

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.

B. Financial Highlights

The SBMA’s assets, liabilities and equity stood at P28.02 billion, P12.27 billion and P15.75 billion, respectively, as of December 31, 2012. It earned a net income of P800 million in its operations for 2012, an improvement from the net loss of P1.12 billion it incurred in 2011. This is due primarily on the effect of revaluation of foreign currency transactions.

The SBMA had a confirmed P3.01 billion budget sourced from corporate internally-generated funds and borrowings in the amount of P1.85 billion and P1.16 billion, respectively.

C. Scope of Audit

The audit covered the examination, on test basis, of the accounts and financial transactions of the SBMA for CY 2012 in accordance with the Philippine Standards on Auditing. It 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; (c) determine the extent of implementation of prior year’s audit recommendations.

D. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Subic Bay Metropolitan Authority as of December 31, 2012 owing to significant accounting errors and deficiencies which resulted in the following impact on the statement of financial condition:

Obs. No.	Nature of Errors	Accounts Affected	With Effect on the FS Under/(Over) Statement
Errors affecting asset accounts			
1.0	Unrecorded cash collections deposited to banks by unidentified payers/clients	Cash in Bank Receivables	3,641,252.88 (3,641,252.88)
3.a	Unaccounted/non-existing prior years' stock inventory	Inventory	(86,492,067.16)
3.c	Unrecorded consumed spare parts	Spare Parts Inventory – Direct Issuances	(60,138.76)
3.d	Non-existing inventories	Medical, Dental, Laboratory Inventory/Inventory items for sale-tourism promotional sale	(2,361,825.11)
4.b.2	Unbooked demolished buildings and structures	PPE – Buildings and Structures Accumulated Depreciation	(1,113,336,612.00) 1,064,479,299.70
4.c	Non-existing motor vehicles	PPE – Equipment and Machinery Accumulated Depreciation	(139,331.61)
5.b	Non-existing works of art	Other Assets – Art, Archeological Specimen and other exhibits	(17,000.00)
5.c	Cost of deceased work animals not derecognized in the books	Other Assets – Work Animals	(3,177,363.57)
5.d	Non-existing peso time deposit	Other Assets – Missing Peso Time Deposit	(21,488,667.49)
	Net errors affecting total Assets		(162,593,706.00)
	Total Assets		28,020,790,000.00
	% of Error to Total Assets		0.58%
Errors affecting liabilities and stockholders' equity accounts			
3.a	Non-existing prior years' stock inventory	Retaining Earnings	(86,492,067.16)
3.c	Unrecorded consumed spare parts	Retaining Earnings	(60,138.76)
3.d	Non-existing inventories-medical, dental, laboratory etc.	Retained Earnings	(2,361,825.11)
4.b.2	Demolished buildings and structures not derecognized in the books	Retained Earnings	(48,857,312.30)
4.c	Non-existing motor vehicles	Retained Earnings	(139,331.61)
5.b	Non-existing works of art	Retained Earnings	(17,000.00)
5.c	Cost of deceased work animals not derecognized from the books	Retained Earnings	(3,177,363.57)
5.d	Non-existing peso time deposit	Retained Earnings	(21,488,667.49)
	Total errors affecting liabilities and SE		(1,223,431,752.82)
	Total liabilities and Stockholders' Equity		28,020,790,000.00
	% to Total Assets		0.58%

E. Summary of Significant Audit Observations and Recommendations

Summarized below are the significant audit observations noted during the audit, including the errors and deficiencies referred to above, 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. Collections in 2012 thru the bank amounting to P3.64 million remained unrecorded for failure to trace the payer/customer resulting in the understatement of Cash in Bank by the same amount.

We recommended that management (a) prepare the necessary adjusting entries to record the collections thru the banks; (b) notify all customers that should they opt to pay thru banks, they should not fail to email or fax to the SBMA Accounting Department a copy of their validated deposit slip containing the customer name to facilitate identification of bank credits and so that their payments may be properly accounted for; and (c) furnish COA a copy of journal entry vouchers or equivalent records to prove compliance with this recommendation.

2. The correctness of the net realizable value of Accounts Receivable-Trade account amounting to P826.58 million as of December 31, 2012 was not established due to poor turnout of confirmations sent to locators and residents, thus creating doubt on the valuation and reliability of the account balance.

We reiterated that management (a) patiently conduct the necessary reconciliation on the noted discrepancies between the SBMA and locators' records; (b) initiate action in following up the 172 confirmation requests with no reply and investigate the causes of returned 22 confirmation letters to locators and residents; and (c) consider filing to COA a request for write-off of bad debts upon receipt of authority from the Board of Directors.

3. The accuracy of the reported balance of inventories at P111.48 million is unreliable due to (a) unaccounted prior years' supplies stocks amounting to P91.83 million; (b) un-reconciled balance of current year's inventories amounting to P1.99 million; (c) unverified balance of inventories at P4.65 million; and doubtful existence of stocks worth P2.36 million.

We recommended that management (a) designate Accounting personnel and counterpart personnel from Property Department, with the assistance and supervision of COA representative, to search for available pertinent 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. Otherwise, if efforts proved futile, make written representation to the COA Commission Proper for the write off of unaccounted balances of P91.83 million of prior years' inventories and non-existent stocks amounting to P2.36 million; (b) require the Accounting and Property personnel handling the inventory accounts to resolve the current year's inventory variances as soon as possible to avoid the

accumulation of discrepancies; (c) direct the Accounting Department and Property Office to reconcile their reports affecting the “Maintenance Supply Inventory-CIP” and “Excess Materials Inventory from Completed Projects” accounts; (d) require the Accounting and Property personnel handling the inventory accounts to diligently identify in their respective records those items directly issued to requisitioning units and account for the value of items remaining on hand and those already consumed as at year-end for accurate reporting in the financial statements; (e) require the Accounting Department to gather disposal documents to support reduction in the ending balance of the account “Inventory-Direct Issuance” by P60,138.76 (f) require the Accounting and Property Departments to maintain common point of reference, such as purchase order number, in the reconciliation of records; (g) require the Property Department to furnish the Accounting Department quarterly, or as often the physical count of stocks is made, copies of consumption reports on directly-issued stocks for proper recognition of expense; (h) furnish the COA all documented actions and results of reconciliation efforts relative to these recommendations.

4. *Significant discrepancies were noted in the information affecting the accounting and property records on current assets and property, plant and equipment, thus management’s assertions on the completeness and valuation of its recorded total assets at year-end of P25.90 billion were not established.*

a) *The discrepancy in the total land area of the agency’s estate property per accounting and property records remained unchanged at 1,013.22 hectares.*

We reiterated that management (a) instruct the Accounting Department and Land and Asset Management Department (LAMD) to closely and constantly coordinate with each other regarding developments on asset valuation, existence, and disclosures so that only fair and reliable information are recorded in the ledgers/folio and presented in the financial statements; (b) advise the LAMD to pursue the agency’s request for reconstruction of Special Work Order pending before the DENR as such is deemed vital in bringing the land records close to actual condition; (c) request the Accounting Department to follow up constantly with the LAMD regarding the availability of updated information/records from DENR to pave the way for the reconciliation of discrepancies in the data and information between the two offices.

b) *The discrepancy of P3.295 billion in the combined cost of land improvements and buildings and other structures per accounting and property records remained unchanged. The PPE account was overstated by as much as P1.096 billion arising from deficiencies noted in 2011 which remained uncorrected at year-end.*

We recommended that management (a) ensure that constant communication and coordination among offices and personnel concerned be made to address immediately discrepancies existing among inter-related records; (b) require the Accounting Department and LAMD to seriously exert extra effort and allot more time in reconciling the cost variances between their records; (c) require the LAMD to immediately furnish the Accounting Department reports on improvement costs for the prompt recording of

capitalized expenditures by the latter; and (d) instruct the LAMD, in coordination with the Property Procurement and Management Department (PPMD), to promptly provide the Accounting Department reports on demolished buildings, facilities and other structures to pave the way for the de-recognition of the value thereof in the books.

c) The accuracy of the reported net book value of the Equipment and Machinery account at P659 million as of December 31, 2012 is doubtful while existence of the items could not be facilitated in the absence of a common control reference to facilitate identification of the properties.

We recommended that management (a) require the Accounting Department and PPMD to continue with the efforts that they have started in reconciling their respective records; and (b) require the PPMD to furnish the Accounting Department copies of records of disposal such as Inventory and Inspection Report and auction sale so that the necessary book adjustments can be made.

5. The accuracy of the balance of Other Assets in the amount of P52.3 million is doubtful due to the (a) inclusion of missing time deposit and unaccounted cash on hand/assets aggregating to P25.09 million; (b) unaccounted three paintings booked under "Arts, Archaeological Specimen and Other Exhibits" account valued at P17,000.00; (c) 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 cavalry horses procured in CY 2010; (d) doubtful recovery of the Miscellaneous Receivable of P1.72 million which was booked to set up accountability from accountable officers for the loss, through death, of various horses; and (e) possible loss of supporting evidences to prove existence of receivables from various officers and employees amounting to P1.064 million.

We recommended that management (a) create a team who would be responsible in locating available documents at the Accounting Department and COA stockrooms and allow the members thereof to render overtime services during Saturdays of April and May 2013 where COA team may be available to lend assistance in searching for available records to account for the missing cash; (b) fortify its initial finding of undeposited dollar collections 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; (c) pursue a criminal case against the employee/s responsible for the shortage as warranted by the available evidence; (d) require its Appraisal Committee or Inventory Committee to re-appraise the ten paintings taking into consideration their physical state and art value and recommend valuation adjustment, if necessary; (e) require the Inventory Committee to prepare Property Acknowledgment Receipt for the three paintings and account for their existence; (f) require the Accounting Department to prepare the necessary adjusting and correcting entries to take up the additions to and deductions from the Work Animals account to reflect the offspring, donations and death of horses; (g) ensure the close coordination among the Accounting Department, PPMD

and Law Enforcement Department (LED) regarding events affecting the Work Animal account for the prompt and complete recording of transactions; (h) require the LED and PPMD to gather all remaining available documents such as affidavits of accountable officers and autopsy report on the death of the 11 horses and submit the same to COA for appropriate action; (i) reclassify “Miscellaneous Receivable” to “Due from officers and employees”, consistent with the NGAS accounting policies for Corporate and COA Circular No. 2004-008 dated September 20, 2004 providing for the Philippine Government Chart of Accounts; (j) create a team that would identify document references, locate source documents from the COA stockroom, if necessary, to account for the unliquidated cash advances amounting to P1.064 million from various officials and employees to pave the way for the recognition of the corresponding expense; (k) and submit to COA all results of the recommended actions for its evaluation.

6. *The Accounting Department failed to bill customers/locators of additional security deposits amounting to \$325,310.65 and P638,171.80 which remained unpaid due to (a) non-payment of additional security deposit of locators amounting to \$8,543.88 and P8,080.00; (b) inadequate payment of security deposit amounting to \$173,865.10 and P97,220.31; and (c) non-payment of security deposit amounting to \$142,901.67 and P532,871.49 in violation of Article II-Consideration of the contract of lease as regards security deposit. Similarly, customers were not billed of advance rental amounting to \$287,176.72 and P213,190.43 which remained unpaid due to (a) non-payment of 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 relative to advance rental.*

We recommended that management (a) require all lessors with deficiencies in security deposit and advance rental to settle their obligations at once; (b) ensure the faithful compliance by the locators with the stipulations in the lease agreement; (c) consider including the proviso on security as standard condition in the lease contract to protect the interest of the SBMA from absconding lessees; and (d) require the Accounting Department to henceforth re-compute and bill all locators concerned of the security deposit and advance rental fees at the escalated rate.

7. *The requirement for performance bond was inconsistently applied in lease agreements with development commitment, thus inviting equity issues in the application of the policy among locators or investors.*

We recommended that management (a) consider reviewing its policy, or drafting a new one if none is yet available, on the performance bond requirement from locators; (b) identify or set reasonable imposable rates, taking into consideration the cost/nature of development and risk exposure by the locators and contract duration, among others; and (c) consider the requirement for performance bond as a standard provision in the contract involving property lease and development to protect the interest of the government.

8. *The rates used in the monthly revaluation of foreign currency-denominated real accounts were different from the Philippine Dealing System (PDS) closing rate, contrary to the provisions of Philippine Accounting Standard (PAS) 21 and Section 3 (e) of BSP Circular No. 494 Series of 2005.*

We recommended that management consistently apply the PDS closing rate in computing for the monthly revaluation to reflect the proper gain or loss on revaluation in the monthly financial statements.

9. *The realized loss from foreign currency transactions amounting to P152 million was not considered as a non-taxable income item which could have reduced the tax base from P226 million to only P74.21 million and lessen tax due for the current audit year from P11.31 million to P3.71 million, contrary to BIR Rulings No. 144-85 dated August 26, 1985 and BIR Ruling DA-359-03 dated October 10, 2003.*

We recommended that management (a) inquire from the BIR the propriety of recognizing only the net realized gain or loss on foreign exchange instead of merely recognizing the realized gain and disregarding the realized loss on foreign exchange in computing the tax base for income tax purposes; and (b) make the necessary adjustments in the books and in the remittance of the tax due, as warranted by the results of the inquiry.

10. *Infractions were committed in the grant and liquidation of cash advances, which include the (a) grant of additional cash advances to those with unliquidated previous cash advances; (b) non-settlement of cash advances within the prescribed period; (c) cash advances given in excess of the maximum accountability of the bonded 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.*

We recommended that management (a) strictly adhere to the limitations in the grant of cash advance as provided for in Section 89 of P.D. 1445 which prohibits the granting of additional cash advance to accountable officers with outstanding previous cash advances; (b) resort to the penal sanctions attached to any violation of Section 89 of PD 1445 for those who would disregard the regulation; (c) instruct the Accountant to require strictly the submission of liquidation documents before additional cash advance is released to the same requesting officer; (d) require the withholding of salaries of officials or employees concerned who failed to liquidate their cash advances within the prescribed period; and (e) review the cash accountability requirements of each accountable officer and avoid granting cash advance in excess of the prescribed maximum cash accountability.

11. *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 RA 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.*

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 requiring the solicit 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.*

We recommended that management (a) justify its failure to comply with the procedures provided for in the implementing guidelines for the lease of venue for the evaluation of the Audit Team; and (b) ensure that procurement of goods and services and disbursement of funds follow the pertinent rules and regulations to avoid the disallowance thereof as illustrated in situational cases in Annex B of COA Circular No. 2012-003 dated October 29, 2012.

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.*

We recommended that management (a) submit an explanation why it selected “shopping” as the mode of engaging the services of Yuzen Restaurant for the meals supplied during the Midterm Review Strategic Planning for the evaluation of the Audit Team ; (b) ensure that procurement of goods and services and disbursement of funds follow the pertinent laws, rules and regulations to avoid the disallowance thereof as enunciated in COA Circular No. 85-55A and COA Circular No. 2012-003; (c) require all requesting departments to prepare a cost estimate not exceeding the Department’s budget for the line item, for the goods and services being requested for procurement; and (d) instruct its canvassers to solicit quotations from establishments offering reasonable prices.

c) *Expenses amounting to 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.*

We recommended that management (a) 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 (b) submit the corresponding approved realignment of funds to cover the deficit.

d) *The Agency spent the following expenditures which may be considered “unnecessary” and “extravagant” contrary to the COA Circular No. 85-55A dated September 8, 1985, as reiterated in COA Circular No. 2012-003 dated October 29, 2012.*

(i) 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; (ii) the cost of meals served during the Strategic Planning Workshop in Clark Freeport, Pampanga in January and February 2012 at P600.00 per person, or a total of about P273,550.00, and expenses for meals of SBMA officials and employees during the Midterm Review Strategic Planning Workshop on September 20, 2012 at P850.00 per person, or a total of P76,500.00 for 90 persons, were excessive; (iii) the lodging expenses spent in Fontana on January 12-13, 2012 approximately at P757.65 each participant per night as well as room charges paid to Holiday Inn on February 2-3, 2012 at P1,980.00 each delegate per night were excessive; and (iv) the lodging expenses spent in Fontana on January 12-13, 2012 approximately at P757.65 each participant per night as well as room the charges paid to Holiday Inn on February 2-3, 2012 at P1,980.00 each delegate per night were excessive

We recommended that management (a) meticulously and judiciously plan its procurement transaction, bearing in mind that the interest of SBMA is always protected to mitigate undue dissipation of its already limited resources; (b) submit justification for choosing the selected venues despite the costly offer; and (c) impose sanctions against officials and/or employees who are found neglectful in their respective duties.

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.

We recommended that management cause the submission of the requested price quotations from three suppliers and the Budget Utilization Request.

12. The propriety and regularity of claims for meal reimbursements of P54,555.04 of the members of the SBMA Board of Directors from January to July 2012 could not be ascertained for lack of adequate disclosure on the purpose for their incurrence, contrary to Section 4(2) of PD No. 1445 in relation to Section 12 of Executive Order (E.O.) No. 24. Moreover, the necessity of incurring similar expenses amounting to P152,354.82 remained doubtful in view of the failure of the payees to (a) identify their detailed responsibilities as to distinguish their duties from those of the management; and to (b) define “business meetings”, as may apply to them, thus, exposing agency’s funds for “Other Services” to risk of indiscriminate use by charging meals expense under the guise of “business meeting”.

We recommended that management (a) require additional information from the Directors concerned on the purpose of the visits of various guests and submit the same to COA for its evaluation as basis for its audit action on paid claims; (b) request the Directors to provide full disclosure on the purpose of reimbursement of meals in their future claims; (c) require the Accounting Department to perform a review of the subject claims with diligence by following the guidelines under COA Circular No. 2011-002 dated July 22, 2011; (c) propose to the Board the adoption of a resolution to prepare a manual of operations, which incorporates the detailed responsibilities of the members of the Board

acting individually or as part of the collegial Board or committees to which they respectively belong; (d) set a policy on the definition of “business meeting” as may apply to the members of the Board and consider the suggestion of Task Force on Corporate Compensation (TFCC) in prescribing a maximum amount which may be reimbursed per month; and (e) request the members of the Board to supply information on the necessity and exigency of holding small meetings apart from the regular board, committee and caucus meetings.

13. The SBMA management allowed the filling of fuel on private vehicles owned by SBMA officials entitled to RATA and consultant, in violation of Section 340 of the Volume I of the GAAM, as reiterated in Section 3.1.1.8 of COA Circular No. 96-004.

We recommended that management (a) stop the practice of issuing fuel to privately-owned or leased vehicles and allow the eligible officials to collect their transportation allowance instead; (b) if private vehicles are used for official trips, allow only the reimbursement of equivalent cost of the customary mode of transportation; (c) submit explanation on why Manager Rementilla was paid his full P78,000.00 transportation allowance and concurrently was issued 668.46 liters of fuel for his private vehicle; and (d) explain why Managers Llamas, Cruz and Zerrudo were issued fuel in excess of the allowable monthly fuel allocation of 150 liters.

14. The payment of Directors and Officers Liability Insurance (DOLI) was suspended in audit for failure to submit the prior authority from the DBM and/or the Office of the President, contrary to COA Circular No. 2012-003 dated October 29, 2012 and Section 4.6 of P.D. 1445.

We recommended that management settle the above audit suspension through compliance with the requirements for evaluation by the COA. Items suspended in audit not settled within 90 days from receipt thereof would mature into a disallowance pursuant to Section 82 of P.D. No. 1445.

15. The payment for meals, toll fees, communication expenses and hotel accommodations of the members of the Board of Directors of SBMA amounting to P848,942.64 was temporarily suspended in audit because: (1) claims were not supported with complete documentation, contrary to Section 4(6) of P.D. 1445; and (2) expenses appeared to be unnecessary and could have been dispensed with.

We recommended that management settle the above audit suspension through compliance with the requirements for evaluation by the COA otherwise, the same shall mature into disallowance if not settled within 90 days from receipt of the notice.

16. Various procurements amounting to P2,359,668.05 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 the RIRR of R.A. 9184.

We recommended that management settle the above audit suspension through compliance with the requirements for evaluation by the COA.

17. The payment for the consultancy fees of 12 office consultants for CY 2011 amounting to P3,940,492.01 was disallowed in audit for being an irregular expenditure.

We recommended that management direct the persons liable to settle immediately the said disallowance. Audit disallowances not appealed within six months from receipt thereof shall become final and executory as prescribed under Sections 48 and 51 of P.D. 1445.

18. The payment for excess extraordinary and miscellaneous expenses (EME) funds of P27,336.34 was disallowed in audit as it violated Section 397(d) of the Government Accounting and Auditing Manual (GAAM), Volume 1 and COA Decision No. 563 dated June 30, 1988 in relation to Section 23 – General Provisions for EME of the FY 2012 General Appropriations Act. Moreover, disallowances amounting to P9,040,000.00 remained unsettled as of December 31, 2012, contrary to Section 5.4 of COA Circular No. 2009-006 dated September 15, 2009.

We recommended that management direct the persons liable to settle immediately the said disallowance. Audit disallowances not appealed within six (6) months from receipt hereof would become final and executory as prescribed under Sections 48 and 51 of P.D. 1445.

F. Status of Implementation by the Agency of Prior Year's Audit Recommendations

Out of ten audit recommendation embodied in the Annual Audit Report for CY 2011, only four (4) were acted upon by Management and the rest were partially implemented. These were discussed in detail in Part III of the report proper.