



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

**JOHN HAY MANAGEMENT
CORPORATION**
Baguio City

For the Year Ended December 31, 2010

We had recommended and Management has agreed to consider the following: (a) Conduct a joint inventory taking on the leased property for proper accounting thereof and submit to BCDA complete documents to support the transfer for the final acceptance; and (b) Record in the books of accounts based on the Notice of Finality of Decision the disallowances for the loss of various property with a total net book value of Php 2.793 million.

2. JHMC Stock and Transfer Book is not updated.

We reiterate our recommendation that Management consider the following; (a) Update the Stock and Transfer Book; (b) Expedite the issuance of stock certificates to present Members of the JHMC Board of Directors, so as not to compromise the authority of the members of the board to exercise corporate powers and conduct business; and (c) Cancel stock certificates of separated member of the Board.

3. JHMC issued stock certificates in excess of the authorized capital stock approved by the Securities and Exchange Commission.

We reiterate our recommendation that Management request the Corporate Secretary to seek the approval of the SEC on the increase in authorized capital stock considering that documentary stamp taxes have already been paid.

4. Continuous occupancy of informal settlers in the 677 hectares of the John Hay reservation area is an impediment to the attainment of the objectives in the creation of Bases Conversion Development Authority (BCDA) and JHMC.

We recommended that Management consider the following; (a) Design policies and implementing guidelines on the illegal occupancy or construction of structures by informal settlers in the area to end the rampant conversion of the forests and watersheds; (b) Design also a monitoring mechanism to validate effectiveness of the policies and its implementation; and (c) Conduct comprehensive survey within the reservation area to identify the actual number of informal settlers.

5. A Contract to Sell which is one of the requirements under the Financial Guideline of the Scout Barrio Housing Project (Project) was not executed between the Bases Conversion Development Authority (BCDA) and the qualified beneficiaries.

We recommended for the immediate execution of Contract to Sell to the remaining 75 beneficiaries of the Project.

6. Manner of payment by beneficiaries in the Scout Barrio Housing Project may not be imposed since these are not provided in the Contract to Sell.

We recommended and Management agreed to consider the following; (a) Issue an amended Certificate of Award to include the manner of payment by beneficiaries in the housing project; and (b) Incorporate in the Contract to Sell the provisions on the

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An audit involves performing procedures to obtain audit evidence about the 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 audit opinion.

Basis for Qualified Opinion


BCDA property such as machinery and equipment, furniture and fixtures and motor vehicles which were leased out to Camp John Hay Development Corporation totaling Php 38.368 million are still recorded in the JHMC books. These property were not acknowledged by BCDA pending verification of documents supporting the transfer and existence of these property. Also, missing BCDA property amounting to Php 30.292 million are still recorded in the JHMC books. These property are under the responsibility of JHMC pursuant to the Estate Management Contract between BCDA and JHMC. The recording of the leased property not owned by the Corporation and of the missing assets resulted in the overstatement of Property and Equipment account.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the John Hay Management Corporation as of December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with the generally accepted accounting principles in the Philippines.

COMMISSION ON AUDIT

By:


ATTY. ARLYN M. ENCARNACION
Supervising Auditor

April 18, 2011

JOHN HAY MANAGEMENT CORPORATION
(A wholly-owned subsidiary of the Bases Conversion and Development Authority)
BALANCE SHEET
December 31, 2010
(With Comparative Figures for CY 2009)

	2010	2009
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	Php 32,767,596	Php 54,666,175
Receivables (Note 4)	15,473,057	18,548,735
Inventories (Note 5)	7,072,750	6,537,090
Prepayments (Note 6)	160,680	78,327
Guaranty Deposits (Note 7)	556,453	64,463
Total Current Assets	Php 56,030,536	Php 79,894,790
Non-Current Assets		
Accounts Receivable - Long Term, Net (Note 8)	Php 8,767,128	Php 8,767,128
Investments (Note 9)	132,000	132,000
Property, Plant and Equipment - Net (Note 10)	52,171,737	57,686,424
Other Non-Current Assets (Note 11)	11,283,249	11,283,249
Total Non-Current Assets	72,354,114	77,868,801
TOTAL ASSETS	Php 128,384,650	Php 157,763,591
LIABILITIES AND EQUITY		
Current Liabilities		
Payable Accounts (Note 12)	Php 18,648,576	Php 11,257,809
Inter-Agency Payables (Note 13)	797,499	567,879
Intra-Agency Payables (Note 14)	6,799,681	22,659,748
Total Current Liabilities	Php 26,245,756	Php 34,485,436
Non-Current Liabilities		
Other Deferred Credits (Note 15)	Php 3,150,208	Php 1,762,607
Other Liability Accounts (Note 16)	13,588,386	11,244,822
Total Non-Current Liabilities	16,738,594	13,007,429
TOTAL LIABILITIES	42,984,350	47,492,865
EQUITY	85,400,300	110,270,726
TOTAL LIABILITIES AND EQUITY	Php 128,384,650	Php 157,763,591

See accompanying Notes to Financial Statements.

Maintenance and Other Operating Expenses

	<u>2010</u>	<u>2009</u>
Marketing and Advertising Expenses	Php 570.772	Php 407.833
Legal Services	486.168	379.125
Extraordinary and Miscellaneous Expenses	-	374.061
Light and Water	408.941	348.465
Insurance Expenses	99.738	282.649
Janitorial Services	481.611	254.884
Consultancy Services	293.497	252.183
Printing, Binding and Reproduction Expenses	144.105	160.858
Other Supplies Expenses	581.706	154.572
Rent Expenses	62.500	150.000
Training Expenses	329.072	80.184
Internet Expenses	20.463	72.245
Subscription Expenses	30.702	22.324
Postage and Deliveries	19.593	18.751
Accountable Forms Expenses	36.600	4.201
Textbook and Instructional Materials	300	1.183
Other Professional Services	454.128	-
Membership Dues and Contributions to Organizations	8.100	-
Environment / Sanitary Services	170.304	-
Fidelity Bond Premiums	6.375	-
Other Maintenance and Operating Expenses	125.490	-
Total Maintenance and Other Operating Expenses	Php <u>33,527,222</u>	Php <u>28,017,008</u>
Financial Expenses		
Bank Charges	2,419	2,678
Documentary Stamp Expenses	440	-
TOTAL EXPENSES	Php <u>54,030,042</u>	Php <u>42,961,986</u>
INCOME (LOSS) FROM OPERATIONS	<u>(13,647,022)</u>	<u>(14,866,184)</u>
Other Income (Expenses)		
Interest Income	326,396	823,415
Gain (loss) on Foreign Exchange Rate	(329,486)	(188,115)
NET INCOME (LOSS) BEFORE INCOME TAX	Php <u>(13,650,111)</u>	Php <u>(14,230,882)</u>
Provision for income tax	-	-
NET INCOME (LOSS)	Php <u><u>(13,650,111)</u></u>	Php <u><u>(14,230,882)</u></u>

See accompanying Notes to Financial Statements.

JOHN HAY MANAGEMENT CORPORATION
(A wholly-owned subsidiary of the Bases Conversion and Development Authority)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010
(With Corresponding Figures for CY 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows:		
Estate Management Fee (Current and Unreleased for Prior Years)	Php 67,763,911	Php 12,449,960
CAPEX Fund	0	560,000
Collection of Income	12,304,981	2,696,408
Collection of Purchase Price of Scout Barrio Lots	3,380,609	2,578,744
Collection of Accounts Receivable	6,877,720	12,608,433
Interest from Bank Accounts	366,005	853,150
Collection of Cost of Bid Doc/Bidder's Bond/Cleanliness Bond	1,095,456	382,557
Collection from Sale of Movable Assets/Appraisal of Property	428,000	269,166
Cancellation of Stale Checks	354,055	371,844
Panagbenga Account Proceeds	216,216	-
Collection of security deposit paid to Grant Properties	37,500	-
Collection for Adopt-a-Tree Project	10,322	-
Collection of PEZA Remittances	5,975,086	14,810,581
Total Cash Inflows	Php 98,809,861	Php 47,580,843
Cash Outflows:		
Payment to Suppliers/Creditors and Employees	Php (41,794,855)	Php (39,226,263)
Remittance/Charges to Scout Barrio Collections	(5,429,178)	(1,975,775)
Remittance / Charges to PEZA Collections	(18,854,519)	
Remittance / Charges to IHG Collections	(48,094,817)	
Remittance / Charges to Adopt a Tree Project	(48,984)	
Remittance of PAG-IBIG/SSS/PHIC/BIR	(4,624,129)	(4,091,202)
Payment of GSIS Fire and Earthquake Insurance	(511,511)	(690,184)
Payment of Taxes and Duties	(77,827)	(212,720)
Refund of Bid Bond	(29,300)	(7,000)
Total Cash Outflows	Php (119,465,120)	Php (46,203,144)
Total Cash Provided(Used) by Operating Activities	Php (20,655,259)	Php 1,377,700
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Inflows:		
Proceeds from Sale of Property and Equipment	Php -	Php 2,028,208
Capital Expenditures	-	-
Total Cash Inflows	Php -	Php 2,028,208
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,243,320)	(188,115)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,243,320)	3,217,793
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	54,666,175	51,448,382
CASH AND CASH EQUIVALENTS AT END OF YEAR	Php 53,422,855	Php 54,666,175

With the implementation of Executive Order No. 132, John Hay Poro Point Development Corporation was renamed as the John Hay Management Corporation (JHMC) and the Poro Point Management Corporation was created to oversee the development of the Poro Point Special Economic and Freeport Zone. JHMC continues to carry its mandate of monitoring the development in Camp John Hay and the enforcement of the Implementing Rules and Regulations of the JHSEZ, while ensuring the preservation of the reservation and the appropriate development of the unleased area.

On December 11, 2006, Presidential Proclamation No. 1191 was issued which registered JHMC as Philippine Economic Zone Authority (PEZA) locator and developer of John Hay Special Tourism Economic Zone (JHSTEZ). However, with the passage of RA 9400 dated July 24, 2006 which amended RA 7227, the JHSTEZ was reverted back to JHSEZ to be entitled to the same tax and duty incentives as provided for under RA 7916; that for the purpose of administering these incentives, PEZA shall register, regulate, and supervise all registered enterprises within JHSEZ.

As administrator of the John Hay Special Economic Zone and steward of its forest reservation, JHMC binds itself to:

1. Convert and develop investment opportunities in Camp John Hay to maintain its viability, sustainability and competitiveness while keeping its historical value;
2. Preserve and conserve its forest watershed and its environment; and
3. Develop a professional and efficient workforce.

The main developer of the Camp is the Camp John Hay Development Corporation (CJHDevCo), a consortium formed by Fil-Estate Management, Inc., College Assurance Plan Philippines, Inc. and Penta Capital Holdings. Among the much loved places in the Camp are the world-class Manor, a hotel that offers five-star service and a magnificent view of the Cordillera Mountain range; the Camp John Hay Historical Core, a living museum which showcases the colorful history of John Hay and features the classic Bell House Museum and Bell Amphitheater; the History Trail, a two-kilometer path which cuts through a lush pine forest and leads to the Butterfly Garden; the Honeymoon Cottage, a "favorite" for newlyweds which used to be the home of nurses assigned to the Camp; and the Cemetery of Negativism, which is believed to serve as a burial ground for negative thoughts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

JHMC is implementing the New Government Accounting System in the preparation of financial reports.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2010		2009	
Cash on Hand	Php	1,733,708	Php	136,301
Cash in Bank-Local Currency, Current Account		22,873,658		33,331,125
Cash in Bank-Local Currency, Time Deposits		1,020,022		-
Cash in Bank-Foreign Currency, Savings Account		1,075,353		14,843,655
Cash in Bank-Foreign Currency, Time Deposits		6,064,855		6,355,094
	Php	32,767,596	Php	54,666,175

Cash in Bank - Local Currency, Current Account consists of the OPEX Fund, Generated Fund, Adopt-a-Tree Fund, IHG Collections, Retirement Fund (Peso) and Scout Barrio Fund which earn interest at the respective bank deposit rates.

Cash in Bank - Local Currency, Time Deposits refers to short term placement of the Security Deposit issued by Tree Top Adventure, Inc. and is placed for varying periods of up to sixty days depending on the immediate cash requirement of the Corporation, and earns interest at the respective short-term placement rates.

The *Foreign Currency, Savings Account* represents dollar collections from BCDA-PEZA Lease Agreement. Periodic remittances of these collections have been made to the account of BCDA in 2010.

The account *Foreign Currency, Time Deposits* refers to dollar funds earmarked for the JHMC Retirement Fund.

Dollar depository accounts are restated at year-end rate of Php 43.885:\$1.00 for CY 2010 and at Php 46.356:\$1.00 for CY 2009

4. RECEIVABLES

The account consists of the following:

	2010		2009	
Accounts Receivable	Php	6,153,960	Php	1,619,354
Due from Officers and Employees		675,651		914,447
Inter-Agency Payables		30,000		30,650

6. PREPAYMENTS

This account consists of the unexpired portions of fire and earthquake insurance of the Bell House and JHMC cottages, motor vehicle insurance for various JHMC vehicles, and Health Insurance.

7. GUARANTY DEPOSITS

This account consists of the following deposits with:

	2010		2009	
Philippine Fuji Xerox	Php	5,390	Php	5,390
BENECO		1,097		1,097
Feliza Ronquillo		12,216		12,216
Smart Communications		8,260		8,260
Grant Properties		-		37,500
DENR-CENRO		4,500		-
National Labor Relations Commission		524,990		-
	Php	556,453	Php	64,463

A deposit equivalent to two-month rental was made to Ms. Feliza Ronquillo for the use of her house as outpost of the forest rangers.

Deposits to the National Labor Relations Commission (NLRC) was made pending the resolution of various labor cases filed against the JHMC.

8. ACCOUNTS RECEIVABLE – LONG TERM

This account consists of the following:

	2010		2009	
Accounts Receivable	Php	7,129,443	Php	7,129,443
Receivables/Disallowances/Charges		572,897		572,897
Other Receivables		3,089,526		3,089,526
Allowance for Doubtful Accounts		(2,024,738)		(2,024,738)
	Php	8,767,128	Php	8,767,128

Communication Equipment	5,806,139	5,806,139
Firefighting Equipment and Accessories	1,587,809	1,459,589
Medical, Dental and Laboratory Equipment	282,114	282,114
Military, Police and Traffic Equipment	176,900	176,900
Other Machineries and Equipment	28,156,543	28,153,388
Motor Vehicles	15,132,452	18,245,494
Other Property, Plant and Equipment	30,370,659	30,291,791
Construction in Progress - Agency Assets	841,700	1,541,698
Total	138,395,440	140,756,350
Less: Accumulated Depreciation	86,223,703	83,069,926
	Php 52,171,737	Php 57,686,424

Furniture and Fixtures, Motor Vehicle, and Machinery and Equipment includes leased out properties by BCDA to Camp John Hay Development Corporation totaling Php 38,368,074, transfer of which was not acknowledged by BCDA due to incomplete supporting documents.

In 2009, movable properties which are part of the leased out properties located in the demolished cottages at Scout Hill in the amount of Php 409,619.38 was dropped from JHMC books.

Other Property and Equipment amounting to Php 30,291,791 were found missing during the inventory of JHMC's assets. These missing properties with a net book value of Php 2,793,548 were requested for relief from property accountability with the COA. Adjudication and Settlement Board Decision No. 2007-07 dated February 14, 2007 was issued by the COA denying the request for relief.

Motor Vehicle includes the 11 motor vehicles purchased for the Car Plan of the members of the Board of Directors of JHMC and the Vice President in February to June 2007. The nature of the Car Plan is a Lease-Purchase and ownership is transferred to the lessee at the end of five years upon full payment of all obligations. Also included are two company vehicles purchased in 2009 and assigned to the corporation's President and Vice-President.

Construction in Progress pertains to the completion of the JHMC Office and other related projects.

Due to Other Funds-Adopt a Tree represents collections of the amount of sponsorship made by interested individuals on the preservation of century trees in the reservation.

Due to Other Funds-PEZA are collections made by JHMC for BCDA in relation to its lease agreement with the Philippine Economic Zone Authority (PEZA) on Lot 15. The accumulated collections (in dollars) have been periodically remitted to BCDA in 2010.

15. OTHER DEFERRED CREDITS

This account consists of the following:

	2010		2009	
Deferred Income Tax	Php	1,062,608	Php	1,062,608
Deferred Credits CAPEX		-		699,999
Bell Amphitheatre Rentals - Advances		11,500		-
SC Reservations Rentals - Advances		1,076,100		-
Tree Top Adventure - Advances		1,000,000		-
	Php	3,150,208	Php	1,762,607

16. OTHER LIABILITY ACCOUNTS

This account consists of the following:

	2010		2009	
Guaranty Deposits Payable	Php	8,599,502	Php	8,634,502
Performance Bond Payable		1,133,157		60,000
Other Payables		112,371		105,916
Other Long-Term Liabilities		3,743,356		2,444,404
	Php	13,588,386	Php	11,244,822

Guaranty Deposits Payable represents mainly the security deposit and advance rental of the JHMC Office building, warehouse & Lot E and the cottage rental deposit paid by SC Reservation (Philippines), Inc. The 2009 balance includes the amount of Php 200,000 which pertains to the security deposits of Asian Institute of Management.

Other Payables pertains mainly to the personal bond deducted from employee's retirement pay to cover for whatever liability the retired employee owes JHMC.

17. SUBSIDY INCOME FROM CENTRAL / HOME OFFICE

Formerly termed as *Estate Management Fees*, this account represents the funds received from BCDA for the expenses of JHMC according to approved budget on Operating and Special Project Funds.

18. GENERAL INCOME

Referred to as *Internally Generated Funds* in prior years, this account consists of the following:

	2010		2009	
Permits and Licenses	Php	1,314,327	Php	2,008,536
Service Income		1,932,556		-
Business Income		3,493,599		12,179,252
Other Income		393,367		1,458,954
	Php	7,133,849	Php	15,646,742

Business Income account mainly represents rentals collected from the Intercontinental Hotels Group (IHG) for the lease of the JHMC Office Building.

19. DEPOSIT FOR FUTURE SUBSCRIPTIONS

This account represents the BCDA Equity in excess of the authorized capital stock pending approval of the increase of the Authorized Capital Stock by BCDA, the majority stockholder. BCDA approved an increase in the authorized capital stock from One Hundred Twenty Million Pesos (Php120,000,000) to Eight Hundred Million Pesos (Php 800,000,000) on December 9, 2004. The increase is not yet approved by the Securities and Exchange Commission.

Assets leased out by BCDA, including the accumulated depreciation of missing leased assets which were deducted from the BCDA Equity was reverted back pending reconciliation and coordination with BCDA.

The dollar collection from Resort Operations of Club John Hay amounting to Php12,748,755 was treated as investment of BCDA only in 2007 pursuant to 1993 BCDA Board Resolution.

Philippines. Some of the present members of the board were appointed in CY 2001 and yet, their names are not recorded as stockholders in the Stock and Transfer Book of JHMC to date.

- 2.2 Section 23 of the Corporation Code provides that, “every director must own at least one share of capital stock of the corporation of which he is a director, which shall stand in his name on the books of the Corporation.”
- 2.3 The stock certificates of replaced chairman and members of the board have not been cancelled, and no stock certificates were issued to past directors and previous John Hay Poro Point Development Corporation’s presidents since 2001.
- 2.4 JHMC Stockholders Resolution No. 2006-03, dated March 24, 2006, resolved that one share of stock shall be assigned to each present JHMC Board of Directors subject to the condition that they will endorse the stock certificates back to BCDA once they cease to be members of the JHMC Board. However, to date, stock certificates have not been issued to the present members.
- 2.5 This is a recurring exception and as of audit date, the issue remains unresolved.
- 2.6 We reiterate our recommendation that Management consider the following:
 - a. Update the Stock and Transfer Book;
 - b. Expedite the issuance of stock certificates to present Members of the JHMC Board of Directors, so as not to compromise the authority of the members of the board to exercise corporate powers and conduct business; and
 - c. Cancel stock certificates of separated members of the Board.
- 2.7 “JHMC Management sought advice from the Securities and Exchange Commission (SEC) regarding the matter. SEC advised management that although stock certificates need not be issued to former directors of the company, the stock and transfer book should still be reconstituted to reflect the names of all former and current directors.

“Hence, owing to the insufficiency of corporate records for data needed to update the stock and transfer book, management wrote the Office of the President (OP) of the Philippines on February 9, 2011 for assistance in updating the stock and transfer book, by requesting for copies of desire letters for members of the board of JHMC from 1993 to the present.. Management is still following up its request with the OP, and the latest information was that the letter-request is still pending action by the proper office. Too, management followed up with BCDA its prior request for assistance on the matter, and also requested copies of annual reports of

authorized capital stock. Management is still in the process of collecting all the available data needed to update the stock and transfer book.

4. Continuous occupancy of informal settlers in the 677 hectares of the John Hay reservation area is an impediment to the attainment of the objectives in the creation of Bases Conversion Development Authority (BCDA) and JHMC.

- 4.1 Republic Act (RA) No. 7227 created the BCDA on July 22, 1991 to accelerate the sound and balanced conversion into alternative productive uses of the former U.S. Bases and their extensions, and to apply said funds for the development and conversion to productive civilian use of the land.
- 4.2 Section 2 of Executive Order No. 62 declares the purposes of BCDA for Camp John Hay (Camp): to be preserved, maintained, enhanced and developed as a forest watershed and tourist destination; to maintain the natural attributes and character of the Camp; and to develop its facilities with expertise of the private sector in order to maximize its potential for both local and foreign tourism.
- 4.3 Corollary with the above-mentioned purposes is the declared functions of JHMC, a subsidiary of BCDA. Under Executive Order No. 103 which created JHMC, the functions, among others, of JHMC are to convert and develop investment opportunities in the Camp to maintain its viability, sustainability and competitiveness while keeping its historical value; and preserve and conserve its forest watershed and its environment.
- 4.4 Shown in the table below are the results of census within the JHMC reservation area conducted by the Department of Environment and Natural Resources in the year 1991 covering eight barangays within the JHMC reservation area, and by the National Housing Authority (NHA) in the year 2001 covering ten barangays.

Name of Barangay	Number of Structures Constructed		
	As of yr 1991 (by Department of Environment and Natural Resources - DENR)	As of yr 2001 (by National Housing Authority- NHA)	Increase (in percentage)
1. Green Water	92	323	251%

particular lot can increase the count informal settlers. Likewise, even generated lots were sold (illegally) by third parties through their convincing sales pitches thereby augmented the number of informal settlers. Adding to the count of informal settlers is the accommodation of ancestral land claims within the reservation area.

“To minimize, if not totally eliminate the illegal occupancy or the construction of structures by informal settlers, Management is committed to design policies, implementing guidelines and a monitoring mechanism to counter the observation. A comprehensive survey is to be conducted to census the actual number of informal settlers. Moreover, fast-tracking the barangay segregation program must be in place.

“The key to monitor and control illegal occupancies or construction of structures would be the efficiency of the Security Division in strictly implementing the Memorandum of Agreement with the contracted security agency which will be reviewed in the formulation of the implementing guidelines.”

5. A Contract to Sell which is one of the requirements under the Financial Guideline of the Scout Barrio Housing Project (Project) was not executed between the Bases Conversion Development Authority (BCDA) and the qualified beneficiaries.

Executive Order No. 64 dated December 18, 2001 declared the portion of BCDA's property covered by Transfer of Certificate of Title No. 62887, known as the Scout Barrio, Baguio City, with an area of approximately 15.9 hectares as “housing site open for disposition to its qualified occupants and beneficiaries.”

- 5.2 Qualified beneficiaries are supposed to be the legitimate occupants since the time of the Americans and covered by census tagging made by the NHA in 2001 and those who were issued the Individual Notice of Award or Certificate of Award.
- 5.3 Among the functions of John Hay Poro Development Corporation (now JHMC) as stated in the Memorandum of Agreement executed between the Bases Conversion Development Authority (BASECON), the then John Hay Poro Development Corporation, and the National Housing Authority (NHA) are as follows:

“4.2.8 Document the sale of the subdivision lots in the Scout Barrio Housing Project including its registration with the Register of Deed.

6. Manner of payment by beneficiaries in the Scout Barrio Housing Project may not be imposed since these are not provided in the Contract to Sell.

6.1 JHMC Scout Barrio Housing Project Financial Guidelines (Guidelines) provides the following mode of payment that a beneficiary may avail in the payment of lot:

- a) Outright Cash Basis
- b) Staggered Cash Basis (maximum period of 12 months to pay)
- c) 5 years to pay with an interest rate of 6 percent per annum
- d) 10 years to pay with an interest rate of 9 percent per annum

6.2 The guidelines further provide a delinquency interest of one percent per month on delayed payment of amortization.

6.3 Review of the installment account ledger of the beneficiaries as of December 31, 2010 who are paying their lot in any terms allowed, disclosed some delays in the payment of their lots. Months delayed ranged from 3 months to 127 months and a delinquency interest of one percent per month was imposed.

6.4 However, the Certificate of Award issued to qualified beneficiaries does not disclose the mode of payment to JHMC to oblige the applicants the payment of charges corresponding to the acquisition of awarded lots. Likewise, no Contract to Sell has been prepared by JHMC to the qualified beneficiaries and the mode of payment is not included in the contract.

6.5 We had recommended and Management has agreed to consider the following:

- a. Issue an amended Certificate of Award to include the manner of payment by beneficiaries in the housing project; and
- a. Incorporate in the Contract to Sell the provisions on the mode of payment to be executed by the Bases Conversion Development Authority and the qualified beneficiaries.

7. Accounts Payable – Current includes obligations incurred in prior years and inappropriately presented as negative entries totaling Php 11,081.444.00.

7.1 Under Philippine Accounting Standard 1, a liability shall be classified as current when it satisfies any of the following criteria:

- a) It is expected to be settled in the entity's normal operating cycle;
- b) It is held primarily for the purpose of being traded;
- c) It is due to be settled within twelve months after balance sheet date; and

- 7.7 We had recommended and Management has agreed to consider the following:
- a. Resolve the accounts payable which are maturing within one year and more than one year for reclassification purposes; and
 - b. Establish the obligations which are authentic and valid to modify the negative entries in the Accounts Payable.
8. **Unreliable balances of obligations under accounts Due to Home Office and Other Long Term Liabilities amounting to Php 2,873,887.00 and Php 3,743,356.00, respectively.**
- 8.1 Section 4(6) of Presidential Decree (PD) No. 1445 states that "Claims against government funds shall be supported with complete documentation."
- 8.2 Moreover, Section 111 of PD 1445 provides that "The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government."
- 8.3 Audit disclosed that the accounts Due to Central Office/Home Office and Other Long Term Liabilities amounting to Php 2,873,887.00 and P3,743,356.00, respectively, have no supporting detailed schedules and necessary documents to support obligations. Thus, the validity and accuracy of these account balances are doubtful.
- 8.4 We had recommended and Management has agreed to instruct the Accounting Unit to properly document the accounts affected in order to establish their authenticity in compliance with the provisions of PD 1445.
9. **Total reported balance of Office Supplies Inventory Account of Php 1,237,317.00 as of December 31, 2010 is unreliable due to (a) net understatement of Php 630,775.00 caused by (i) purchases amounting to Php 1,198,018.04 directly debited to expenses account; and (ii) unrecorded issuances totaling Php 567,243.00; (b) inaccurate adjustment amounting to Php 397,301.00 ; and (c) other noted deficiencies.**
- a) **Net understatement - Php 630,775.00**
- 9.1 Audit of Office Supplies Inventory Account disclosed the following errors that resulted in the net understatement of Php 630,775.00:

b) Inaccurate adjustment – Php 397,300.00

- 9.10 Verification of the Office Supplies Inventory account as of end of the year disclosed the following:

Particulars	Amount
Balance as of November 30, 2010	840,017.00
Balance as of December 31, 2010	1,237,317.00
Difference	397,300.00

- 9.11 The difference of Php 397,300.00 was adjusted at the end of the year to reconcile with the Report of Physical Count of Inventories (RPCI) of the PPU. The adjustment made is doubtful due to the absence of schedules or supporting documents to appropriately support the adjustments.
- 9.12 We had recommended and Management has agreed to require the Accounting Unit to properly support the adjustments made with schedule of inventory items or other appropriate documents.

c) Other Deficiencies

- 9.13 The manual on NGAS requires the Accounting Unit to maintain Supplies Ledger Cards (SLC) for each inventory stock, and the Stock Cards (SC) shall be maintained by the Supply and Property Unit.
- 9.14 Relevant provisions in the NGAS are as follows:
- “The SLC shall be maintained by the Accounting Unit for each type of supplies to record all receipts and issuances.*
- “Transactions shall be posted promptly from source documents.*
- “The semestral physical inventory of supplies shall be reconciled with the SLC and controlling accounts and any discrepancy/ies shall be immediately verified and adjusted.”*
- 9.15 Also, the Moving Average Method of costing shall be used for costing inventories. This is a method of calculating cost of inventory on the basis of weighted average on the date of issue.
- 9.16 Verification of records further revealed that inventory records are not being maintained by the Accounting Unit and the PPU, and the Moving Average Method is not being used in costing stock issuances, thus, both are not complying with the provisions of the NGAS Manual.

10.6 “The 2010 JHMC Corporate Operating Budget approved by the Bases Conversion and Development Authority (BCDA) included in its personnel services budget the amount of Php 12,000.00 per personnel for life and health insurance benefit. JHMC sought approval from the Office of the President (OP) for the grant of said insurance benefit, and the OP referred it back to BCDA, on the ground that BCDA has oversight functions over its subsidiaries, stating, to wit, “Per standing procedure, since BCDA is the parent company and exercises oversight supervision over its subsidiaries may we refer the request of JHMC for your appropriate action...” Clearly, DBM has instructed that matters of this kind shall be referred not necessarily to the OP but to the BCDA for the latter’s review and approval.

“Almost all JHMC employees opted for the release of a medical cash allowance instead of a health insurance; however, when the matter was referred to BCDA in compliance with DBM’s instructions. BCDA instead directed the exploration of a possibility of covering not only JHMC directors but also JHMC employees with Poro Point Management Corporation’s (PPMC) health insurance. Hence, instead of granting medical cash allowance, JHMC followed BCDA’s instruction, and sought inclusion in the health insurance benefit of PPMC, its sister company. PPMC approved the same; hence, the grant of group health insurance to JHMC directors and employees.

“Too, COA Resolution No. 2005-002 refers to agencies covered by civil service laws, rules and regulations and whose budgets are approved for in the General Appropriation Act. While JHMC may be a government-owned and controlled corporation, its employees are exempt from the coverage of civil service laws, rules and regulations including the Salary Standardization Law, per section 16 of RA No. 7227. Its budget is provided for, not in the GAA, but thru its COB, which is approved by its mother company, BCDA. It is thus the humble opinion of this office that JHMC is not covered by said COA Resolution.

“Moreover, JHMC’s fellow BCDA subsidiaries have been and are presently granting life and insurance benefits. In the case of PPMC, it grants a yearly life and health insurance to its employees and board members in the amount of Php12,000.00 per officer or staff. As already mentioned, JHMC was included in the said benefits. Clark Development Corporation also administers its own Health Plan with an annual benefits limit of Php 100,000.00 for officers and Php 80,000.00 for staff. JHMC’s own mother company, BCDA, also provides health insurance benefit to its personnel. Indeed, the grant of said benefits is not unnecessary or excessive, considering that the benefits provided by Philhealth and SSS are limited, and it is in these instances that the health benefit concerned is utilized for the benefit of the covered officers and employees, which benefit will ultimately redound to the advantage of JHMC.”

11.6 We have recommend that Management consider the following:

- a. Cause the refund of the salary differential amounting to Php 50,759.20; and
- b. Observe strict compliance to the provisions of JHMC Policy No. 003-2004.

11.7 “ Ms. Julie Ann Dawagui has been working for John Hay Management Corporation since January 8, 2009. She started out as contractual Human Resources (HR) clerk for one month, which contract as repeatedly extended. The repeated extension of her contract alone substantiates the necessity and indispensability of her service, which under the labor law connotes regular employment status. Too. Ms. Dawagui reached one year on service on January 8, 2010. Under the labor law and the JHMC Company Personnel Policy No. 002-004, she should have been considered a regular employee. However, instead of issuing the necessary Personnel Status Form to reflect the change in employment status, the previous President required her to signify her conforme to a contract of service as Accounting Clerk for the period January 2010 to June 2010. Please note, though, that the contract of service was signed by Ms. Dawagui only in February, 2010. This means that after the expiration of her last contract of extension as HR clerk on December 31, 2009, Ms. Dawagui was allowed to work without the benefit of a contract, until she signed said contract of services in February 2010. This circumstance would also make her a regular employee of JHMC.

“Although the said contract of service states that there is no employer-employee relationship between JHMC and Ms. Dawagui, the previous President, who signed said contract in behalf of JHMC, continued allowing deductions from Ms. Dawagui’s monthly pay of her employee contributions to the SSS, Philhealth and Pag-ibig, and continued allowing JHMC to shoulder the employer’s contribution for the same. The previous President also allowed her to continue receiving her 13th month pay and to use a company ID card which states that she is an employee of JHMC. She also continued being under the control and supervision of JHMC management insofar as her work is concerned, shown in her work program. All of these should not have been the case if there really were no employer-employee relationship between JHMC and Ms. Dawagui. This is being so, and notwithstanding the afore-mentioned provision in said contract of service, then even the previous President, by her acts subsequent to the execution of the contract of service, continued acknowledging Ms. Dawagui as an employee of JHMC.

“Hence, when the present management took over in August 2010, it deemed it but proper to accord Ms. Dawagui what is due her, which is a regular employment status. And since Ms. Dawagui has already been performing the duties of a cashier since February 2010, as shown by her work program, it was but proper

employment and even without the benefit of a contract but she has also been appropriately compensated.

Functional description/job summary of a Cashier, a regular position, as stated in the 2008 JHMC organizational study, is responsible and accountable for the collection of accounts, receiving of payments of JHMC and the submission of disbursement vouchers, duplicate copies of JHMC official receipts and deposit slips to COA.

Notwithstanding the contractual employment as Accounting Clerk of Ms. Dawagui, the functions/activities of a Cashier are included in her Work Program covering the period February 1 to June 30, 2010. Such functions carried out are not in concurrence with the functional description and job summary as stated in the 2008 JHMC organizational study.

Section 101 of Presidential Decree No. 1445 states that "(1) Every officer of any government agency whose duties permit or require the possession or custody of government funds, or property shall be accountable therefor and for the safekeeping thereof in conformity with law. (2) Every accountable officer shall be bonded in accordance with law."

Accountable officer (government accounting) is an authorized certifying, disbursing or collecting officer; therefore, the position of a "Cashier" is considered an accountable officer having responsibility or liability for cash.

The Personnel Status Form issued to Ms. Dawagui as "Regular Cashier" on August 16, 2010 is the authority established by JHMC management designated her accountable officer and thus, the date of assumption to the position would be the effectivity of the basic monthly salary of Php 14,920.41.

Part III

**STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEARS'
AUDIT RECOMMENDATIONS**

Out of the seven audit recommendations contained in the previous years' Annual Audit Report, one was implemented, three were partially implemented and three were not implemented which were reiterated under Part II of this report.

Audit Observations and Recommendations	Reference	Action(s) taken by Management	COA's Validation on Management Comment(s)/Action (s)
CY 2009			
<p>1. Leased out and missing property of the Bases Conversion and Development Authority (BCDA) amounting to Php 38,368 million and 30,292 million, respectively, are still recorded in the books of John Hay Management Corporation (JHMC).</p> <p>We have recommended for Management to consider the following:</p> <ul style="list-style-type: none"> ➤ Conduct a joint re-inventory of leased property to determine 	<p>AAR 2006 and 2007 – page 17; AAR 2008 – page 17; AAR 2009 page 20.</p>	<p>Incumbent management has been requesting and coordinating with BCDA, through written and oral communication, to conduct a joint inventory in the presence of both the audit teams of JHMC and BCDA to address the matter. Hopefully, this will be settled in the year 2011.</p>	<p>Not Implemented</p> <p>Audit observation is reiterated under Part II of this report.</p>

Audit Observations and Recommendations	Reference	Action(s) taken by Management	COA's Validation on Management Comment(s)/Action(s)
<p>2. JHMC Stock and Transfer Book is not updated.</p> <p>We have recommended that Management consider the following:</p> <ul style="list-style-type: none"> ➤ Update the Stock and Transfer Book; ➤ Expedite the issuance of stock certificates to present Members of the JHMC Board of Directors, so as not to compromise the authority of the members of the board to exercise corporate powers and conduct business; and ➤ Cancel stock certificates of separated member of the Board. 	<p>AAR 2006 and 2007 – page 20; AAR 2008 page 26; and AAR 2009 – page 21.</p>	<p>Incumbent JHMC Management is still reconciling its records with the BCDA and their respective COA audit teams to ascertain which among the funds and property transferred by BCDA to JHMC, over the years, comprise real equity as distinguished from JHMC income as an Estate Manager or loans from BCDA or BCDA's capital outlay other than equity to JHMC. Further, there is a need to comply with the NGAS in the recording of funds.</p> <p>Incumbent JHMC Management is also coordinating with the Office of the President, BCDA and OGCC to ascertain the change of Directors over the years so that the current Corporate Secretary, the GCC can update the stock and transfer book</p> <p>As soon as these requisite steps are completed, JHMC</p>	<p>Not Implemented</p> <p>Audit observation is reiterated under Part II of this report.</p>

Audit Observations and Recommendations	Reference	Action(s) taken by Management	COA's Validation on Management Comment(s)/Action(s)
<p>1995 to 2025.”</p> <p>We have recommended that Management consider observing the provisions of Executive Order No. 273 and be guided by the provisions of Joint Circular No. 2004-1.</p>		<p>Campaign</p> <p>e. Participation in the program or activities during Women's month</p> <p>f. Creation of Equality Advocates</p> <p>g. Development of career advancement program for women in government service</p> <p>h. Conduct of livelihood seminars/trainings</p> <p>i. Development of support mechanisms such as establishment of breastfeeding or lactating rooms</p> <p>j. Development and strengthening of the existing women's conditions at work place, health awareness program, flexible working arrangements</p>	

Audit Observations and Recommendations	Reference	Action(s) taken by Management	COA's Validation on Management Comment(s)/Action(s)
<p>not to expose government funds in their possessions to risk of loss.</p>			<p>officers is being processed:</p> <p>Florence Joy M. Abad –Supervising Accounting Specialist</p> <p>Melquiades D. Bada – Administrative Officer</p>
CY 2007			
<p>6. The JHMC Board of Directors granted a cash gift of Php 30,000.00, net of tax, each to themselves at the end of the year totaling Php 210,000.00 without legal basis.</p> <p>We have recommended that the year-end benefit (YEB) received by the Board of Directors be refunded. Henceforth, JHMC should refrain from granting benefits and allowances to the Board of Directors without legal basis.</p>	<p>AAR 2007 – page 21</p>	<p>Management filed an Appeal with the COA Regional Director.</p>	<p>Partially Implemented</p> <p>The JHMC Board of Directors did not receive YEB for 2008. For the YEB paid prior years, the appeal for reconsideration still needs to be decided upon.</p>

Audit Observations and Recommendations	Reference	Action(s) taken by Management	COA's Validation on Management Comment(s)/Action(s)
<p>➤ To request the current officers and directors to pay excess cost of acquired vehicles over the approved ceiling.</p> <p>Car Plan -1998</p> <p>We have recommended that management follow-up the collection of receivables due from the previous members of the Board of Directors</p>			