment in the agency;**

**(b) through the created SBMA-GAD Program Committee, exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets and strive to carry out the plan to its fullest extent by utilizing the budget set aside for purposes of ensuring the full implementation of the GAD Plan; and**

**(c) through SBMA-GAD Focal Point (i) be cautious in preparing GAD Accomplishment Report not to exclude necessary or include unnecessary expenditure in the conduct of Gender and Development Programs, Activities and Projects (GAD PAPs) in compliance with the laws, rules and regulations on gender and development; (ii) to attribute 100% of the salaries of LED staff assigned to Women's desk based on gross annual salary and GAD Focal Point Staff assigned to plan, implement and monitor GAD PAPs on a full time or part time basis. Explain the basis of the percentage (%) attribution of salary of the other 36 employees and**

what GAD activity or activities they assisted or participated into so that the salary attribution would be part of the cost of that GAD activities, programs and projects; (iii) evaluate the repair and maintenance attributed to Gender and Development to identify what specific gender issues it addressed and to use HGDG tool to effectively integrate gender in developing policies, planning, programs and projects; and (iv) assess the funding of social, rest/recreation and religious activities and seek approval from PCW on the capital outlay to be implemented, otherwise, expenditure for projects/activities without a well-defined gender issues to be addressed cannot be considered as a GAD related projects/activities and be excluded in the computation of the mandated appropriation for GAD.

5.4 In response to the recommendation, the Management will take into account all recommendations stated in the AOM. They do realize the need to learn more about GAD Planning and Budgeting, especially on the procedures and methods of budget attribution. And they believe that the Harmonized Gender and Development Guidelines (HGDG) can help them improve their GAD planning, and budgeting. They have been requesting for this particular training from PCW since last year so as to have more responsive plan and budget. The latter already sent a pool of trainers and currently organizing the HGDG training and other capability building trainings to strengthen the GAD Focal Point System (GFPS).

*Audit suspensions due to incomplete supporting documents – P263,211.42 (EME) and P138,844.40 (GAD)*

**6. Various expenses charged against Extraordinary and Miscellaneous Expenses (EME) funds for the period January to December 31, 2014 amounting to P263,211.42 and various expenses attributed to GAD amounting to P138,844.40 were suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184**

6.1 The amount of P263,211.42 and P138,844.46 were suspended in audit under Notice of Suspension (NS) No. 2015-001 (2014) dated February 9, 2015 and NS No. 2015-002 (2014) dated March 13, 2015 respectively, due to incomplete documentation to support the propriety, regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 which provides that claims against government funds should be supported with complete documentation.

**6.2 We recommended that the Administrator settle the audit suspension through compliance with the requirements indicated which we will evaluate. Items suspended in audit which are not settled within ninety (90) days from receipt hereof shall become a disallowance pursuant to Section 82 of P.D. No. 1445.**

6.3 In response to the recommendation, Management submitted the requirements needed to lift audit suspension pertaining to various disbursements. Submitted documents are subject to the Auditor's evaluation.

### *Status of Suspensions, Disallowances and Charges*

**7. Of the total disallowances of P15,567,514.78 and suspensions of P2,474,331.31 during the year, P112,475.00 or 0.72% and P2,432,509.81 or 98.30%, respectively, were settled leaving year-end balance of P15,455,039.78 disallowances and P41,821.50 suspensions. The non-settlement of all the disallowances and suspension was not in accordance with COA Circular No. 2009-006 dated September 15, 2009.**

7.1 The unsettled suspensions, disallowances and charges reflected in the last quarter of 2014 Statement of Audit Suspensions, Disallowances and Charges (SASDC) are summarized below:

	Beginning Balance (As of December 31, 2013)	This Period (January 1 to December 31, 2014)	Settlement this period (January 1 to December 31, 2014)	Ending Balance (As of December 31, 2014)
		NS/ND/NC	NSSDC	
Notice of Suspension	P 987,144.75	1,487,186.56	2,432,509.81	P 41,821.50
Notice of Disallowance	15,557,322.12	10,192.66	112,475.00	15,455,039.78
Notice of Charge	-			
Total	P16,544,466.87	1,497,379.22	2,544,984.81	P15,496,861.28

7.2 NS No. 2014-006 (2014) was the only NS issued as of December 31, 2014 amounting to P41,821.50. NS No. 2015-001 (2014) and NS No. 2015-002 (2014) were not included above because they were both issued in 2015, though covering various expenses as of December 31, 2014.

7.3 Prior to the effectivity of said COA Circular, the disallowances and charges as of December 31, 2011 amounted to P498,466.26 and P3,952,059.46. The reported amount of suspensions that matured into disallowance already reached P136,155,356.06.

**7.4 We recommended to Administrator to direct the persons liable to settle the disallowances as provided for in Section 5.4 of COA Circular No. 2009-006 dated September 15, 2009.**

### *Compliance with Tax Laws*

**8. The SBMA has been complying with Revenue Memorandum Circular No. 23-2014 dated February 14, 2012 on the withholding of taxes from salaries and wages of personnel as well as from payments of purchases and business contracts.**

8.1 The SBMA has complied with the Bureau of Internal Revenue (BIR) regulations on the withholding and remittance of taxes for CY 2014. Presented below are the beginning balances of unremitted taxes, the amount withheld and remitted during the year

as well as ending balance of amount Due to BIR for taxes from suppliers and contractors and taxes on compensation:

a. Expanded Withholding Tax Schedule for the Year 2014:

Month	Due to BIR (Beginning) (a)	Taxes Withheld (b)	Total c = (a + b)	Taxes Remitted (d)	Due to BIR (Ending) (e) = (c - d)
January	P 936,165.99	P 281,027.94	P 1,217,193.93	P 261,582.73	P 955,611.20
February	955,611.20	323,393.42	1,279,004.62	189,106.18	1,089,898.44
March	1,089,898.44	285,652.21	1,375,550.65	243,524.18	1,132,026.47
April	1,132,026.47	184,122.39	1,316,148.86	378,908.20	937,240.66
May	937,240.66	210,448.16	1,147,688.82	176,500.07	971,188.75
June	971,188.75	223,617.80	1,194,806.55	249,237.93	945,568.62
July	945,568.62	153,996.87	1,099,565.49	139,808.07	959,757.42
August	959,757.42	168,482.03	1,128,239.45	226,122.94	902,116.51
September	902,116.51	266,965.98	1,169,082.49	126,397.29	1,042,685.20
October	1,042,685.20	1,079,736.93	2,122,422.13	289,062.12	1,833,360.01
November	1,833,360.01	220,059.68	2,053,419.69	1,067,273.90	986,145.79
December	986,145.79	183,112.17	1,169,257.96	251,232.99	918,024.97
TOTAL		P 3,580,615.58		P 3,598,756.60	

b. Withholding Tax on Compensation for the Year 2014:

Month	Due to BIR (Beg.) (a)	Taxes Withheld (b)	Total c = (a + b)	Tax Remitted (d)	Adjustment Per Alphalist 2012 (e)	Due to BIR (Ending) (f) = (c - d - e)
January	P2,801,873.93	P 1,885,749.05	P4,687,622.98	P1,946,766.96	P968,869.50	P1,771,986.52
February	1,771,986.52	1,892,810.82	3,664,797.34	1,771,986.52		1,892,810.82
March	1,892,810.82	1,896,250.66	3,789,061.48	1,892,810.82		1,896,250.66
April	1,896,250.66	1,881,160.80	3,777,411.46	1,896,250.66		1,881,160.80
May	1,881,160.80	2,166,016.44	4,047,177.24	1,881,160.80		2,166,016.44
June	2,166,016.44	1,827,635.81	3,993,652.25	2,166,016.44		1,827,635.81
July	1,827,635.81	1,844,506.00	3,672,141.81	1,827,635.81		1,844,506.00

Month	Due to BIR (Beg.) (a)	Taxes Withheld (b)	Total c = (a + b)	Tax Remitted (d)	Adjustment Per Alphalist 2012 (e)	Due to BIR (Ending) (f) = (c - d - e)
August	1,844,506.00	1,862,689.11	3,707,195.11	1,844,506.00		1,862,689.11
September	1,862,689.11	1,903,073.25	3,765,762.36	1,862,689.11		1,903,073.25
October	1,903,073.25	1,943,961.15	3,847,034.40	1,873,224.71		1,973,809.69
November	1,973,809.69	2,266,793.69	4,240,603.38	1,973,809.69		2,266,793.69
December	2,266,793.69	3,038,888.92	5,305,682.61	2,266,793.69		3,038,888.92
TOTAL		P24,409,535.70		P23,203,651.21		

*Compliance with GSIS Laws*

**9. The SBMA has been complying with the withholding of amount due to Government Service Insurance System (GSIS) pursuant to R.A. No. 8291 dated May 30, 1997, the Government Service Insurance System Act of 1997.**

9.1 For CY 2014, SBMA deducted and remitted Government Service Insurance System (GSIS) premiums from salaries of all its employees and other amount due to the GSIS pursuant to Section 6 of R.A. No. 8291, the Government Service Insurance Act of 1997. The details of deductions and remittances made during the year follows:

Month	Due to GSIS (Beg.) (a)	GSIS Premiums Withheld (b)	Total (c) = (a + b)	GSIS Premiums Remitted (d)	GSIS Refunded To Separate Employees (e)	Due To GSIS (Ending) (f) = (c - d - e)
January	P1,833,677.33	P1,718,784.36	P3,552,461.69	P1,723,000.85		P1,829,460.84
February	1,829,460.84	1,717,808.39	3,547,269.23	1,715,059.72	1,261.81	1,830,947.70
March	1,830,947.70	1,717,234.50	3,548,182.20	1,716,523.22		1,831,658.98
April	1,831,658.98	1,747,400.92	3,579,059.90	1,717,579.42	1,422.00	1,860,058.48
May	1,860,058.48	1,738,280.86	3,598,339.34	1,745,551.42		1,852,787.92
June	1,852,787.92	1,737,669.29	3,590,457.21	1,738,280.86	517.37	1,851,658.98
July	1,851,658.98	1,789,951.17	3,641,610.15	1,737,669.29		1,903,940.86
August	1,903,940.86	1,807,472.12	3,711,412.98	1,790,779.15		1,920,633.83
September	1,920,633.83	1,827,953.05	3,748,586.88	1,808,894.42	1,785.60	1,937,906.86



<b>Month</b>	<b>Due to GSIS (Beg.) (a)</b>	<b>GSIS Premiums Withheld (b)</b>	<b>Total (c) = (a + b)</b>	<b>GSIS Premiums Remitted (d)</b>	<b>GSIS Refunded To Separate Employees (e)</b>	<b>Due To GSIS (Ending) (f) = (c - d - e)</b>
October	1,937,906.86	1,846,765.55	3,784,672.41	1,824,707.54		1,959,964.87
November	1,959,964.87	1,853,406.89	3,813,371.76	1,843,462.73	2,292.19	1,967,616.84
December	1,967,616.84	1,856,970.63	3,824,587.47	1,846,700.54	8,409.82	1,969,477.11
<b>TOTAL</b>		P21,359,697.73		P21,208,209.16		

**PART III – STATUS OF IMPLEMENTATION  
OF PRIOR YEARS' UNIMPLEMENTED  
AUDIT RECOMMENDATIONS**

### PART III - STATUS OF IMPLEMENTATION OF PRIOR YEARS' UNIMPLEMENTED AUDIT RECOMMENDATIONS

Out of 72 audit recommendations embodied in the Annual Audit Report for CY 2013, seven were fully implemented, 64 were partially implemented and one was not implemented as shown below:

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>1. Collections and payments in CY 2013 made thru the bank amounting to P7,769,811.23 and P136,752.17, respectively, remained unrecorded, thus, understating Cash in Bank by P7,633,059.06.</i></p> <p>We recommended that Management prepare the necessary adjusting entries to record adjustments accruing at year-end and furnish COA a copy of journal entry vouchers or equivalent records to prove compliance with this recommendation.</p>	<p>CY 2013 AAR Finding No. 1</p>	<p>Management replied that the unbooked collections of P7,752,511.69 were already taken up in January 2014. As for the remaining unbooked collections of P17,299.54 pertaining to payments of unidentified clients, the Management requested the approval of the COA for the possible recording of said collections to Prior Year's Income.</p> <p>The unbooked payments of P26,952.17 were posted in January 2014 under JAP No. 14-01-314 (P9,465.53), JAP No. 14-01-609 (P3,500.64), and JAP No. 14-02-373 (P13,986.00). For the remaining unbooked payments of P109,800.00, the Treasury Department is currently working out on securing the official receipts for said payments before the Accounting Department can record the payment.</p>	<p>Partially Implemented</p>
<p><i>2. The correctness of the net realizable value of Accounts Receivable-Trade amounting to P927.17 million as of December 31, 2013 was not established due to poor results of confirmations sent to locators and residents.</i></p> <p>We recommended that Management coordinate with the six (6) locators who replied with exceptions for purposes of bringing</p>	<p>CY 2013 AAR Finding No. 2</p>	<p>The Accounting Department requested an extension of time, or until 30 April 2014, within which to submit the Management's comment for AR-Locators. As far as AR-Housing was concerned, the Management provided the status of 26 locators whose confirmation letters came back and served. The Management further committed to follow up and collect other Accounts Receivables and informed that they</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>into agreement their respective records. Management was likewise advised to establish the probability or improbability of collecting the amount of P526.67 million from the 26 residents and 21 locators who were not located in their respective leased properties. In case high improbability of collection was established, the Management was advised to consider requesting the write-off of said receivables from COA. For the 48 lessees who failed or chose not to send their replies, the Management was requested to follow up their responses notwithstanding the presumption of accuracy accorded to their respective account balances</p>		<p>would consider requesting the write-off of dormant receivables.</p>	
<p><i>3. Review of SBMA dispensaries' medicines, medical, dental and laboratory stock controls, usage, recording and reporting as well as the monitoring of availment of medcap benefits revealed the following deficiencies/errors:</i></p> <p>3.1) Medical supplies worth P18,468.73 acquired in prior years have expired due to lack of monitoring and control on utilization/distribution, in violation of Section 2 of P.D. 1445.</p> <p>We recommended that Management institute effective monitoring controls in the stocking, utilization and disposition of medical supplies to prevent further build-up of expired supplies and avoid unnecessary wastage and meaningless use of public funds.</p>	<p>CY 2013 AAR Finding No. 3.1</p>	<p>Management admitted that medical supplies mentioned in the audit observation have actually expired but countered that expiration was not because of lack of monitoring and control on utilization. According to PHSD, said items, although expired, could still be used because they could be re-sterilized by other acceptable means of sterilization like boiling, autoclaving and soaking in sterilizing solution for use in the clinics. PHSD further explained that expired medical supplies could be useful for other activities like training of staff, use in</p>	<p>Partially Implemented.</p>

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>The Management was advised to require regular communication between both dispensaries to facilitate inter-transfer of medicines and/or medical supplies with nearing expiry dates for timely disposition. We also recommended that Management institute accountability measures to hold negligent personnel answerable for losses arising from the failure to implement the safeguard controls</p>		<p>drills, and simulation exercises and could be used for other purposes not requiring sterility of the supplies such as wound irrigation, eye irrigation, etc.</p>	
<p>3.2) Expired medical supplies used in the administration of medical services were billed to patients contrary to Section 10(l) of RA 9711.</p> <p>We recommended that Management discontinue the practice of using expired medical supplies and the charging of its equivalent costs to patients as the same may fall under acts prohibited by RA 9711. We likewise recommended the immediate and safe disposal of expired medical supplies to avoid possible re-use thereof.</p>	<p>CY 2013 AAR Finding No. 3.2</p>	<p>The Management, through PHSD, commented the Dispensary ethically follows medical standards and practices and would never put the safety of patients in peril. The expiry date on the supplies and materials merely guarantees the effectivity of the sterilization method used when the materials were packed but does not say the supplies and materials could not be used after the expiry date. It was likewise informed that there are certain supplies and materials such as those to be used in emergencies that the Dispensary needs to have, but have the high probability that they will never be used.</p>	<p>Partially Implemented</p>
<p>3.3) Erroneous entries in the inventory report were noted, thus, casting doubt on the accuracy of the cost of ending inventory reported at year-end.</p> <p>We recommended that Management require process owner, with assistance from the Accounting Department, to correct</p>	<p>CY 2013 AAR Finding No. 3.3</p>	<p>The PHSD Management concurred with the audit recommendation but stressed that at present, the Accounting Department has not called their attention regarding discrepancies in their report.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>erroneous data included in the previous year's inventory report and to effect necessary adjustment in the books if warranted. For future reporting requirements, the concerned staff was advised to carefully prepare the monthly inventory report by recording only the accurate information to provide correct and reliable figures needed in the preparation of financial statements. The Management was likewise advised to assign Accounting personnel who would be responsible for reviewing the monthly inventory report prepared and submitted by in charge personnel from dispensary.</p> <p>3.4) Donations of medicines from the US Military Forces were not reported for proper accounting and recording, thus understated the inventory and income accounts at year-end.</p> <p>We recommended that Management require responsible personnel from both dispensaries to regularly report to the Accounting Department all medicines, medical and other supplies received through donations for proper accounting or disclosure. We also recommended that Management create a policy prohibiting the acceptance of expired health products from local or international donors in keeping with the national policy banning the proliferation of expired health products.</p>	<p>CY 2013 AAR Finding No. 3.4</p>	<p>Management admitted receipt of medical supplies from the former US Naval Hospital and medical supplies and medicines handed to Cubi Dispensary by US Military forces without any Deed of Donation upon their pull-out. Cubi personnel responsibly made an inventory of the said items but were unaware of the reportorial requirement to the Accounting Department.</p> <p>Management informed there was no need to create another policy in SBMA to prohibit acceptance of expired medicines and supplies as they follow the BFAD regulation on donated medicines and supplies.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>3.5) Quantity of stocks issued and reported in the inventory report was different from quantity of stocks actually issued based on issuance slips, thus questioning the accuracy of the reported cost of ending inventory.</p> <p>We recommended that Management require concerned staff to correct erroneous entries in the issuance column of the inventory reports and submit the corrected report to Accounting Department to serve as basis in effecting necessary adjustment in the books of accounts. The Management was likewise advised to instruct the concerned staff to carefully prepare the inventory report so that only accurate figures are supplied to the Accounting Department.</p>	<p>CY 2013 AAR Finding No. 3.5</p>	<p>Management advised their personnel to carefully prepare reports of issuances matching record of supplies against the issuances.</p>	<p>Partially Implemented</p>
<p>3.6) Moving average method was not consistently applied in valuating medicines, medical and laboratory supplies, contrary to NGAS policy on inventory costing.</p> <p>We recommended that Management require the Accounting Department to patiently orient dispensary personnel assigned in the preparation of inventory report with the computation of cost of ending inventory using the moving average method. We also recommended that Management consistently apply</p>	<p>CY 2013 AAR Finding No. 3.6</p>	<p>Management commented that dispensary personnel in charge of inventories have been using the moving average method for the past years as advised by the Accounting Department. If there were discrepancies in the reports, PHSD's attention should have been called by the Accounting Department. They will ask for a re-orientation of the moving average method from the Accounting Department.</p>	<p>Partially Implemented</p>

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>moving average method in costing all inventories. Otherwise, we recommended that Management qualify its statements in the Notes to Financial Statements by fully disclosing the type of valuation applied to each kind of inventory to avoid giving misleading information.</p>			
<p>3.7) Medical supplies issued by Pharmacist to requesting sections in the dispensary were recorded as outright expense, contrary to the intention of A.O. 103 directing the continued adoption of austerity measures in the government.</p> <p>We recommended that Management consider adopting a policy that requires accounting for and reporting of medical and laboratory supplies issued to various sections/units in the dispensary but which remain unused at the end of the year.</p>	<p>CY 2013 AAR Finding No. 3.7</p>	<p>Management commented that it would require the requesting sections to document the issuance of supplies to patients as the end user of the medical supplies released outright by the pharmacy. Management requested COA for best practice among government medical institution/facility regarding this matter.</p>	<p>Partially Implemented</p>
<p>3.8) The Subic dispensary failed to submit monthly report of accountable forms to the Commission on Audit in violation of Section 98 of GAAM Volume I.</p> <p>We recommended that Management require and remind Subic dispensary to regularly submit to COA the required monthly report of accountable forms in compliance with COA rules and regulations</p>	<p>CY 2013 AAR Finding No. 3.8</p>	<p>Management advised the responsible personnel to submit monthly report of accountable forms to COA.</p>	<p>Fully Implemented</p>



Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>3.9) Erroneous entry in the individual medical consumption report resulted in erroneous summary of medcap consumption depleting entitlement of affected employees to medcap benefits if errors remain undetected or uncorrected.</p> <p>We recommended that Management designate another staff who will review and correct outputs prepared by the monitoring staff. The monitoring staff should not be given access to the system allowing her to rectify erroneous entry she made. Preparation and review controls should be separately delegated for check and balance purposes. The system facility used in the monitoring of medcap consumption should be enhanced as would effectively alert the process owner of any occurrence of overused medcap benefits. Amount of Medcap benefits consumed in excess of the limit should be collected from the concerned employee.</p>	<p>CY 2013 AAR Finding No. 3.9</p>	<p>Management replied that because of lack of personnel, occasional lapses in the entry in the Medcap occur. The Dispensary contemplates on requesting a monitoring staff who will be responsible for the check and balance of Medcap usage. The Management likewise plans to institute a "Medcap Passbook" which will serve as identification of qualified Medcap dependents and upon which the Medcap consumption would be reflected in every visit. Through this system, the employee would be informed of his Medcap balance</p>	<p>Partially Implemented</p>
<p>4. <i>The accuracy of the reported balance of inventories at P112.03 million as of year-end could not be guaranteed in view of the unaccounted prior years' stock inventories amounting to P86.47 million.</i></p> <p>We reiterated that Management designates Accounting personnel and counterpart staff from Property Department, with the assistance and</p>	<p>CY 2013 AAR Finding No. 4</p>	<p>During the exit conference, the Management concurred with the audit recommendation and committed to clean up the inventory account</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>supervision of COA representative, to search for available disposal documents at the COA stockroom. If despite such effort there still remains an unaccounted difference, the Management was advised to secure authority from the Commission Proper of the COA for the dropping/writing off of unaccounted balances of prior years' stock inventories.</p> <p>We further recommended that Management instruct the Accounting Department to adjust the account Spare Parts Inventory to take up the P5.34 million worth of located excess spare parts using the CY 2012 Inventory Report of the Inventory Committee.</p>			
<p><i>5. The accuracy of the reported balance of inventories at P112.03 million as of year-end could not be guaranteed in view of the inclusion of non-existing inventories amounting to P2.36 million.</i></p> <p>We reiterated our recommendation that Management require the Accounting Department to adjust the inventory account by dropping from the book of accounts assets determined by PPMD to be non-existent. Where disposal documents are necessary to support the deletion, we advised the Management to coordinate with the COA for purposes of retrieving records at the COA stockroom. If despite such effort there still remains an unaccounted difference,</p>	<p>CY 2013 AAR Finding No. 5</p>	<p>none</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>the Management was advised to request authority from the Commission Proper of the COA for the dropping/writing off of unaccounted balances of non-existent stock inventories.</p>			
<p>6. <i>The Management failed to liquidate the sum of P110,353.50 representing advance payments made to two (2) contractors with projects contracted in prior years.</i></p> <p>We reiterated for the last time the recommendation to immediately settle the amount by demanding refund/restitution of the unrecovered advance payments paid to IP Santos and Associates. We informed the Management that a notice of disallowance would be issued making the officials who authorized the payment of advances but failed to recover the advances or properly monitor the recoupment of said advances from progress billings liable for the entire unrecovered amount.</p> <p>Insofar as the accountability of ProConsult, Inc. is concerned, we recommended that Management establish with absolute certainty whether or not there remains an unsettled amount still collectible from the firm. If an amount remains due from ProConsult, Inc., we advised the Management to demand immediate settlement thereof. Otherwise, we recommended to effect the necessary adjustment in the books of account to correct any possible</p>	<p>CY 2013 AAR Finding No. 6</p>	<p>Management already referred the cases of IP Santos and ProConsult to the Legal Department for action.</p> <p>Management noted that as for the Case of ProConsult, BAC Resolution No. 09-1013-01 dated October 13, 2009 was issued to temporarily hold in abeyance the Magsaysay Bridge Project where ProConsult is the consulting firm. The final billing issued by the company covering certain percentage of work completed at the time the project was held amounting to P481,552.17 was not sufficient to cover the mobilization fee for recoupment over the entire term of the project. In addition, the full amount of the final billing, net of 15% EWT, was fully applied to the remaining advance payment. No payment was actually made to ProConsult for the final billing. However, the P407,619.35, net of 15% EWT, was not sufficient to cover the P413,950.00 remaining balance of advance payment, leaving the P6,330.65 outstanding in the SBMA's books of accounts. The Engineering Department was able to collect the amount of P6,330.65 from ProConsult as evidenced by official receipt with No. 3452429 dated March 11, 2014.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
error committed.			
<p>7. <i>Reliance on Management's assertion of accurate reported net book value as of December 31, 2013 at P25.41 billion and existence of assets at the close of the year could not be certified in view of the discrepancies of information in the Accounting and Property Records, thus, grossly affecting the fair presentation of total assets as at year-end.</i></p> <p>We reiterated that Management require both the Accounting Department and Land and Asset Management Department (LAMD) to exert extra effort in reconciling the cost variances. The LAMD was advised to provide reports on demolished buildings, facilities and other structures so that the Accounting Department could drop from the book of accounts the corresponding book value.</p>	CY 2013 AAR Finding No. 7	none	Partially Implemented
<p>8. <i>The accuracy of the Work Animal account's year-end balance of P9.36 million was doubtful due to the inclusion of the amount P4.33 million representing the acquisition cost of deceased work animals, thus, affecting the reliability of the reported total assets as of year-end.</i></p> <p>We recommended that Management immediately determine the accountable officer responsible for filing the necessary relief from property accountability with COA. Thereafter, the</p>	CY 2013 AAR Finding No. 8	none	Partially Implemented

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
Management was advised to submit the required request duly supported with complete documents required under pertinent COA rules and regulations.			
<p>9. <i>The accuracy of the reported ending balance of Other Assets account amounting to P56.68 million could not be supported in view of the inclusion of non-existing peso time deposit worth P21.49 million.</i></p> <p>We reiterated that Management determine with finality how the peso time deposit was utilized or disposed of by the Management. In the event that anomaly in the use of the amount was established, consider the filing of appropriate charges against responsible officers and/or employees.</p>	CY 2013 AAR Finding No. 9	none	Partially Implemented
10. <i>The accuracy and reliability of the reported balances of Accounts Payable amounting P157.64 million as of May 31, 2013 could not be ascertained due to (1) non-reversion of long outstanding unliquidated balances of payables worth P85.09 million to unappropriated surplus of the general fund, (2) discrepancies of the amount recorded in the books of SBMA and various creditors amounting to P23.96 million (net) and \$8.74, (3) unaccounted balances reported in the accounting records amounting to P2.64 million, and (4) inadequate functionality of the agency's computerized accounting system.</i>			

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>10.3) Non-reversion of long outstanding unliquidated balances of payables worth P85.09 million to unappropriated surplus of the general fund, contrary to Section 98 of P.D. 1445 and DBM/COA Joint Circular No. 99-6 dated November 13, 1999.</p> <p>We recommended that Management require the concerned account officers to review and analyze all recorded payable accounts and to:</p> <ol style="list-style-type: none"> <li>1. prepare adjusting entries to correct the erroneous double recording of entry as well as the improper set up of liability for the counterclaim filed before the court as presented in the table above;</li> <li>2. prepare journal voucher to revert all accounts payable that remained outstanding for two (2) years or more. A copy of said journal voucher certified by the Accountant and supported by a list of accounts payable reverted and amounts due each payee should be submitted to COA; and</li> <li>3. adopt alternative procedures such as sending confirmation letters to creditors on record in order to ascertain the validity of remaining less than two years old liabilities reported in the</li> </ol>	<p>CY 2013 AAR Finding No. 10.3</p>	<p>Management concurred with the audit recommendation.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>accounting records.</p> <p>10.4) Discrepancy of amounts recorded in the respective accounting records of SBMA and various selected creditors amounting to P23.96 million (net) and \$8.74.</p> <p>We recommended that Management immediately require the Accounting Department to (1) communicate with concerned creditors especially those whose reply were favorable to SBMA, (2) request breakdown of SBMA payables reported in the creditors' accounting records, (3) evaluate the accuracy of information supplied by creditors, (4) effect necessary adjustments in the books of accounts, if warranted, and (5) inform COA of adjustments made in the accounting records as a result of the reconciliation.</p>	<p>CY 2013 AAR Finding No. 10.4</p>	<p>Management initially sent eight (8) confirmation letters requesting the details of SBMA liabilities. As soon as responses are received, reconciliation would ensue and necessary adjustments to any favorable differences would be prepared. The COA will be informed on the result of the reconciliation.</p>	<p>Partially Implemented</p>
<p>10.5) Unaccounted balances reported in the accounting records amounted to P2.64 million.</p> <p>We recommended that Management assist the concerned Accounting personnel by providing from the Maintenance Department support staff that could help in locating possible available documents at the COA stockroom. The Accounting personnel were advised to evaluate the validity of obligations on the basis of obtained relevant documents and, thereafter, prepare journal voucher to revert</p>	<p>CY 2013 AAR Finding No. 10.5</p>	<p>Management concurred with the audit recommendation.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>those obligations which remained outstanding for more than two years</p> <p>10.6) The inadequate functionality of the agency's computerized accounting system has contributed to the existence of abnormal debit/positive balances worth P11.195 million as of May 31, 2013 in the subsidiary records of accounts payable..</p> <p>We recommended that Management direct the Accounting department to coordinate with MIS department accounting concerns affecting the use of IFMS and its functionalities including, but not limited to, the lack of account "SBMA payroll" in the selection option for debit entries. We recommended that Management instruct both departments to come up with a common solution that could address errors caused by the system's deficiency. The solution must be able to remove from the subsidiary ledgers all abnormal positive/debit balances caused by the inadequate functionality of IFMS.</p>	<p>CY 2013 AAR Finding No. 10.6</p>	<p>Management explained the P9,210,354.22 pertained to checks prepared as of May 2013 which were not released during said period. In compliance with NGAS, the Management prepared JEV to restore the cash equivalent of unreleased checks and set up the appropriate liability account. At the start of succeeding period, the JEV for unreleased checks was reversed to restore cash to the correct balance. The movement of the accounts were not captured by the IFMS as it lacked said functionality.</p> <p>The remaining balance of P1,984,678.61 represents debit balance from individual/personnel and non-individual/supplier payees amounting to P1,160,477.00 and P824,201.61, respectively. The Accounting Department will make reclassification of all debit balances from individual/personnel payees against the "SBMA Payroll". For the debit balance from non-individual/supplier payees, the concerned division/employee will make further analysis on individual payee account and will make the necessary adjustments thereof. Copies of the said adjustments and its respective supporting schedules will be transmitted to COA once accomplished.</p> <p>MIS Department is waiting for the approval of the purchase of test server</p>	<p>Partially Implemented</p>



Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
		with corresponding consultant to correct said deficiency. Temporarily, the Payroll Division processes final pay, etc. and initially recorded/accrued them under the "SBMA Payroll". The Accounting Department will subsequently prepare a JEV thereof to adjust the SL code and to avoid further SL debit balances.	
<p><i>11. Trust funds worth P2.21 million were not fully spent for intended purposes, thus deprived employees of their salaries and allowances in violation of Section 4(3) of the P.D. 1445.</i></p> <p>11.4) Due to Officers and Employees – Clothing Allowance</p> <p>We recommended that Management require all concerned departments to determine those employees, whether delisted or active, who were entitled to U/CA but failed to collect the full amount or a portion of it. We also recommended that Management set aside fund to cover the payment of said U/CA preferably in cash for practical reason and, in the spirit of just and equity, cause the immediate release of said fund to affected employees.</p> <p>11.5) Salary Trust Fund of CS Personnel</p> <p>We recommended that Management properly identify all separated employees whose salaries</p>	<p>CY 2013 AAR Finding No. 11.4</p> <p>CY 2013 AAR Finding No. 11.5</p>	<p>The Management concurred with the recommendation to pay the clothing allowance of entitled employees in cash.</p> <p>The Management concurred with the recommendation. The Human Resource Management Department was requested to provide the last daily time records (DTRs) of the said separated employees in order for them</p>	<p>Partially Implemented</p> <p>Fully Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>were retained and held in the trust account; determine with finality the remaining accountability of said separated employees; record necessary adjustment to take up overpayment and/or accountability, if any; cause the refund of excess salary trust fund to entitled former SBMA employees, subject to availability of funds; instruct the Accounting Department to record refunds made; and for similar transactions in the future, inform the Accounting Department to determine the propriety of refund of salary trust fund simultaneously with the processing of request for final pay to avoid similar audit observation and undue injustice to affected employees.</p>		<p>to compute their last final pay.</p>	
<p><i>12. The agency has earmarked funds for Gender and Development activities below the national threshold of 5% of total budget appropriations, contrary to Section 28 of the General Provisions of CY 2013 General Appropriations Act (GAA) as reiterated in Section 4.4 of DBM/NEDA/NCRFW Joint Circular No. 2004-1, Section 36(a) of R.A. 9710, and Sections 2 and 6 of PCW/NEDA/DBM Joint Circular No. 2012-01.</i></p> <p>We recommended that Management allot complete funding for its GAD-related and responsive programs, actions and projects in the following years to facilitate full attainment of</p>	<p>CY 2013 AAR Finding No. 12</p>	<p>The Management concurred with the audit recommendation.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
objectives in the pursuit of equality and development of women and men in the agency.			
<p><i>13. The Management used GAD budget for activities explicitly identified by law as non-chargeable against GAD Budget, in violation of PCW/NEDA/DBM Joint Circular No. 2.</i></p> <p>We recommended that Management, through the created SBMA-GAD Program Committee, identify concrete programs, activities and projects that are gender-related, aligned with the 30-year comprehensive perspective plan of the Philippine Plan for Gender Responsive Development (PPGD), responsive to PCW/NEDA/DBM Joint Circular where related expenses are properly chargeable against the GAD budget.</p>	CY 2013 AAR Finding No. 13	none	Partially Implemented
<p><i>14. The appropriated budget for GAD programs, actions, and projects were not fully consumed, resulting in the failure of the Management to achieve the targets set in the Annual GAD Plan.</i></p> <p>We recommended that Management, through the created SBMA-GAD Program Committee, exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets. The Management was likewise advised to strive to carry out the</p>	CY 2013 AAR Finding No. 14	Management commented that it would take into account all recommendations in institutionalizing and strengthening the Gender and Development (GAD) Program including the allotment of complete funding for its GAD-related and responsive programs, actions, and projects in the following years to facilitate full attainment of objectives in the pursuit of equality and development of women and men in the agency.	Partially Implemented

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
plan to its fullest extent by utilizing the budget set aside for purposes of ensuring the full implementation of the GAD Plan.			
<p><i>15. Weaknesses in the monitoring of earned leave credits of employees resulted in an inaccurate and unreliable reported balance of Accounts Payable Due to Officers – Unpaid Compensated Absences amounting to P154,509,257.66 as of December 31, 2013, in disregard of Sec. 111 of P.D. 1445 and Section 3(a) of GAAM Vol. II.</i></p> <p>Balances of leave credits earned in prior years were not reconciled with the balances forwarded in the ensuing year; hence cast doubt on the accuracy and reliability of the reported year-end balance for Accounts Payable Due to Officers – Uncompensated Balances.</p> <p>Monetized leave credits were recorded late in the records of the HRMD personnel.</p> <p>To address the internal control weaknesses pointed above, we recommended that Management:</p> <p>1.require the HRMD to review the Employee Leave Record, particularly the data for the ending balances of employees' earned leave credits as of CY 2005 that were inconsistently carried over in CY 2006. The Management should aim for a zero difference in the reconciliation of figures;</p>	CY 2013 AAR Finding No. 15	<p>Management explained that prior to 2006 the employee leave credits are manually entered in the individual Employee Leave Record (ELR) form. When IFMS was implemented in 2006, there was an urgent need to encode the ending balance of the 2005 into the beginning balance of the 2006. Because of this, there was no time to review the veracity of the entries in the ELR. Thus, every time the HRMD processes requests for monetization of leave credits, the department would revisit the records and make the necessary corrections, if any. However, since the pay periods from 2006 to 2013 in the IFMS had already run, any corrections made are done at the end of the ELR report to reflect the adjustments.</p> <p>Management added it would consider all the recommendations. The Deputy Administrator for Administration has already directed the concerned staff of HRMD to review the other ELR. Once ELR is finally corrected, the HRMD will issue the Certificate of Accumulated Leave Credits Earned to all staff.</p>	Partially Implemented. Revisit. and make necessary corrections on the records on-going.

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>2.instruct the HRMD to coordinate with the Accounting Department for purposes of identifying paid monetization of leave credits that were not yet recorded in the Employee Leave Record;</p> <p>3.direct the HRMD to make the necessary adjustment in the Employee Leave Record after reconciling of inconsistent balances and recording of unposted monetization transactions;</p> <p>4.require the HRMD to prepare a logbook or similar record for purposes of monitoring requests for monetization of leave credits;</p> <p>5.provide HRMD an access to IFMS functionality to view transactions showing paid/honored requests for monetization of leave credits to be used as basis in effecting adjustment of entries in the Employee Leave Record;</p> <p>6.oblige the HRMD to prepare Certificate of Accumulated Leave Credits Earned for distribution to all concerned employees at the end of the year to keep the employees informed of their actual/updated earned leave credits; and</p> <p>7.require the HRMD to supply only the accurate information on the number of accumulated leave earnings of all employees as well as the equivalent value thereof for funding purposes.</p>			

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>16. <i>The Management failed to consistently monitor the compliance of locators with their contractual obligations particularly the (1) submission of annual report on the progress of investment/development commitments to be infused on leased properties, (2) posting of performance bond, (3) payment of security deposits and (4) payment of advance rental resulting in the failure of the Management (1) to fully account for the actual worth of investment/development commitments infused on the leased areas as at year-end and (2) to collect (a) performance cash bonds amounting to US\$7.23 million, exclusive of the undetermined amount of performance bond due from two locators, and P9.22 million, (b) security deposits amounting to US\$146,030.52 and P14.14 million and (c) advance rental payments amounting to US\$130,025.71 and P6.24 million.</i></p> <p>We recommended that Management:</p> <p>1. require BPSD, with the assistance of Engineering Department or in-house appraisal committee, to carefully evaluate and validate the reported actual accomplishments of locators taking into consideration the actual physical development/investment introduced/invested on the leased</p>	<p>CY 2013 AAR Finding No. 16</p>	<p>The Accounting Department has been re-computing the locators' security deposit and advance rental since 2012. Status of payment of said accounts is reflected in the Evaluation Form on Locator's Operational Standing (EFLOS) that is required by the Regulatory Monitoring Unit (RMU). The Accounting Department does not recommend renewal of the locator's Business Permit to Operate (BPTO) if deficiencies in the payment of the said accounts are noted. Further, starting March 2014, copy of Accounting Department's evaluation will be provided to the Business Group to follow up collection and issuance of the necessary billing assessment for payment as well as to Credit and Collection Office to follow up status of payment.</p> <p>The Management is in the process of reviewing available records. However, in view of the volume of contracts and other information to be validated as well as the issues raised by COA that need to be addressed, the Management requested for two (2) months to submit their formal response.</p>	<p>Partially Implemented</p>

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>properties vis-à-vis the actual development/improvement cost declared by locators;</p> <p>2.order BPSD or BID to furnish the Accounting Department copy of the validation reports for possible inclusion of the confirmed development/investment amounts in the financial disclosure for investment property;</p> <p>3.instruct the BPSD to determine possible violations committed by locators such as but not limited to late delivery of actual development/investment commitments and/or delivery of commitments different from those agreed upon in the contract and to recommend proper sanctions/penalties if warranted;</p> <p>4.exercise remedies available to the agency as provided in the lease agreements in the event that actual breach of obligations is duly established;</p> <p>5.constitute or assign an ad hoc committee primarily responsible for the monitoring of investment/development commitment of locators and reporting thereof to the Management;</p> <p>6.require BID to persistently make a follow-up of the letters sent to other locators who have yet to submit the required progress report of investment/development</p>			

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>commitments in their respective leased premises;</p> <p>7.remind BID to submit updated status report to COA in response to this audit observation; and</p> <p>8.institute and implement administrative sanctions against responsible SBMA personnel who fail to exercise the degree of care in the dispatch of duty thereby causing undue financial damage to the agency.</p> <p>16.a)Review of lease agreements revealed a total of 24 locators failed to post the required performance bond to cover the investment/developments commitments to be infused on leased properties.</p> <p>To serve the purpose for requiring the posting of performance bond and to guard the interest of the agency from empty promises of locators, we recommended that Management require all concerned locators with investment/development commitments to post performance bond following the applicable rates stated in the agency's policy. In case of continual failure of locators to abide by the policy, we recommended that Management exercise other remedies available to it including the suspension of the renewal of CRTE/RC of lessee, where applicable, as well as the imposition of penalties in</p>			



<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>accordance with the SBMA Policy on Imposition of Performance Bond and its Applicable Rates.</p> <p>16.b) Security deposit amounting to US\$146,030.52 and P14,136,474.11 remained unpaid as of September 30, 2013 in violation of Article II-Consideration of the contract of lease for security deposit.</p> <p>We recommended that Management require the Accounting Department to re-compute locators' unpaid security deposits and thereafter order lessees to immediately settle and pay their respective unpaid security deposits. We likewise suggested that Management enforce remedies agreed upon in the contract in the event that locators failed to comply with the order despite repeated demand for payment. We also advised the Management to religiously monitor the compliance of locators with their contractual obligations in order to protect the interest of the agency.</p> <p>16.c) Advance rental amounting to US\$130,025.71 and P6,236,164.73 remained unpaid as of September 30, 2013 in violation of Article II-Consideration of the contract of lease for advance rental.</p> <p>We recommended that Management require the Accounting Department to re-</p>			

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>compute locators' unpaid advance rents and thereafter order lessees to immediately settle and pay their respective unpaid advance rents. We likewise suggested that Management enforce remedies agreed upon in the contract in the event that locators failed to comply with the order despite repeated demand for payment, including the right to eject locators from the leased property. We also advised the Management to religiously monitor the compliance of locators with their contractual obligations so as to protect the interest of the agency.</p>			
<p><i>17. The Management favored directors, officers and employees by allowing long term leases at reduced lease rates and/or authorizing deferment of rental payments until upon severance of employment with SBMA, thus prevented the agency from earning full lease income as they fell due, in violation of Section 3(e) of R.A. 3019.</i></p> <p>In view of the constitutional guarantee on non-impairment of contracts, the Management was advised to treat equally SBMA officers, employees and the general public availing of future long term leases by adopting uniform policy applicable to them. The Management was likewise advised to stop giving reduced lease rates to qualified SBMA officers or employees as the same is not only</p>	<p>CY 2013 AAR Finding No. 17</p>	<p>Management noted that most of the RLAs and ATUs of the SBMA officers and employees subject matter of the AOM were executed and entered into by the SBMA pursuant to and under the old SBMA Housing Policy and prior to the effectivity of the New Housing Policy, as amended. Management informed SBMA had adopted a New Housing Policy that, in fact, as compared to the old policy, provides stricter guidelines on the provision of housing privileges. This came after the SBMA itself considered the terms and conditions of previous housing policies to be onerous and appear to unduly grant unwarranted benefits to former SBMA officials, Directors and Employees. The Management presented one-by-one the innovations made to housing policy which nonetheless apply prospectively.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>prejudicial to or unauthorized by the government but is also unfair to other stakeholders of the agency. We likewise recommended that Management determine the standard period when rental payments should be made due and payable taking into consideration the greatest interest of the agency.</p>		<p>The New Housing Policy was, in fact, recently amended to what is now the current policy which provided the following changes resulting to further limitations on housing privileges, to wit:</p> <p>Section A. Housing Privilege  Xxx xxx xxx  d. Conditions and Restrictions  2. The grantee of the housing units shall shoulder all expenses related to the maintenance and improvement of the unit such as water, cable television, garbage fees and telephone lines.  <b><u>Power/electricity consumption up to 1,667 kilowatt-hour per month or such power consumption ceiling</u></b> as may be subsequently fixed by SBMA shall be free of charge. Costs incurred by the grantee for electricity/power in excess of the consumption ceiling shall be for his/her account.  Xxx xxx xxx  8. Former SBMA officials, employees and consultants who have previously been granted long-term lease privilege shall not avail anew of their positional housing privilege and/or long-term lease option/privilege when they are re-hired, even though the positions to which they are newly hired or newly appointed qualify them for the privilege/option. However, lease payments under their Residential Lease Agreements as well as the lease</p>	

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
		<p>period may be temporarily suspended during the effectivity of their new term of office or service with SBMA.</p> <p>Section B. Long Term Lease Option of SBMA Directors, Officers and Employees  Xxx xxx xxx</p> <p>d. Conditions and Restrictions</p> <p>1. <b>All qualified officers and employees who garnered a cumulative term/period of employment and/or appointment with SBMA for <u>at least six (6) years</u> in the case of employees with SG-27 and below and for <u>at least three (3) years</u> in the case of employees wit SG-28 and above including officers and directors, may be eligible for Long-Term Lease and <b>shall be eligible to lease one (1) housing unit</b> on an as is – where is basis.</b></p> <p>Xxx xxx xxx</p> <p>3. <b>The <u>term</u> of the Residential Lease shall be for a period <u>equivalent to twice the cumulative years of service of the employee and may be renewed for the same period on the payment of additional rent equivalent to twelve percent (12%)</u> of the prescribed rate of the original lease.</b></p> <p>4. Base rent may be amortized in equal monthly installments for a period equivalent to twice the cumulative years of service of the employee.</p> <p>Accordingly, with the New Housing Policy, as amended, and for future</p>	

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
		<p>long term leases, the SBMA assures the COA that all SBMA officials, Directors and Employees will be treated equally.</p> <p>With regard to the reduced lease rates, the Management mentioned it was made in light of Opinion No. 163, Series of 2002, issued by the Office of the Government Corporate Counsel (OGCC) which was on the premise that the reduced rates shall be available to the public and not only to SBMA officials/directors/employees and subject to COA rules and the guidelines of the Department of Public Works and Highways (DPWH) on lease of government property. Pursuant thereto, through Board Resolution No. 03-01-2618, the SBMA approved the published rates for the twenty-five (25) year leases of SBMA housing units and the same was made applicable to the general public. The reduced/published rates for long term leases of SBMA were already incorporated under the terms and conditions of the RLAs that the SBMA had executed not only with its officials, directors and employees, but also with SBF investors/individuals/entities prior to the effectivity of the New Housing Policy, as amended. Any abrupt stoppage applying the reduced/published rates would lead to contractual violation or impairment of the provisions of the existing RLAs exposing the SBMA to numerous complaints, if not court cases. The SBMA committed to review the reduced/published rates for its long</p>	

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
		<p>term leases and to adjust said lease rates to a realistic level, if appropriate, for future long term leases.</p> <p>The same is true with regard to fixing the standard period when rental payments should be made due and payable. The individual RLAs executed under the old SBMA Housing Policy had provided for their respective due dates of rental payments. Thus, to determine or fix a different due date may amount to a contractual violation resulting to complaints and/or court cases against the SBMA. The SBMA likewise committed to study and/or explore the possibility of fixing and/or determining a standard period for due dates of rental payments for future long term leases.</p>	
<p><i>18. The Management neglected to exercise its duty by failing to strictly implement the provisions of the policy into the lease contracts, in violation of Section 46(b)(3) of Book V of Executive Order No. 292.</i></p> <p>We recommended that Management consider revising the lease agreements of concerned officers or employees to align the stipulations therein strictly in accordance with the provisions of the policy without necessarily impairing the contracts' rights and obligations. We also recommended that Management create a quality assurance team in charge of</p>	<p>CY 2013 AAR Finding No. 18</p>	<p>Management commented that the grant of housing privilege on the basis of the position of the SBMA employee as well as the prohibition on subleasing and assignment of lease within three (3) years would not apply to Mr. Vicente A. Evidente, Jr., Ms. Anna Joy T. Quito, Mr. Vicente J. Tolentino and Mr. Felix A. Visay whose ATUs were issued prior to the effectivity of the New Housing Policy, as amended, which was implemented on January 2009.</p> <p>For the RLA of Ms. Aguilar, the Management explained that COA may have overlooked the fact that the date of execution of her RLA and the time</p>	<p>Partially Implemented</p>

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>reviewing the stipulations in the lease contracts and monitoring compliance and consistency of contract stipulations with the policy. The Management was also advised to impose sanctions against officers or employees who neglect in the performance of their respective duties causing unnecessary damage or injury to any party, including the SBMA.</p>		<p>of Ms. Aguilar's payment are one and the same since her RLA required her to pay one (1) month rent upon the signing of the agreement which was on August 17, 2010. Accordingly, she had paid the required down payment in the amount of \$256.90 in its equivalent in Philippine Peso on August 17, 2010, which was the time of execution/signing of her RLA with the SBMA. Ms. Aguilar also paid for the penalty covering the period of September 2010 to January 28, 2014 in the amount of \$105.33 in its equivalent in Philippine Peso at the time of payment.</p> <p>Moving on to the lease terms of the RLAs of Ms. Aguilar, Ms. Quito, Mr. Evidente, Jr., Mr. Visey and Mr. Tolentino, which provide for a 50-year lease term and the RLA of Ms. Josephine Ivy Alipoon, which provides for a 48-year lease term, the Management pointed that the RLA with Ms. Aguilar was submitted to the SBMA Board Housing Committee for deliberation and following recommendations to the SBMA Board of Directors, the latter approved Ms. Aguilar's request/proposal as covered by a separate Board Resolution No. 10-03-3582 dated March 19, 2010 for the 50-year lease term. On the other hand, in the cases of Ms. Quito, Mr. Evidente, Mr. Visey and Mr. Tolentino, considering that their ATUs were issued by the SBMA prior to the effectivity of the New Housing Policy, as amended, the provisions of the old SBMA housing policy would apply allowing them the 50 years term</p>	

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		<p>of lease. With respect to the term of the lease of Ms. Alipoon, pursuant to the New Housing Policy, as amended, which fixes the term of the RLA for a period equivalent to twice the cumulative years of service of the employee, and may be renewed for the same period, Ms. Alipoon had garnered twelve (12) years of cumulative service with the SBMA and twice the said period is twenty four (24) years. Thus, the renewal thereof would make the term of the Ms. Alipoon's lease to 48 years.</p> <p>The Management committed to undertake the creation of a Quality Assurance Team to be in charge of reviewing the stipulations in SBMA's RLAs and monitoring compliance and consistency with stipulations in with the New Housing Policy, as amended, and the old housing policy particularly on whom these continue to apply.</p>	
<p><i>19. The Management failed to monitor compliance of officers and employees with their contractual obligations, thus, compromised the best interest of the agency.</i></p> <p>Non-payment of security deposit contrary to stipulations in the lease agreement</p> <p>Non-posting of insurance policy contrary to stipulations in the lease agreement</p> <p>Non-posting of down payment</p>	<p>CY 2013 AAR Finding No. 19</p>	<p>Considering that payments were already made for required security deposits, down payment (including penalty) and the insurance policies were already renewed and updated, the SBMA posited it had substantially complied with the audit recommendations.</p>	<p>Partially Implemented</p>



Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>contrary to stipulations in the lease agreement</p> <p>We recommended that Management require all concerned officers and employees to immediately settle or fully pay the required security deposits, secure the necessary insurance policy, and demand down payment in faithful compliance with the lease agreements. We likewise recommended that Management create a quality assurance team who will monitor lessees' compliance with their contractual obligations. In the event lessees continue to neglect on their respective duties despite demands, the Management was advised to exercise its remedies written in the contract.</p>			
<p><i>20. The validity of claims for meal and other reimbursements amounting to at least P107,210.96 could not be ascertained in view of non-submission of complete documentation necessary to execute independent verification, contrary to Section 4(6) of Presidential Decree (P.D.) No. 1445.</i></p> <p>We recommended that Management submit the requested documents and/or information in compliance with pertinent auditing rules and regulations.</p>	<p>CY 2013 AAR Finding No. 20</p>	<p>On June 2, 2014 Matrix showing details of expenses that were incurred by Directors Gerald Sam Del Rosario, Ramon Diez-Sesdoyro, and Alfonso S.P. Siapno for their reimbursements that were observed to be lacking in sufficient information were forwarded to COA and received by the latter on June 3, 2014</p>	<p>Partially Implemented</p>
<p><i>21. Procurement of traveling bags given as token of appreciation to</i></p>	<p>CY 2013</p>	<p>The Management met with the Auditor and informed the latter that</p>	<p>Fully implemented.</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>media reporters and editors amounting to P167,973.75 was suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184</i></p> <p>We recommended that Management settle the above audit suspension through compliance with the requirements indicated which we will evaluate. The Management was reminded that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.</p>	AAR Finding No. 21	documents needed to lift the audit suspension, specifically the delivery receipts, Inspection and Acceptance Report and colored photographs are available. The Public Relations Department committed to submit the remaining documents before the 90-day period expires.	NSSDC no: 2014-002- (2013) June 3, 2014
<p><i>22. Sponsorship of meals of 200 persons during 2<sup>nd</sup> Century Tuna 5i50 Triathlon Series held on June 22, 2013 amounting to P454,200.00 was suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184</i></p> <p>We recommended that Management settle the above audit suspension through compliance with the requirements indicated which we will evaluate. The Management was reminded that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to</p>	CY 2013 AAR Finding No. 22	In compliance of Sunrise Events Inc (SEI) to their obligations stated in the MOA with SBMA, as well as the sponsorship of meals of the DOT for 200px at P245 for the Welcome Dinner for 5i50 participants. In the case of the DOT meal sponsorship, the following copy were forwarded to COA for reference: MOA between the SBMA and DOT, Memorandum dtd June 21, 2013 from Mr. R. Marcelo then DA for Bus. Group	Fully implemented.  NSSDC No.:2014-006(2013) June 17, 2014

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
Section 82 of P.D. No. 1445.			
<p>23. <i>Sponsorship of 180 room nights per year covered by MOA between SBMA and the Triathlon Association of the Philippines (TRAP) amounting to P119,399.00 was suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184</i></p> <p>We recommended that Management settle the above audit suspension through compliance with the requirements indicated which we will evaluate. The Management was reminded that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.</p>	CY 2013 AAR Finding No. 23	<p>Atty. Ruel John T. Kabigting certified that the National Age Group Triathlon (NAG-T) organized by the Triathlon Association of the Philippines (TRAP) was successfully held last January 19, 2014 in Subic Bay Freeport Zone.</p> <p>TRAP has fulfilled its obligations in the attached agreement and documentation, except for the following:</p> <p>a.Video documentation shall be furnished to this office as soon as the organizer has completed editing the said materials.</p> <p>b. Sworn statement or certification that no cash sponsorship has been solicited as majority of their sponsors assisted in the form of products, services and assistance.</p> <p>c.Notwithstanding that the financial statement is still being prepared by the organizer, it has already been determined that the revenue share of SBMA in the registration fees amounted to Eighteen Thousand Eight Hundred Pesos (P18,800.00) since 188 pax triathletes registered for the said event.</p>	<p>Fully implemented.</p> <p>NSSDC No.:2014-003 (2013) June 3, 2014</p>
<p>24. <i>Various expenses charged against Extraordinary and Miscellaneous Expenses (EME) funds for the period January to December 31, 2013 amounting to P199,060.81 was suspended in audit due to incomplete documentation to support the regularity and validity of the</i></p>	CY 2013 AAR Finding No. 24	<p>Atty. Ramon O. Agregado already submitted the requirements needed to lift audit suspension pertaining to his EME disbursements. Said submittals are subject to the Auditor's evaluation. We are still waiting for the submissions of documents by other concerned officers.</p>	<p>Fully implemented.</p> <p>NSSDC No.: 2014-007 (2013) August 28, 2014</p>

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p><i>claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184</i></p> <p>We recommended that Management settle the above audit suspension through compliance with the requirements indicated which we will evaluate. The Management was reminded that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.</p>			
<p><i>25. Various expenses charged against expenditures incurred by members of the SBMA Board of Directors in CY 2013 amounting to P504,731.50 was suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445.</i></p> <p>We recommended that Management settle the above audit suspension through compliance with the requirements indicated which we will evaluate. The Management was reminded that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.</p>	<p>CY 2013 AAR Finding No. 25</p>		<p>Fully implemented.</p> <p>NSSDC No. 2017-008 (2013) dated September 30, 2014</p>
<p><i>26. The SBMA spent approximately P23.38 million for the CY 2007 RFID Project which never became</i></p>	<p>CY 2013 AAR</p>	<p>(1) Administrative charges has been instituted against Rani C. Cruz (2) Investigation against other</p>	<p>Partially implemented .</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>operational owing to the Management's (1) lack of preparation to implement the Project as evidenced by the failure to (a) appoint Project Coordinator responsible for the coordination of activities, resources, and information; (b) assign roles, responsibilities and accountabilities to concerned departments and (c) formulate policies and procedures necessary in managing the post-implementation phase of the Project; (2) lack of consultation with concerned departments in drafting the terms of reference for the procurement of RFID-related IT equipment; (3) non-compliance of Contractor with its contractual obligations particularly the commissioning of various equipment and application system according to the intended design and purpose; and (4) absence of strong willpower to make the Project work as evidenced by the Management's inaction to protect the interest of the agency despite knowledge of the causes leading to the failure of the Project.</i></p> <p>No Project Coordinator was appointed to oversee the progress and completion of the RFID Project. Instead, the Management instructed the MIS Head to fill in the gap and assume the duty of a Project Coordinator for the entire Project. However, certain errors and lapses of duty were noticed while the MIS Head acted as Project Coordinator. Meanwhile,</p>	<p>Finding No. 26</p>	<p>employees that may have been negligent or guilty for malfeasance is on-going before the Office of the DA for Legal affairs</p> <p>(3) Requested the NBI and COA to investigate for some evidence gathering against responsible SBMA, DBM and PMTI personnel</p> <p>(4) Coordinating with the DBM Procurement Service for records to institute possible case against PMTI</p>	

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>the RFID Project Team constituted to facilitate the implementation of the Project failed to carry out its mandate.</p> <p>The Management failed to assign the respective roles and responsibilities of various departments involved in the operation of the security system. On the other hand, accountability over most of IT equipment for the Security Systems Project was entrusted to a single individual.</p> <p>The Management failed to formulate policies and procedures needed to manage the post-implementation phase of the Project.</p> <p>Lack of consultation with concerned departments in drafting the terms of reference for the procurement of RFID-related IT equipment.</p> <p>Non-compliance of Contractor with its contractual obligations particularly the commissioning of various equipment and application system according to its exact design and purpose and the integration of the Security Systems with the enhanced SBMA Metropolitan Area Network</p> <p>Absence of strong willpower to make the Project work as evidenced by the Management's inaction to protect the interest of the agency despite knowledge of the causes</p>			

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>leading to the fall of the Project.</p> <p>We recommend that Management:</p> <ol style="list-style-type: none"> <li>1. consider filing appropriate charges against: <ol style="list-style-type: none"> <li>a. Messrs. Jeffrey C. Salazar and Rani C. Cruz for accepting the project and certifying its completion despite knowledge to the contrary, thus, compromised the interest of the agency;</li> <li>b. members of the RFID Project Team for failure to fulfill their tasks which inaction is equivalent to nonfeasance amounting to neglect of duty, thus, contributed to the failure of the Project causing serious damage to the agency;</li> <li>c. drafter of the terms of reference for the RFID Project for failure to consult with and confirm the IT requirements of OSD, thus, facilitated the incurrence of unutilized property resulting in wastage of public funds;</li> <li>d. Atty. Martinez et al. for failure to finalize and submit policies and procedures necessary for the operation of the systems and post implementation of the Project;</li> <li>e. PMTI for failure to commission the various IT equipment according to the intended security system design and for failure to</li> </ol> </li> </ol>			

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>deliver several IT equipment on time, which failure amounted to breach of contract; and</p> <p>f. former Administrator Armand C. Arreza for failure to exercise the degree of diligence required of him under the given circumstances.</p> <p>2.coordinate with PS-DBM for purposes of imposing and collecting liquidated damages from PMTI;</p> <p>3.instruct MIS, TCD, LED, IAS, PPM and other concerned departments to re-inventory RFID-related equipment stored in Building N and Seaport Building and those deployed at the gates and elsewhere for purposes of accounting and recording in the books of accounts;</p> <p>4.require incumbent officials who were involved in the procurement of RFID-related IT equipment to immediately file the necessary request for relief from accountability for the missing items;</p> <p>5. assign accountability over remaining IT equipment to the departments presently in custody over said items to prevent further loss thereof; and</p> <p>6. consider disposing off unserviceable IT equipment for purposes of recovering portion of the investment cost spent in procuring the items.</p>			



Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>27. <i>The correctness of the net realizable value of Accounts Receivable-Trade amounting to P826.56 million as of December 31, 2012 was not be established due to poor results of confirmations sent to locators and residents.</i></p> <p>We reiterated the previous audit recommendation which required that Management should patiently conduct the necessary reconciliation on the noted disagreement between the SBMA and locators' records.</p> <p>Management was likewise advised to initiate action in following up the 172 confirmation requests which were not responded to and investigate the causes of unserved/returned 22 confirmation letters to locators and residents.</p> <p>Moreover, a request for write off of uncollectible accounts was likewise suggested to the Management. The request should be supported with documents showing best effort exerted to collect the uncollectible accounts. The request should also come with a cover letter from the head of the agency requesting the write off of bad debts, upon the authority and instruction of the governing board.</p>	<p>CY 2012 AAR Finding No. 2</p>	<p>The Management agreed to initiate action in following up the reply to the 172 confirmation letters sent in 2012 which were not responded to and committed to update COA of the status of the 22 confirmation letters that were returned/unserved. The Management likewise submitted a copy of the proposed policy in establishing allowance for doubtful accounts and the write off. Both policies are awaiting approval of the SBMA Board of Directors.</p>	<p>Partially implemented</p> <p>Management is yet to inform the COA if:</p> <ol style="list-style-type: none"> <li>1.reconciliation between SBMA records and the records of locators who responded with exceptions was conducted, and the results thereof;</li> <li>2.follow-up of confirmation letters sent to residents and locators who failed to send in their replies was conducted, and the results thereof.</li> </ol>
<p>28. <i>The accuracy of the reported balance of inventories at P111.48 million as of year-end is doubtful in view of the unaccounted prior</i></p>	<p>CY 2012 AAR Finding</p>		

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>years' stock inventories amounting to P91.83 million, unreconciled balance of current year's stock inventories amounting to P1.99 million, unverified balance of inventories at P4.65 million and doubtful existence of stocks worth P2.36 million.</i></p> <p>3.a) Unaccounted prior years' stock inventories amounting to P91.83 million.</p> <p>We recommended that Management designate Accounting personnel and counterpart staff from Property Department, with the assistance and supervision of COA representative, to do the search of available disposal documents at the COA stock room starting on all Fridays of June and July 2013 or until such time all vouchers have been completely examined. If, despite this effort, there still remains an unaccounted difference, the Management was advised to secure authority from the Commission Proper of the Commission on Audit for the dropping/writing-off of unaccounted balances of prior years' stock inventories.</p> <p>We also recommended that Management require the Accounting Department to examine its subsidiary ledger for unaccounted spare parts inventory and trace the excess spare parts worth P5.34 million located by the</p>	<p>No. 3</p> <p>CY 2012 AAR Finding No. 3.a</p>	<p>The Management agreed to adopt the audit recommendation.</p>	<p>Partially implemented</p> <p>The unaccounted prior years' stock inventories was reduced to P86.47 million broken down as follows:</p> <ol style="list-style-type: none"> <li>1. Office supplies and materials – P18,944,296.44</li> <li>2. Medical, dental and laboratory supplies – P2,092,075.52</li> <li>3. Fuel, Oil and Lubricants – P20,957,080.24</li> <li>4. Maintenance supply inventory – P7,804,145.05</li> <li>5. Spare Parts –</li> </ol>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>Inventory Committee at the Transportation Department. Once traced, the Management was advised to reclassify by transferring the traced amount from the Unaccounted Spare Parts Inventory account to Spare Parts Inventory – Stocking account. If nothing or only a small portion of the P5.34 million excess spare parts was listed in the ledger for unaccounted spare parts inventory, the Management was advised to prepare the necessary journal entries to book the entire P5.34 million excess spare parts or that portion which remained unrecorded in the subsidiary ledger for Spare Parts Inventory – Stocking.</p> <p>3.b) Unreconciled balance of current year's stock inventories amounting to P1.99 million.</p> <p>We recommended that Management require the Accounting and Property personnel handling the inventory accounts to settle the computed current year's inventory variances as soon as possible to avoid the accumulation of discrepancies over time. Once done, a report showing the reconciliation of accounts should be furnished to COA for purposes of effecting adjustments in its file. Likewise, the Accounting and Property account officers responsible for the accounts "Maintenance Supply Inventory-</p>	<p>CY 2012 AAR Finding No. 3.b</p>	<p>Management, thru its Accounting Department, replied that the Accounting and Property personnel handling the inventory accounts are still in the process of reconciling their respective records. One of their findings noted in the inventory reconciliation is the non-inclusion of P510,849.75 worth of stocks transferred by the defunct subsidiary Freeport Services Corporation (FSC) to SBMA in the ending balance of Property Record, details as follows:</p>	<p>P42,008,742.35 less located spare parts worth P5,337,792.86.</p> <p>On-going reconciliation of records between PPMD and Accounting Department.</p> <p>Partially Implemented</p> <p>Reconciliation, Inventory on-going</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation										
CIP” and “Excess Materials Inventory from Completed Projects” were encouraged to meet, discuss and settle unreconciled reports and thereafter report to COA all adjustments identified in their meeting.		<table> <tr> <th>Inventory Account</th> <th>Amount</th> </tr> <tr> <td>Office Supplies and Materials</td> <td>P 157,055.20</td> </tr> <tr> <td>Fuel, Oil and Lubricants</td> <td>24,901.55</td> </tr> <tr> <td>Maintenance Supplies</td> <td>328,893.00</td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>P 510,849.75</b></td> </tr> </table> <p>The Accounting personnel in charge of accounts Maintenance Supply Inventory-CIP and Excess Materials Inventory from Completed Projects have requested from their counterpart account officers in the Maintenance Division of the Property Department for the details of Property record balance in order to reconcile it with the balance per Accounting record.</p>	Inventory Account	Amount	Office Supplies and Materials	P 157,055.20	Fuel, Oil and Lubricants	24,901.55	Maintenance Supplies	328,893.00	<b>TOTAL</b>	<b>P 510,849.75</b>	
Inventory Account	Amount												
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Maintenance Supplies	328,893.00												
<b>TOTAL</b>	<b>P 510,849.75</b>												
<p>3.c) Unverified balance of inventories at P4.65 million.</p> <p>We recommended that Management require the Accounting and Property personnel handling the inventory accounts to patiently and diligently identify in their respective records those inventories that have been issued directly to requisitioning units and carefully determine those that remained unconsumed and those that have already been used up as of year-end for purposes of recording appropriate asset and expense amounts. The Accounting Department was advised to gather disposal documents to support</p>	<p>CY 2012 AAR Finding No. 3.c</p>	<p>Management commented, through its Accounting Department, that in order for them to recognize the expense portion amounting to P60,138.76 of the P168,558.90 directly issued spare parts, the Accounting Department already sent a memorandum dated March 20, 2013 to the Procurement and Property Management Department (PPMD) to provide them the Requisition and Issuance Slip (RIS) and Waste Material Report. The Management agreed to comply with the rest of the audit recommendations.</p> <p>The PPMD agreed to adopt the audit recommendation to settle the computed current year’s inventory variances as soon as possible in order</p>	<p>Partially Implemented</p> <p>Reconciliation, Inventory on-going</p>										

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>reduction in the ending balance of the account "Inventory-Direct Issuance" by P60,138.76. The concerned personnel were requested to keep the COA informed of new developments affecting the accounts' balances.</p> <p>For similar transactions in the future, we recommended that Management require both Accounting and Property Departments to maintain common point of reference, such as Purchase Order Number, for purposes of facilitating reconciliation of records. The Property Department was likewise advised to furnish Accounting Department, on a quarterly basis or as often as the conduct of every physical count is completed, copies of consumption report of directly issued stocks so as to keep the Accounting records updated. Failure of the Property Department to deliver this service should merit a sanction.</p>		<p>to avoid accumulation of discrepancies over time, to continuously submit to the Accounting Department, on a weekly basis, the original copies of consumption report of directly issued stocks known as the requisition and issue slip (RIS) as well as the Report of Supply and Materials Issued (RSMI) so as to update the Accounting records, to furnish them copy of physical count report whenever completed and to work with the accounting personnel to maintain common point of reference such as the Purchase Order Number along with the Inspection and Acceptance Report (IAR) in order to facilitate reconciliation of records</p>	
<p>3.d) Doubtful existence of stocks worth P2.36 million.</p> <p>We recommended that Management require the concerned Accounting and Property personnel, with the assistance and supervision of COA staff, to search for available disposal documents at the COA stock room starting on all Fridays of June and July 2013 or until such time all vouchers have been completely examined. If, despite this effort, there still</p>	<p>CY 2012 AAR Finding No. 3.d</p>	<p>Management concurred with the audit recommendation.</p>	<p>Partially Implemented</p> <p>Reconciliation, Inventory on-going</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
remains an unaccounted difference, the Management was advised to request authority from the Commission Proper of the Commission on Audit for the dropping/writing off of unaccounted balances of non-existent stock inventories.			
<p><i>29. Reliance on Management's assertion of accurate reported net book value as of December 31, 2012 at P25.90 billion and existing physical assets at the close of the year could not be certified in view of the discrepancies of information in the Accounting and Property records, thus, grossly affecting the fair presentation of total assets as at year-end.</i></p> <p><u>Land</u></p>	CY 2012 AAR Finding No. 4		
<p>4.a) The discrepancy in the total land area of the agency's real estate property per Accounting and Property records remained unchanged at 1,013.22 hectares.</p> <p>We reiterated our previous recommendation that the Accounting Department and LAMD should closely and constantly coordinate with each other all developments pertaining to asset's valuation, existence, and disclosures so that only fair and reliable information are recorded in the ledgers/folio and subsequently presented in the financial statements. The LAMD was</p>	CY 2012 AAR Finding No. 4.a	<p>The Management had created a special team for the purpose of reconciling the records between the Accounting Department and LAMD under Office Order No. 12-01-0041 dated Dec. 27, 2011. Since June 2012, twice every week, representatives from each concerned department take time to inventory, value and check the existing fixed asset of SBMA. However, due to uncontrolled events like unavailability of vehicle, weather condition and unavailability of personnel, the supposed twice-a-week schedule was hampered. Nonetheless, the actual inventory taking had resumed in March 2013.</p>	<p>Partially Implemented</p> <p>Reconciliation, Inventory on-going</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>advised to pursue the agency's request for reconstruction pending before the DENR as such is deemed vital in bringing the records close to reality. The Accounting Department, on the other hand, was requested to constantly follow-up with the LAMD new developments concerning the request. Once information is available, both departments were instructed to devote more time in reconciling records' differences to avoid a repetition of similar audit finding in the future.</p> <p><u>Land Improvements and Buildings and Other Structures</u></p> <p>4.b.1) The discrepancy of P3.295 billion combined cost of land improvements and buildings and other structures per Accounting and Property records remained unchanged.</p> <p>4.b.2) The following significant audit observations, which overstated the PPE account to as much as P1.113 billion and disclosed during the CY 2011 special interim audit, still subsisted during the current year audit</p> <p>We reminded the Management that there is no solution better than constant communication and coordination among concerned offices and personnel. We reiterated that the Accounting Department and LAMD should seriously exert extra effort and allot</p>	<p>CY 2012 AAR Finding No. 4.b</p>	<p>Management will schedule a meeting with the LAMD and discuss the report on demolished buildings. The Accounting Department will immediately adjust the records once said report is submitted by the LAMD.</p>	<p>Partially Implemented</p> <p>Cost and accumulated depreciation of unbooked demolished buildings was reduced by P197,575,808.48 and P177,818,227.63 arrived at as follows:</p> <p>From non-fully depreciated Building and Structures: Cost – P186,604,321.92</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>more time in reconciling the cost variances. The LAMD should immediately furnish the Accounting Department reports on incurred improvement costs to enable the latter to effect the proper capitalization. The LAMD, in coordination with PPMD, was likewise advised to provide reports on demolished buildings, facilities and other structures so that the Accounting Department could drop from the book of accounts the corresponding book value.</p> <p><u>Equipment and Machinery</u></p>			<p>Dep - P167,943,889.73</p> <p>From fully depreciated B&amp;S: Cost - P10,971,486.56</p> <p>Dep - P9,874,337.90</p> <p>Source: JGL dated 8/27/13 as confirmed by the account officer per telephone conversation of 2/27/14.</p> <p>On-going reconciliation records</p>
<p>4.c.) The accuracy of the account's reported net book value at P659 million as of December 31, 2012 was doubtful and the existence of declared assets could not be ascertained in the absence of common reference to identify the properties and facilitate full inventory thereof, thus, affecting the reliability of the account</p> <p>We recommended that Management require the Accounting Department and PPMD</p>	<p>CY 2012 AAR Finding No. 4.c</p>	<p>The Management stated that the Office Order No. 12-01-0053 dated January 27, 2012 created the Inventory Committee Team for the purpose of reconciling the records of the PPMD and the Accounting Department. Due to limited resources of SBMA, the volume and location of the properties involved were factors that contributed to the delay in the inventory taking of movable properties. The Management, however, assured that any finding after the inventory taking would be</p>	<p>Partially Implemented</p> <p>Reconciliation, Inventory on-going</p>





Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>require the Inventory Committee to prepare Property Acknowledgment Receipt for the three (3) paintings and locate the unaccounted P1.017 million worth of art works and exhibits. The Inventory Committee was also instructed to document its efforts exerted in searching for the unaccounted art works. If the search proved futile, we recommended that Management request from COA a possible write-off of the unaccounted balance from the books.</p> <p><u>Work</u> <u>Animals</u></p> <p>5.c) The accuracy of the account's year-end balance of P8,667,096.08 was doubtful due to the inclusion of P4,737,363.57 acquisition cost of deceased work animals and exclusion of P260,000.00 animal offspring and donations and P3,250,000.00 worth of ten (10) cavalry horses procured in CY 2010, thus, affecting the reliability of the reported total assets as of December 31, 2012.</p> <p>We recommended that Management prepare the necessary adjusting and correcting entries to take up the additions to and deductions from the account in order to reflect a fair presentation of the actual balance at year end</p> <p>We also recommended that Management perform the following suggested procedures to include offspring and donations in the</p>	<p>CY 2012 AAR Finding No. 5.c</p>	<p>The above total value of the paintings is reflected in the SBMA books. Management submitted copy of Property Acknowledgment Receipts (PAR) of Mr. Alfredo R. Suero Jr. as proof of custody of the 10 mural paintings. The PPMD is still validating the location of three (3) other paintings. They will immediately furnish us with the copy of the PAR once the PPMD has located the remaining three (3) paintings.</p> <p>On the non-booking of the offspring of work animals, Management will coordinate with the LED to request the assistance of the SBMA veterinarian/consultant to appraise the subject animals and use his appraisal in booking the offspring of the work animals.</p> <p>On the non-booking of the P3.25 million worth of horses, SBMA cannot book the ten (10) horses for they are subject to ND No. 2012-002 that requires several documentations prior to booking of the said animals. They are yet to secure the official receipt which is necessary for the booking of the said horses.</p> <p>The Accounting Department has made the summary of work animals that should be booked. They will coordinate with LED and PPMD for the fair value of the unbooked work animals for recording purposes.</p>	<p>Partially Implemented</p> <p>1. Cost of deceased horses and dogs not derecognized from books amounting to P4,737,363.57 was reduced to P4,335,876.77 accounted as follows:</p> <p>Horses: Tiray- P21,000.00 Jack- P22,000.00 Sonia- P25,000.00 Total - P66,000.00</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation																								
<p>Work Animal account.</p> <p>1. Determine appraised value for horses "Quarter" and "Waco".</p> <p>2. Prepare the following entries to record offspring and donations:</p> <table><tr><td>Work Animal</td><td>P260,000.00</td><td>*</td></tr><tr><td>Miscellaneous Income</td><td></td><td>150,000.00</td></tr><tr><td>Income from Grants and Donations</td><td></td><td>110,000.00</td></tr><tr><td></td><td></td><td>*</td></tr></table> <p>*to be adjusted upon availability of the appraised value for horses "Quarter" and "Waco"</p> <p>*P260,000.00+P3,250,000.00</p> <p>3. Prepare the following entries to record the procurement of cavalry horses, loss of six horses, and the set-up of accountability of accountable officers for the loss, through death, of said six cavalry horses:</p> <table><tr><td>Work Animal</td><td>P3,250,000.00</td><td></td></tr><tr><td>Due from NGOs/POs Suppliers</td><td></td><td>3,250,000.00</td></tr></table> <p>Reference: (Ref: APV # 09-12-0185 – JMG Horse Equipment Trading &amp; APV # 09-12-0186 – Calbayar Trading)</p> <table><tr><td>Loss of Assets</td><td>P1,950,000.00</td><td></td></tr><tr><td>Work</td><td></td><td>P1,950,000.00</td></tr></table>	Work Animal	P260,000.00	*	Miscellaneous Income		150,000.00	Income from Grants and Donations		110,000.00			*	Work Animal	P3,250,000.00		Due from NGOs/POs Suppliers		3,250,000.00	Loss of Assets	P1,950,000.00		Work		P1,950,000.00			<p>Dogs:</p> <p>Marco- P180,123.17</p> <p>Blondie – P45,363.63</p> <p>Darby- P50,000.00</p> <p>Eyk – P60,000.00</p> <p>Total – P335,486.80</p> <p>2. Cost of ten cavalry horses for P3.25 million fully booked.</p> <p>Cost of six deceased cavalry horses at P1.95 million transferred to Due from Officers and Employees account</p> <p>3. Cost of offspring and donated work animals already booked.</p> <p>The acquisition cost for horses that died while in the care of engaged</p>
Work Animal	P260,000.00	*																									
Miscellaneous Income		150,000.00																									
Income from Grants and Donations		110,000.00																									
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Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation									
<table><tr><td>Animal</td><td></td><td></td></tr></table> <table><tr><td>Due from officers and employees</td><td>FM V</td><td></td></tr><tr><td>Other Deferred Credits</td><td></td><td>FM V</td></tr></table> <p>Finally, we recommended that Management ensure close coordination between the Accounting Department, PPMD and LED regarding the death, donation, and birth of work animal for monitoring and recording purposes. We advised the Management to impose disciplinary sanctions against employees who fail in the discharge of their respective duties.</p> <p><u>Missing    Peso    Time    Deposit</u></p> <p>5.d) The existence of the reported peso time deposit amounting to P21.49 million was doubtful due to absence of accounting documents and non-availability of bank records to support the amount.</p> <p>We recommended that Management create a team which would be responsible in locating available documents in the Accounting and COA stockrooms. We also recommended that</p>	Animal			Due from officers and employees	FM V		Other Deferred Credits		FM V			<p>contractors could not be reclassified to receivables account in view of the difficulty in pointing the accountable officer responsible for requesting relief from property accountability with COA.</p>
Animal												
Due from officers and employees	FM V											
Other Deferred Credits		FM V										
	CY 2012 AAR Finding No. 5.d	Management submitted a bank reconciliation made in the previous year on the said account. It was noted that the amount of P21,448,667.49 under the said account was fully accounted as missing time deposit. An adjustment to correct the time deposit balance was already made under JGL 2003-12-121 as a result of the reconciliation made but the amount of P21.4 million remained for reconciliation for no supporting documents were found to support the recording of such amount, thus,	<p>Partially Implemented</p> <p>Unlocated supporting documents</p>									

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>Management allow members of the ad hoc team to render overtime services during Saturdays of April and May 2013 where COA team may be available to lend assistance in the search for records at the COA stockroom.</p> <p><u>Miscellaneous Receivable</u></p> <p>5.e) The collectability of the reported balance of P1.72 million as of December 31, 2012 arising from the setting-up of accountability from accountable officers for the loss, through death, of various horses was very remote, thus, affected the reliability of the overall reported total assets of the agency as at year-end.</p> <p>We recommended that Management require the concerned departments, specifically the LED and PPMD, to gather all remaining available documents such as affidavits of accountable officers and autopsy reports and submit the same to COA for appropriate action. We likewise recommended the reclassification of "Miscellaneous Receivable" to "Due from officers and employees", consistent with NGAS accounting policies for Corporate and COA Circular No. 2004-008 dated September 20, 2004 providing for the Philippine Government Chart of Accounts.</p>	<p>CY 2012 AAR Finding No. 5.e</p>	<p>tagged as missing time deposits.</p> <p>A letter was already sent to the former treasurer regarding the said matter. However, she denied having knowledge of the alleged missing time deposit.</p> <p>Management will forward all the supporting documents to the Legal Department for possible legal action.</p> <p>The Management replied that on February 19, 1997, the COA, through the resident auditor, had already been provided the necessary request for relief from property accountability for the subject horses as well as the affidavits from concerned personnel testifying on the death of the subject work animals. No reply was received regarding the said request even to date. As to the classification, the Management reasoned that COA had advised them to book the amount as Miscellaneous Receivable pending receipt of COA's reply on the request for relief from property accountability.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><u>Missing Peso Cash on Hand</u></p> <p>5.f) The amount of P856,754.66 continuously remained unaccounted for since CY 2006, thus, affecting the reliability of the overall total assets as of year-end.</p> <p>We recommended that Management fortify its initial finding of undeposited dollar collections committed by the former SBMA treasurer by devoting more time in gathering evidences such as copies of official receipts showing the total collections of US\$34,681.71 on July 9, 1994 and bank-validated deposit slips, passbook, snapshots, or bank statements showing that only US\$115.00 of the dollar collections had been actually deposited. We also advised the Management to pursue a criminal case against employee/s responsible for the shortage if evidence so warrants.</p>	<p>CY 2012 AAR Finding No. 5.f</p>	<p>The Management explained that further research revealed that the alleged undeposited collection was found to have been actually deposited to Landbank through telegraphic transfer by a Locator, vice cash collections. However, the transaction was recorded as dollar cash on hand with account number of 8-70-100 vice Cash in Bank. The personnel from the Treasury Department is now locating at the Treasury storage area near the Fire Station at Cubi records of deposits done in 1994. The Management added that after it has ascertained that the amount had been deposited, the next step to be done is to determine how the amount had been utilized. Only after it has ascertained the usage of the amount can the Management effect the appropriate adjustment in the book of accounts. The Management finally mentioned that if it cannot locate the missing Cash on Hand, it will request its Legal Department for assistance so that appropriate action based on COA's recommendation can be pursued.</p>	<p>Partially Implemented</p> <p>Unlocated documents</p>
<p><u>Due from investors– expanded withholding tax on rents/services</u></p> <p>5.g) The probability of collecting the amount of P4,279.08 was very remote, thus, affected the reliability of the overall total assets as at year-end.</p>	<p>CY 2012 AAR Finding No. 5.g</p>	<p>Management will trace the documents pertaining to said transaction and adjust the books if warranted by any supporting documents. Otherwise, the Management will comply with the audit recommendation.</p>	<p>Partially Implemented</p> <p>Still locating the supporting documents</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>We recommended that Management include this item among the non-moving and unlikely to be collected accounts which it intends to request for write-off.</p> <p><u>Due from officers and employees</u></p> <p>5.h) The reliability of the account could not be ascertained in view of possible loss of supporting evidences to prove existence of collectibles from various officers and employees amounting to P1.064 million.</p> <p>We recommended that Management create a team that would identify document references, locate source documents (vouchers and liquidation reports) from the COA stockroom if necessary, account for the unliquidated cash advances, recommend adjustments on the unaccounted balance if warranted and submit results on the performed activity to COA for appropriate action. We informed the Management that such procedure was necessary to establish that the amount of P1.064 million either remains a receivable or forms part of the expense account.</p>	<p>CY 2012 AAR Finding No. 5.h</p>	<p>Research was already made on this account. However, no more documents were found to prove that liquidation of cash advances, payments/settlement of overpaid salaries and per diems were made. The balances appearing as receivable from each employee are amounts that remained outstanding after all of the amounts due from each employee was deducted from their final pay. Letters were sent to the concerned employees but no reply was received. In view of the efforts made by the management to reconcile and collect the amounts booked as due from officers and employees, the Management now seeks COA's advice on the procedure to write off accounts due from employees that remain outstanding for more than ten (10) years.</p>	<p>Partially Implemented</p> <p>Management is yet to submit to COA a request for possible write-off of the accounts.</p>
<p>32. Advance rental amounting to \$287,176.72 and P213,190.43 remained unpaid as of August 31, 2012 due to (a) non-payment of</p>	<p>CY 2012 AAR Finding</p>	<p>The Account Officers sent the necessary demand letters together with the assessment for payment of the foregoing accounts. Most of the</p>	<p>Partially Implemented</p> <p>Re-</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>additional advance rentals of locators amounting to \$7,716.46 and P1,092.94, (b) inadequate payment of advance rental amounting to \$144,744.15 and P212,097.49, and (c) non-payment of advance rental amounting to \$134,716.11 in violation of Article II-Consideration of the contract of lease for advance rental.</i></p> <p>7.a.) Non-payment of additional advance rental amounting to \$7,716.46 and P1,092.94.</p> <p>7.b)Inadequate payment of advance rental amounting to \$144,744.15 and P212,097.49.</p> <p>7.c)Non-payment of advance rental amounting to \$134,716.11.</p> <p>We recommended that Management require lessees with deficiencies in advance rental to settle their obligations at once. The Management was likewise advised to assure the faithful compliance by locators of the stipulations in the agreement to protect the interest and concerns of the agency. Finally, we recommended that management require the Accounting Department to henceforth re-compute and bill locators of the advance rental fees at the escalated rate.</p>	No. 7	<p>computations made by the COA were on a property basis. Given that the addresses of paid security deposits and advance rentals per locator and deduct the actual payments made to come up with the amount still due. There were differences in the computations.</p> <p>Management noted that in cases of assignment wherein most of the payments made for security deposits and advance rentals were left under the name of the assignor, account officers were advised to communicate with the assignor to determine whether or not previously paid security deposits and advance rentals will be transferred to the account of the assignee to enable us to do the necessary adjustments. There were instances that the lease agreements were renewed/executed under the name of the new assignee and the payments for the security deposit were still under the name of the assignor. It is just a matter of transferring from one account name to another</p>	computation on-going
33. <i>The requirement for performance bond was inconsistently applied in lease</i>	CY 2012 AAR	Management presented the amendments in the performance bond	Partially Implemented



Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>agreements with development commitment.</i></p> <p>We recommended that Management consider reviewing its policy on the posting of performance bond by locators or drafting a new one if no such policy is yet available. We suggested that Management identify reasonable imposable rates, taking into consideration the nature and cost of development committed to be introduced and risks to be assumed by locators and the duration of the contract, among others. We likewise suggested that the requirement for performance bond be made a standard provision in the contract involving lease and development of property.</p>	<p>Finding No. 8</p>		
<p><i>34. Infractions were committed in the grant and liquidation of cash advances as well as in the bonding of accountable officer in violation of Section 89 of P.D. 1445, Section 5 of COA Circular No. 97-002 dated February 10, 1997, and Section 101(2) of P.D. 1445, respectively.</i></p> <p>11.b) Cash advances were not liquidated within the prescribed period in violation of Section 5 of COA Circular No. 97-002 dated February 10, 1997.</p> <p>We recommended that Management require the early or</p>	<p>CY 2012 AAR Finding No. 11</p> <p>CY 2012 AAR Finding No. 11.b</p>	<p>The Management explained that it is actually complying with the audit recommendation. However, they cannot compel some concerned employees particularly those whose contracts of service had been terminated, as in the case of Ms. Llanza and Avilanes, to strictly</p>	<p>Partially Implemented</p> <p>Management exerted all efforts to locate documents in</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
timely submission of liquidation documents to give the accounting personnel ample time to review submitted documents, adjust receivable and related expense accounts, and reflect correct balances of affected accounts in the financial statements as of a given date or period. We also explained to the Management that the timely liquidation of cash advance by accountable officer will bar the application of the provisions under Sections 9.2 and 9.3 of COA Circular No. 97-002 which stated that the non-liquidation by the accountable officers of their respective cash advances within the prescribed period shall constitute a valid cause for the withholding of his/her salary and other sanctions.		observe the COA rules. In so far as the cash advance of Ms. Delgado is concerned, the same had been fully settled in October 2012 under JGL 12-10-000084. For Ms. Aguilar, she has no final pay against which her remaining cash advance could be set off. For the other observations, the Management ensured that henceforth, liquidation of cash advance will not be done beyond the set timeline.	support of the liquidation of cash advance granted to Evelyn Llanza. However, no documents were found.
35. <i>Infractions were noted in the procurement and payment of P657,050.00 for the meals and hotel accommodation of SBMA officials and employees, contrary to the pertinent provisions of the revised Implementing Rules and Regulations (IRR) of Republic Act (R.A.) 9184 in relation to Section 85 of R.A. 10155, Section 46 of P.D. No. 1177 and Section 4(6) of P.D. No. 1445.</i>	CY 2012 AAR Finding No. 12		
12.a) The reasonableness of the price quotations of two service providers could not be determined in view of the failure of the agency to observe the implementing guidelines for lease of venue	CY 2012 AAR Finding No. 12.a	The Management explained that for a series of Strategic Planning Workshops consisting of two parts, January 12-13, 2012 and February 02-03, 2012, SBMA solicited a total of four (4) price quotations, to wit:	Partially Implemented

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>requiring the solicitation of at least three (3) price quotations, contrary to Section 53.10 of the revised IRR of R.A. 9184 in relation to Section 85 of RA 10155.</p> <p>We recommended that Management justify its failure to comply with the procedures provided for in the implementing guidelines for the lease of venue. We informed the Management that failure to do so would constrain us to disallow the entire payment as the same might fall within the bracket of irregular expenditure defined under Section 3.1 of COA Circular No. 85-55A dated September 8, 1985 or illegal expenditure as provided in Annex B of COA Circular No. 2012-003 dated October 29, 2012, infra.</p>		<p>For the Phase I workshop, January 12-13, 2012:</p> <ol style="list-style-type: none"> <li>1. Holiday Inn Clark Philippines (quotation dated January 03, 2012)</li> <li>2. Fontana (quotation dated January 04, 2012)</li> <li>3. Montevista (quotation dated January 03, 2012)</li> </ol> <p>For the Phase II workshop, February 02-03, 2012:</p> <ol style="list-style-type: none"> <li>4. Holiday Inn Clark Philippines (quotation dated January 27, 2012)</li> </ol> <p>SBMA treated the Strategic Planning Workshops as a single continuing activity divided into two (2) parts, the first part held on January 12-13, 2012 in Fontana and the second part held on February 02-03, 2013 in Holiday Inn Clark. The decision to hold the 2012 Strategic Planning Workshop was announced by the SBMA Chairman during the first flag-raising ceremony and first working day of the year, January 02, 2012. Time was of the essence and the strategic planning workshop was long overdue. To ensure maximum concentration and least disturbance, it was decided that the workshop be held away from Subic. For benchmarking purposes and synergy, in addition to accessibility, Clark Freeport was chosen. To abbreviate the process because of time limitations, PDO made a canvass by soliciting the aforementioned price quotations.</p>	

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>12.b) The agency erroneously adopted "Shopping" instead of "Small Value Procurement" as the mode of engaging the services of Yuzen Restaurant for the meals of SBMA officials and employees who attended the Midterm Review Strategic Planning Workshop, thus, deprived SBMA the opportunity of receiving possible lower quotations from other qualified service providers, contrary to Section 53.9 of the revised IRR of R.A. 9184.</p> <p>We recommended that Management explain why it selected "shopping" as the mode of engaging the services of Yuzen Restaurant for the meals supplied during the Midterm Review Strategic Planning. Management was reminded that payment made under a contract awarded not strictly in accordance with the provision of procurement law is irregular under COA Circular No. 85-55A or illegal under COA Circular No. 2012-003 and, therefore, may be disallowed in audit.</p> <p>Moreover, for similar transaction in the future, we recommended that Management require all requesting departments to prepare a cost estimate report listing therein the goods and services requirements with corresponding cost estimate taking into consideration the approved budget for said purpose.</p>	<p>CY 2012 AAR Finding No. 12.b</p>	<p>The Management explained that SBMA Directors were in attendance, the Midterm Review Strategic Planning was considered a Board activity. Food provisions were arranged in coordination with the staff of the Office of the Corporate Secretary. Per advice of the latter, the Directors expressed their preference for Japanese cuisine, and having submitted the lowest quotation, Yuzen was chosen. However, due to time constraints, the Management was prevented from going through the Small Value Procurement process because the scheduling of the Midterm Review Strategic Planning was done within a very short timeframe, highly dependent on the availability of Board directors.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>The management should also instruct its canvasser to solicit quotations from establishments offering reasonable prices.</p> <p>12.c) The total expense of P580,550.00 for the meals and hotel accommodation of SBMA officials who attended the 2012 Strategic Plan in Clark Freeport, Pampanga and additional expense of P76,500.00 for the meals served to SBMA officials and employees during the Midterm Review Strategic Plan exceeded the budget allocation as disclosed in the FY 2012 Annual Procurement Plan (APP), contrary to Sections 7.1 and 7.2 of the revised IRR of R.A. 9184 and Section 47 of P.D. No. 1177.</p> <p>We recommended that Management explain the reason for incurring expenditures in excess of the budget earmarked for the meals and reimbursement of PDO used during the SBMA's Strategic Planning Workshop and, thereafter, submit the corresponding approved realignment of funds to cover the deficit. Otherwise, the management is requested to collect the amount of P157,050.00 from all parties responsible for the overdraft.</p>	<p>CY 2012 AAR Finding No. 12.c</p>	<p>The Management, through its Financial Control and Analysis Department, explained that the meals and accommodations served during the subject activity was within the budget of the Planning and Development Office under Other Services (Meals and Reimbursement) for the Strategic Planning Workshop at P763,638.00. The Approved Annual Procurement Plan of the agency for CY 2012 also provided the same allotment of P763,638.00 for PDO in the summary sheet of Other Services (Meals and Reimbursement).</p>	<p>Partially Implemented</p>
<p>12.d)The expenses incurred in holding the Strategic Planning may be considered "unnecessary" and "extravagant", while meals expense during the Midterm Review Workshop is "excessive", contrary</p>	<p>CY 2012 AAR Finding No. 12.d</p>	<p>The Management reasoned that venue has everything to do with the success of a planning workshop and that it is but normal to hold planning sessions in venues that are comfortable and which contain the needed amenities.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>to COA Circular No. 85-55A dated September 8, 1985, as reiterated in COA Circular No. 2012-003 dated October 29, 2012.</p> <p>12.d.1) The payment of an approximate cost of P307,000.00 for room accommodations of SBMA officials and employees fell within the purview of an unnecessary and extravagant expenditure.</p> <p>We recommended that Management meticulously and judiciously plan its procurement transaction, bearing in mind that the interest of SBMA is always protected. The Management should always observe the degree of care and concern in the control and disbursement of its funds in order to mitigate undue dissipation of SBMA's already limited resources.</p> <p>We likewise requested the Management to provide reasons for choosing the selected venues despite its costly offer. Sanctions should also be imposed against officials and/or employees who neglect in their respective duties, whether or not actual damages had been caused to SBMA.</p>		<p>The Management added that the expenses for the Fontana Clark and Holiday Inn Clark strategic planning workshops were reasonable expenses and were not at all extravagant. The venues are neither luxurious nor top of the line. Fontana is, at the most, functional, while Holiday Inn has a comfortable corporate environment.</p> <p>The Management likewise explained that holding the activity in Subic Bay Freeport would expose the participants to too many distractions from their work or staff so as to be able to focus. Meanwhile, the significance of Clark Freeport as the venue rallies behind Clark and Subic to be developed synergistically. Officers from both Freeport authorities therefore benchmark each other's data and programs. Meanwhile, the Management's purposes in holding the second part of the strategic planning in Holiday Inn Clark were:</p> <ol style="list-style-type: none"> <li>1. To allow the participants to personally experience and feel the difference in having an international chain hotel in the sphere of Clark Freeport and the need for such corporate facilities in Subic.</li> <li>2. To embark on a marketing initiative that would entice the Holiday Inn Group to operate in Subic Freeport. SBMA has received a proposal to develop in the Waterfront area a hotel of international standards to be operated by the Holiday Inn. That SBMA held its Strategic Planning</li> </ol>	

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<p>12.e) The payment of hotel accommodations and meal consumptions was not supported with complete documentation, thus, the reasonableness of the claims and availability of the funds could not be ascertained, contrary to Section 4(6) of P.D. No. 1445.</p> <p>We recommended that Management cause the submission</p>	<p>CY 2012 AAR Finding No. 12.e</p>	<p>workshop in Holiday Inn greatly contributed to this effort.</p> <p>The Management pointed out that the meals served during the workshops were served over a period of at least eight working hours per day. The P757.65 per person room charge in Fontana is not excessive, rather, it is a very low rate for decent and clean lodging in a resort environment. The P1,980.00 per delegate per night rate of Holiday Inn – an international hotel chain- is low when compared to local Subic Hotels to wit:</p> <p>Hotel Twin Sharing Deluxe Subic International Hotel (Delta) P6,308.00 P4,000.00</p> <p>Vista Marina 4,700.00 3,900.00</p> <p>Lighthouse 7,700.00 9,900.00 Forest View Superior: P5,500.00 weekdays; P6,600.00 weekends</p> <p>Deluxe: P6,700.00 weekdays; P7,700.00 weekends</p> <p>The Management stated that all subject hotel accommodations and meal consumptions were supported with complete documentation per Memorandum of the Financial Control and Analysis Department.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>of the requested price quotations from three (3) suppliers and the Budget Utilization Request. Otherwise, we informed the management that we would recommend corresponding sanctions against officials or employees who were not faithful in the dispatch of their respective tasks.</p>			
<p>36. <i>The validity of claims for meal reimbursements of members of the SBMA Board of Directors from January to July 2012 amounting to P54,555.04 could not be ascertained in view of the absence of full disclosure on the purpose for incurring said expenses, contrary to Section 4(2) of Presidential Decree (P.D.) No. 1445 in relation to Section 12 of Executive Order (E.O.) No. 24.</i></p> <p>Moreover, the necessity of incurring similar expenses amounting to P152,354.82 remained doubtful in view of the failure of the members of the Board of Directors to (1) identify their detailed responsibilities in order to distinguish their duties from those of the management; and to (2) define "business meetings", as may apply to them, thus, had placed the agency's funds under the control and discretion of the members of the Board who may tend to exploit its use by indiscriminately charging meals expense under the guise of "business meeting".</p>	<p>CY 2012 AAR Finding No. 13</p>		



Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>13.a) Meal reimbursements worth P54,555.04 were incurred without full disclosure of purpose, thus, rendered the validity of the claims doubtful and uncertain.</p> <p>We recommended that Management require additional information from the concerned Directors on the purpose of the visits of various guests as listed in the tables above and, thereafter, inform COA of obtained information to guide it in rendering decision on whether to allow or disallow the payments made. We likewise recommended that Directors provide full disclosure on the purpose of spending for meals of visitors in their subsequent reimbursements to avoid similar audit findings in the future. The Accountant was advised to exercise pre-audit of future claims of the members of the Board pursuant to COA Circular No. 2011-002 dated July 22, 2011.</p>	<p>CY 2012 AAR Finding No. 13.a</p>	<p>Management submitted individual justifications of the concerned Directors for their reimbursements that were observed to be either lacking sufficient information or of doubtful validity. The Management likewise committed to discuss with the Board of Directors the need to provide complete information on the official and public purpose of meetings in order to substantiate the reimbursement of meal expenses.</p>	<p>Partially Implemented</p>
<p>13.b) Meal expenses amounting to P145,478.76 were incurred by Directors in calling/attending business meetings which management could have handled at minimal or no cost to SBMA.</p> <p>We encouraged the members of the Board of Directors to draft, finalize, promulgate and adopt a manual incorporating therein the detailed responsibilities of the members of the Board acting individually or as</p>	<p>CY 2012 AAR Finding No. 13.b</p>	<p>The Management, through the reply of the concerned Directors, explained that in incurring the questioned meal expenses, the Directors were acting either:</p> <p>a) as an initial point of contact for locator or stakeholder concern, after which they would properly turn over or refer the matter to the appropriate member of management or responsible department; or</p>	<p>Partially Implemented</p>

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>part of the collegial Board or committees to which they respectively belong. This was advised in order to inform the Accounting Department and the Commission on Audit on the respective duties and responsibilities of the members of the Board so that claims for reimbursements of expenses incurred in the discharge of their duties may be processed and accordingly allowed in audit.</p>		<p>b) as a Chairman of a Board Committee with respect to a specific committee project or with respect to a specific Board initiative.</p> <p>The Management pointed that it is within the duties and responsibilities of Directors to act as an initial point of contact or focal point for a locator or stakeholder concern if the concern was directly raised to them. SBMA action on such a concern is quicker and more effective if the parties can be initially brought together by a director and the concerns discussed first hand so that appropriate direction or guidance can be passed on to the concerned management unit.</p> <p>In the second case, being as it were a specific Board Committee Project or Board Initiative, it would not be feasible or effective to simply delegate the matter to Management since being ad hoc in nature, these Committee Projects and Board Initiatives cut across and involve several management units simultaneously, and it would be simply be more effective to coordinate action at the Board Committee level. To explain, the SBMA Board of Directors has four standing Board Committees pursuant to Section 11 of its By-Laws, in addition to two other special committees. The scope and mandate of these committees cut across management departments, and it is the committees and the members thereof that are directly accountable for fulfilling their scope and mandate, as well as in carrying out their</p>	

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<p>13.c) The exigency of holding business meetings attended seemingly by only two Directors could not be vouched, thus, casting</p>	<p>CY 2012 AAR Finding</p>	<p>committee projects and board initiatives. Accordingly, direct action and coordination by the Directors who are members of these board committees, pursuant to their committee mandates or committee projects, are within their authority and need not be delegated to management. Additionally, SBMA Directors need to conduct meetings with experts, resource persons and political contacts, etc. However, it has no budget for engaging any of these people that can provide needed insights, expertise, opinions and political support, meetings over meals when necessary is what is undertaken to fulfill the oath they took upon assumption of their office to work for the best interest of the Agency. Informally, the Board has adopted a cap of P30,000 per month for such business meetings which the Agency considers appropriate and actually quite minimal considering the time and effort in resolving directions of the Agency as a whole and in terms of individual programs and projects being undertaken or planned to be undertaken. Management shall take up with the Board of Directors the recommendation that a manual be adopted to detail the responsibilities of the members of the Board acting individually or as part of a Board Committee.</p> <p>The Management expressed that being public officials, SBMA Directors are accorded the presumption of regularity in the performance of their</p>	<p>Partially Implemented</p>

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>doubt on the necessity of conducting said meetings and on the propriety of charging expenses against the agency's funds.</p> <p>We strongly encouraged the members of the Board of Directors to define "business meetings" as may apply to them and to consider the suggestion of the TFCC to prescribe the maximum reimbursable amount per month which can be claimed by them. We likewise recommended to the members of the Board, as fiduciaries of the State, to supply information, in their present and future claims, as would prove the exigency and necessity of holding small meetings apart from the regular board, committee and caucus meetings.</p>	<p>No. 13.c</p>	<p>duties and this presumption applies even when there are only two directors in attendance at a business meeting. As it were, the SBMA Board meets only twice monthly, with Board Meetings lasting between 9:30am to 4:00pm. During this brief amount of time the Board is expected to act on an Agenda that is on average 5 pages long, and is usually accompanied further by an Addendum. While the Directors freely and exhaustively discuss the merit of each agenda item, there are limits on both time and practicality, with certain agenda items taking more than a meeting to resolve due to the complexity and difficulty of the issues involved. It is thus necessary, and even desirable in this case, for Board members to meet outside of regular board meetings, either in caucus as a whole or in smaller groups as in their discretion they see fit, to further discuss and debate the issues involving Board matters so that the official Board Meeting proceeds smoothly and efficiently, thereby making government action more prompt and responsive.</p> <p>Nevertheless, Management do agree that the exigency and necessity of meetings, in the spirit of transparency, should be established by the members of the Board when claiming for reimbursements to ensure that public funds are duly accounted for. They shall take this up with the Board of Directors.</p> <p>Based on previous Board discussions,</p>	

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
		the BOD are seriously considering setting, by board resolution, a monthly cap on reimbursements for business meetings as well as specifically defining what constitutes a "business meeting" for purposes of reimbursable expenses. They shall update our office of developments on this matter.	
<p>37. <i>The SBMA management unlawfully allowed the fueling of private vehicles owned or borrowed by ratable SBMA officials and consultant, in violation of Section 340 of the Government Accounting and Auditing Manual (GAAM), Volume I, as reiterated in Section 3.1.1.8 of COA Circular No. 96-004.</i></p> <p>We recommended that Management:</p> <ol style="list-style-type: none"> <li>1. Immediately stop the practice of issuing fuel to privately owned or leased vehicles. Instead of issuing fuel, pay the monthly transportation allowance to entitled officials who are not issued SBMA vehicle</li> <li>2. In cases where private vehicles are used to carry out official duties, the COA rule authorizes the reimbursement of the equivalent cost of the customary mode of transportation, NOT the cost of gasoline, diesel, fuel refilled or issued for the private vehicle.</li> <li>3. Explain why Manager</li> </ol>	CY 2012 AAR Finding No. 14	<p>Payment "under protest" was made by Atty. Jocelyn G. Alvarado, SDA-Regulatory Group, amounting to P1,535.47 covered by OR No. 01-100835 representing the amount of fuel issued to her private vehicles used during her official travels to Manila for meetings and conferences. Further, she requested that her transportation allowance be paid. The government vehicle (SHT 303) officially assigned to her was requested to be officially transferred to the Regulatory Monitoring Unit (RMU) for the inspection of locators in the renewal of the Business Permit to Operate.</p> <p>Mr. Kenneth G. Rementilla, Business and Investment Department for Leisure (BID-Leisure) – Department Manager, replied that the service vehicle assigned to the BID-Leisure, a Mitsubishi Adventure with Plate No. SFJ-715 is already more than 12 years in service and is consistently in either a state of repair or unserviceability and is a smoke-belcher. Said vehicle is no longer used for long distance travel such as official business trips to Clark, Bataan and Manila. Thus, a new service vehicle replacement has been requested in 2007. Since there is</p>	Partially Implemented

<b>Observations and Recommendations</b>	<b>Ref.</b>	<b>Management Comments</b>	<b>Status and Reason for Partial/Non-Implementation</b>
<p>Rementilla was paid his full P78,000.00 transportation allowance and concurrently was issued 668.46 liters of fuel for his private vehicle.</p> <p>4. Explain why Manager Llamas was issued fuel in excess of the allowable monthly fuel allocation of 150 liters. Records showed that in January, March, April, August, and September 2012, fuel was issued for her private vehicle with plate number TOU 185 at 250, 290, 240, 286.72, and 180 liters, respectively.</p> <p>5. Explain why Manager Cruz was issued fuel in excess of the allowable monthly fuel allocation of 150 liters. Records showed that in December 2012, 200 liters of fuel was issued for this private vehicle with plate number ZMD 376. Also, the maximum number of liters of fuel a department manager is entitled to is 1,800 liters only, computed at 150 liters monthly. Records showed that for CY 2012, Manager Cruz received 2,713.82 liters, hence, an excess of 913.82 liters. Please explain why so.</p> <p>6. Explain why Manager Zerrudo was issued fuel in excess of the allowable monthly fuel allocation of 150 liters. Records showed that, except in January 2012, the number of liters of fuel issued for the vehicle with plate number BEF 274 exceeded the 150 liters limit. For</p>		<p>no new service vehicle issued, Mr. Rementilla was forced to use his personal vehicle on all meetings held outside of the Freeport. However, Mr. Rementilla is willing to pay the value of the 668.46 liters of fuel he consumed in excess of that allowed but for a period of three (3) years to give him enough salary left to pay for the wear and tear of gasoline expenses of his personal vehicle.</p> <p>Ms. Armina Belleza C. Llamas, Public Relations Department (PRD) Manager, replied that apart from the media relations mandate of PRD, they also provide community assistance via outreach activities, livelihood trainings, and other community development programs to sixteen (16) stakeholder communities. Since their department vehicle is no longer safe and reliable for transport outside of the Freeport and there are no available service vehicles that could be provided by the Maintenance and Transportation Department, the last resort for the PRD to be able efficiently and effectively perform its duties was to seek the Chairman's guidance and approval to utilize private vehicles for community visits, interface activities, and in going to and from Manila for official assignments. The months of April, August and September referred to the period during which Congress and Senate hearings were at its height due to "rice smuggling" and "toxic waste dumping" issues. Her primary function is to provide technical and</p>	

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CY 2012, his actual fuel consumption reached 2,665.89 liters while the limit is only 1,800.00 liters, hence, an excess of 865.89 liters of fuel. Please explain why so.		<p>media assistance to the Chairman and Administrator during hearings. After hearings, she touched base with Manila media contacts to solicit their support in helping divert the public's attention to positive news in the Freeport instead of highlighting crisis situations involving allegations of smuggling and environmental issues.</p> <p>Mr. Marlo O. Zerrudo, Information &amp; Technology Department (ITD)-Officer-in-Charge, certified that his personal vehicle with Plate No. BEF 274 had been used for official business of the ITD since October 3, 2011 to present. The ITD has two service vehicles that are under repair at the Transportation Departmentt. He lends his personal vehicle so that there will be no reasons for his personnel not to get the job done on time and not to act on job orders expeditiously. The lending of his vehicle entailed the use of gasoline allowance allocated for the ITD. Since October 2011 up to September 2012, the ITD was unable to issue trip tickets for the use of said personal vehicle due to rule oversight. Only in October 2012 to present did ITD begin recording the official trips of his personal vehicle.</p>	
38. <i>Deficiencies were noted in the appropriateness of certain terms and conditions of consultancy agreements and in the implementation thereof, contrary to CSC Memorandum Circular No. 06 s. 2005, Section 15 of Rule XIII of the Omnibus Rules Implementing</i>	CY 2011 AAR Finding No. 2		

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>Book V of Executive Order 292, and the Revised IRR of R.A. 9184 on the procurement of consultancy services.</i></p> <p>15. b) The term of the contract agreement of 13 office consultants exceeded the term of the appointing head of the procuring entity, contrary to Section 53.7 of the Revised Implementing Rules and Regulations (IRR) of R.A. 9184, as amended under GPPB Resolution No. 06-2009, resulting in the payment of consultancy fees amounting to P1,095,981.48 without valid/legal basis.</p> <p>The management should require the restitution of the amount of P1,095,981.48 and the monetary equivalent of fringe benefits enjoyed by the consultants from September 18, 2011 to December 31, 2011.</p>	<p>CY 2011 AAR Finding No. 2.b</p>	<p>Management commented that Mr. Roberto V. Garcia, SBMA Chairman and Head of the Agency, acquiesced to the retention of the services of these 13 consultants as their services were deemed necessary and essential. The consultants have rendered services and have been religiously performing their tasks in good faith. The Office of the Chairman has been accepting monthly accomplishment reports and has been endorsing the payment for their continued service for the questioned period.</p>	<p>Not implemented.</p> <p>Disallowance under appeal.</p>
<p><i>39. Cash advances for various purposes totaling P635,584.57 granted to SBMA officers and employees remained unliquidated as of December 31, 2011, in violation of Section 89 of P.D. 1445 and COA Circular No. 97-002 dated February 10, 1997, thus, the validity and regularity of the disbursements thereon could not be ascertained.</i></p> <p>The management should:</p>	<p>CY 2011 AAR Finding No. 4</p>	<p>Management commented that of the P181,990.90 unliquidated prior years' cash advance, a total of P46,817.31 had been liquidated as of February 27, 2012. The remaining balance still for liquidation is P134,573.59. On the other hand, the unliquidated current year's cash advance of P453,593.67 was reduced to P140,475.60.</p>	<p>Partially Implemented</p> <p>Only the cash advance of Evelyn Llanza remained unliquidated.</p>



Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p>a) require the Accounting Department to implement Section 5.9 of COA Circular No. 97-002 regarding the withholding of the salary of accountable officers who failed to liquidate their cash advances within the prescribed period; and</p> <p>b) implement the fiscal responsibility rule of liability sharing by all those who approved the payment of the cash advance to accountable officers/persons who have retired, resigned, or separated from office without fully settling their cash advances.</p>			
<p><i>40. Inappropriate expenditures of P22,889.78 were charged to the extraordinary and miscellaneous (EME) account in violation of COA Circular No. 2006-001 dated January 3, 2006, while EME reimbursements of P21,983.50 did not have sufficient documentation to establish their regularity.</i></p> <p>17.a) EME reimbursements of P19,961.21 for the celebration of SBMA Christmas Party were unnecessary, as defined in Section 163 of the Government Accounting and Auditing Manual Volume I, and therefore, may be disallowed in audit as provided in Section 10 of COA Circular No. 2009-006, dated September 15, 2009.</p>	<p>CY 2011 AAR Finding No. 6</p> <p>CY 2011 AAR Finding No. 6.a</p>	<p>Management filed an appeal to COA RO3 on Feb. 23, 2012.</p>	<p>Partially Implemented</p> <p>Management filed an appeal to COA RO3 on Feb. 23, 2012.</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
The management should direct the persons liable to settle immediately the said disallowance. Audit disallowances not appealed within six months from receipt of the notice shall become final and executory as prescribed under Sections 48 and 51 of P.D. 1445.			
<p><i>41. Disallowances amounting to P9,040,000.00 remained unsettled as of December 31, 2011, contrary to Section 5.4 of COA Circular No. 2009-006 dated September 15, 2009.</i></p> <p>The management should cause the persons liable to settle the disallowances as provided for in Section 5.4 of COA Circular No. 2009-006 dated September 15, 2009.</p>	CY 2011 AAR Finding No. 7	Petition COA RO3 Decision No. 2012-07 dated Feb. 3, 2012 denied the request of appeal and waiting for decision for second Petition for review dated June 19, 2012	<p>Partially Implemented</p> <p>COA RO3 Decision No. 2012-07 dated Feb. 3, 2012 denied the appeal of the Management. A Petition for Review was filed on June 19, 2012.</p>
<p><i>42. Information technology equipment, software, supplies and materials purchased from the Procurement Service-Department of Budget and Management (PS-DBM) in CY 2007 to 2010 amounting to P2.6 million have remained undelivered, depriving the Authority from the benefits of investing in upgraded information technology equipment and rendering the delivered servers and software worth P21.4 million useless because the supplier of the PS-DBM has not complied with the installation and configuration of the</i></p>	CY 2010 AAR Finding No. 1	For monitoring	<p>Partially Implemented</p> <p>For follow up/ monitoring</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>servers and the completion of the migration services of SBMA's Integrated Financial Management System to a web-enabled system.</i></p> <p>The management should</p> <ul style="list-style-type: none"> <li>• Take a serious stance in following up and in monitoring the completion of all partially delivered purchase.</li> <li>• Consider taking available legal remedies including the imposition of liquidating damages against the supplier of PS-DBM to enforce the completion of all remaining deliverables on the purchase of servers and Oracle software</li> <li>• Re-assess which goods and services are to be ordered or procured in the future from the PS-DBM and determine whether it has the better competency to undertake the procurement of non-common goods and services requiring technical expertise</li> <li>• Plan out an alternative to made the delivered servers and the Oracle software operational in case the PS-DBM or its supplier could no longer address the remaining critical deliverables.</li> </ul>			
<p><i>43. Periodic monitoring/reconciliation of delivered items procured from the PS-DBM was not regularly observed by the Accounting Department and the Procurement and Property</i></p>	<p>CY 2010 AAR Finding No.2</p>	<p>The accounting department is still waiting documents from PPMD.</p>	<p>Partially Implemented</p> <p>The accounting department is still waiting</p>

Observations and Recommendations	Ref.	Management Comments	Status and Reason for Partial/Non-Implementation
<p><i>Management Department as required in COA Circular No. 80-124 dated January 18, 1980m resulting in the overstatement of the Due from DBM-Procurement of Supplies account by P41.47 million.</i></p> <p>The management should</p> <ul style="list-style-type: none"> <li>• The accountant to record the delivered IT Equipment, printers and software amounting to P26.3 million</li> <li>• The accounting office to reconcile its record of deliveries with that of the property at least quarterly</li> <li>• The property office to transmit promptly to the accounting office the pertinent delivery and inspection documents upon completion of these tasks for the recording of the delivered items</li> <li>• The property office to conduct monitoring of deliveries of all items procured from PS-DBM at least quarterly, to ensure timely completion of deliveries and correction of errors.</li> </ul>			documents from PPMD.