# EXECUTIVE SUMMARY

## INTRODUCTION

The AFP Retirement and Separation Benefits System (AFPRSBS) was created by virtue of Presidential Decree (PD) No. 361, which was promulgated on December 30, 1973 and started operations in 1976. The System was established as a funding mechanism to ensure the continuous payment of retirement and separation benefits to the members of the Armed Forces of the Philippines (AFP). Certain provisions of PD 361 pertaining to membership and rate of contributions were amended by PD 1656 dated December 21, 1979 and PD 1909 dated March 22, 1984 to strengthen the AFPRSBS.

The registered business and office address of the System is at No. 424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City, Metro Manila Philippines. It has no other offices within and outside the Philippines.

The System is engaged in various business operations which include the management of funds invested in the stock market, money market, corporate loans, real estate properties and equity holdings in subsidiaries and associates. It also has interests and participation in real estate projects involving the development and construction of commercial and subdivision projects, memorial parks, golf courses, and condominium buildings in partnership with reputable real estate developers and contractors. In the course of the System's lending operations, it also acquires through foreclosure proceedings and *dacion en pago* arrangements, mortgaged real estate properties as payment for the full or partial settlement of the loan obligations of the System's borrowers. The inventory of developed lots, condominium units and acquired assets are being offered for sale to the military personnel and to the public as well to recoup the System's principal investments.

The AFPRSBS Board of Trustees, consisting of 28 members, is the policy making body of the Corporation, from which an Executive Committee is formed consisting of 17 members. The President/ Chief Executive Officer as well as the Executive Vice President/ Chief Operating Officer takes charge of the day to day affairs of the Corporation. Other principal officers of the System include the Department Heads of various departments namely, the Real Estate Management Department, Marketing & Sales Department, Treasury Department, Legal Department, Controllership Department, Administrative Services Department and Membership Department. The personnel complement of the System consists of 88 regular personnel and eight contractual personnel or a total workforce of 96 people.

## FINANCIAL HIGHLIGHTS
(in Philippine Peso)

| Particulars | 2009 | 2008 | 2007 |
|---|---|---|---|
| **A. Financial Condition** | | | |
| Assets | 12,200,310,680 | 11,923,308,292 | 11,638,755,775 |
| Liabilities | 4,240,463,460 | 3,805,697,767 | 3,487,593,475 |
| Fund equity | 7,959,847,220 | 8,117,610,525 | 8,151,162,300 |

| Particular | 2009 | 2008 | 2007 |
|---|---|---|---|
| **B. Results of Operations** | | | |
| Gross income | 563,418,538 | 268,159,713 | 134,071,561 |
| Investment and operating expenses | 285,097,923 | 38,234,611 | 11,086,225 |
| General and administrative Expenses | 179,688,075 | 136,073,257 | 141,600,686 |
| | 464,785,998 | 174,307,868 | 152,686,911 |
| Net income (loss) | 98,632,540 | 93,851,845 | (18,615,350) |

## SCOPE OF AUDIT

Our audit covered the examination on a test basis, the accounts and operations of the AFPRSBS for the calendar years ended 2007, 2008 and 2009 in accordance with the International Standards on Auditing. Our audit was aimed at ascertaining the propriety of the financial transactions, compliance of the System with prescribed rules and regulations, and ascertaining the accuracy of financial records and reports as well as the fairness of the presentation of the financial statements. Further, our audit was also aimed at assessing management efficiency with the end in view of eliminating waste and promoting efficient use of public funds and ascertaining the agency's effectiveness by determining whether desired results have been achieved.

## INDEPENDENT AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of presentation of the financial statements of AFPRSBS in view of the unreliability of the balances of the Cash, Installment Contract Receivable and Acquired Asset accounts as there were unreconciled discrepancies of the records of the Controllership Department against the records of the System's Treasury Department, Account Management Department and Property Management Branch in the amounts of P87.915 million, P70.653 million and P86.72 million, respectively. We were unable to obtain sufficient appropriate audit evidence to establish the accuracy of the balances of the subject accounts as some officers in charge were unavailable or have long been separated from the service. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

## OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

In addition to the audit observations discussed in the preceding section which resulted in the issuance of a qualified opinion on the fairness of presentation of the AFPRSBS' financial statements, the following are the other significant audit observations and corresponding recommendations:

1. The System has shown poor collection efficiency because there is no specific department monitoring the collections, resulting in past due loans aging 1-25 years of P951.961 million or 88.63 per cent of the total Loans Receivables of P1.074 billion, P314.097 million of which represents Accounts Under Litigation.

1.1. We recommend that Management:

a. Adopt collection strategies to improve collection efficiency to avoid risk of increasing past due accounts and accounts under litigation;

b. Exert extra effort to locate pertinent documents relative to the subject Past Due Accounts so that proper action could be done to enforce collections thereof;

c. Establish monitoring mechanism to readily determine status of accounts of each of their debtors so that prompt action could be done against delinquent debtors; and

d. Henceforth, monitor loans receivables by sending regularly billings and statement of accounts to prevent accumulation of past due accounts and accounts under litigation.

2. The System failed to effect cancellation of "Contract to Buy and to Sell" with delinquent vendees in violation of Item No. 6 of the said contract agreement, resulting in the accumulation of Past Due-Installment Contract Receivable (ICR) in the amount of P190.710 million.

2.1. We recommend that Management strictly enforce the provisions of the "Contract to Buy and to Sell" particularly Item No.6 Re: cancellation of the contract to concerned vendees under the Past Due ICR accounts. This will provide management the opportunity to sell these real estate properties to qualified buyers, and avail of the income that may be derived from the proceeds of the sale.

3. The negotiated sale of AFPRSBS' lot with its Lessee at P148.0 million was way below its minimum selling price of P163.0 million (Fair Market Value) and ideal selling price of P214.0 million (FMV + Present Value of Future Cash Flows) since no public auction was undertaken by the AFPRSBS for the sale of the subject lot in violation of the provision of Sections V and VI of COA Circular No. 89-296 dated January 27, 1989.

3.1. We recommend that Management:

a. Conduct an investigation why the sale of the property was below its supposed appraised value and recover opportunity cost against officials/ employees determined to be liable; and

b. Hold liable concerned officials/ employees who were directly or indirectly instrumental in the finalization of the negotiated sale to the buyer (Vice President of the Corporation) and institute proper administrative/ criminal charges against erring officials/ employees, if warranted.

4. No penalties were imposed by the System from 2007 to 2009 for delayed remittances by the different major service commands of premium contributions ranging from less than one year to 14 years totaling P1.5 billion.

4.1. We recommend that Management:

a. Revisit the practice on the remittance of the members' contribution; and

b. Include a provision penalizing late remittances to avoid incurrence of additional expenses of the System.

5. The collected members' contributions that were placed in the money market earned less than six per cent interest which the members would earn upon refund of their membership contribution, thereby putting the System in a losing proposition.

5.1. We recommend that Management consider investing its idle funds in other government securities with higher yield to avoid incurrence of loss/ additional expenses when the members' contributions will be refunded to them.

6. The P2.0 million revolving fund of the System is excessive as average monthly charges against the said fund amounted only to P0.432 million and handled by accountable officers who are not bonded, contrary to Section 101 of PD 1445 and Treasury No. 2-009 dated October 17, 2009, thus exposing the subject fund to financial risks.

6.1. We recommend that Management:

a. Reduce the P2.0 million Revolving Fund considering the disparity of the amount of the set up fund against the average monthly expenses/ charges against it; and

b. Secure the required fidelity bond from the Bureau of Treasury for all of the System's accountable officers.

7. Additional cash advances drawn out of the Revolving Fund were granted even if the previous ones have not been settled/ liquidated or a proper accounting thereof is made, contrary to Sections 4.1.2 and 4.1.3 of COA Circular No. 97-002, resulting in the accumulation of outstanding cash advances totalling P0.805 million.

7.1. We recommend that Management:

a. Cause the immediate liquidation of all outstanding cash advances. Henceforth, require the refund of all cash advances which are no longer needed or have not been used for a period of two months; and

b. Ensure that no additional cash advance is granted to officials and employees unless the previous cash advance given them is first settled or fully liquidated.

8. Non-bonded accountable officers were granted cash advances drawn from the System's Revolving Fund as high as P100,000 to P500,000 in disregard of Treasury Circular (TC) No. 1-99 as amended by TC No. 2-2009 and the P15,000 limitation prescribed under COA Circular No. 97-002, thus, exposing the System to financial risk.

8.1. We recommended and management agreed to comply strictly with Treasury Circular No. 1-99 as amended by No. 2-2009 and the P15,000 limitation prescribed under COA Circular No. 97-002 in granting cash advances.

9. Procurement of goods charged against the System's Revolving Fund were not withheld the appropriate value added taxes and expanded withholding taxes in violation of Revenue Regulation No.13-2008 dated October 06, 2008 and Revenue Circular No. 72-004 dated November 16, 2004.

9.1. We recommend that Management should procure their goods strictly in accordance with their approved Annual Procurement Program. They should refrain from procuring goods on a piece meal basis or "over the counter" thru payment in cash so as not to experience difficulty in withholding taxes from concerned suppliers/ establishments. Procurement in bulk is likewise beneficial to the System as they could avail of the big discounts being offered if purchases were made in bulk.

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 27 audit recommendations embodied in the previous years' Annual Audit Reports for calendar years 2004, 2005 and 2006 of the AFPRSBS, six were fully implemented, 12 were partially implemented and nine were not implemented. Details are presented in Part II-B of the report.