



Republic of the Philippines  
COMMISSION ON AUDIT  
Cordillera Administrative Region  
La Trinidad, Benguet

# **ANNUAL AUDIT REPORT**

on the

## **JOHN HAY MANAGEMENT CORPORATION**

Baguio City

For the Year Ended December 31, 2011

*Accounting Copy*



Republic of the Philippines  
**COMMISSION ON AUDIT**  
**CORDILLERA ADMINISTRATIVE REGION**  
La Trinidad, Benguet

May 15, 2012

**Ms. Jamie Eloise M. Agbayani**  
President and Chief Executive Officer  
John Hay Management Corporation  
Baguio City

Madam:

We are pleased to transmit the Annual Audit Report on the John Hay Management Corporation for the year ended December 31, 2011, in compliance with Section 2, Article IX-D of the Philippine Constitution, and Section 43 of Presidential Decree No. 1445.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of presentation of the financial statements.

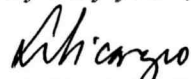
The report consists of four parts: Part I – Financial Statements, Part II – Comments and Observations, and Part III – Status of Implementation of Prior Year's Audit Recommendations and Part IV- Annex.

The comments and observations were discussed in an exit conference with concerned Management officials and staff whose comments were incorporated in the report where appropriate.

We request that the comments and observations contained in the said report be addressed and we would appreciate being informed of the actions taken within 60 days from receipt hereof.

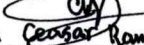
We acknowledged with thanks the cooperation extended to the audit team by the officials and staff of that agency.

Very truly yours,

  
**LYNN SF. SICANGCO**  
Director III  
Officer In Charge

RECEIVED

15 MAY 2012

  
Jun. Cesar Ramirez



Republic of the Philippines  
**COMMISSION ON AUDIT**  
**CORDILLERA ADMINISTRATIVE REGION**  
La Trinidad, Benguet

May 15, 2012

**The Board of Directors**

John Hay Management Corporation  
Baguio City

Sir/Madam:

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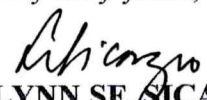
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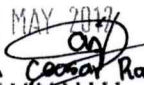
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**LYNN S. SICANGCO**  
Director III  
Officer In Charge

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15 MAY 2012  
  
Jun Caesar Ramirez

## EXECUTIVE SUMMARY

### Introduction

The John Hay Management Corporation (JHMC) is a subsidiary corporation, wholly-owned by the Bases Conversion and Development Authority (BCDA) which is a government-owned and -controlled corporation created on March 13, 1192 under Republic Act No. 7227.

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. As administrator, JHMC binds itself to:

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

### Financial Highlights

For the year 2011, subsidy received by JHMC from Bases Conversion Development Authority for its operational requirements amounted to Php 45,565,223.70. Expenditures for the year amounted to Php 53,613,807.54 while its general income amounted to Php 4,376,272.22. As of December 31, 2011, the total personnel complement is 55.

### Operational Highlights

#### ➤ Tourism and Business Development

For the 2011 visitor arrivals at the Historical Core recorded an increase of 31 percent with 36,830 visitors from last year's 28,218. Ticket sales and venue rental reached over Php 2 Million revenues with a growth of 14 percent.

The Tree Top Adventure, the only adventure theme park in the John Hay Economic Zone remained to be a major attraction at the Historical Core. The cable rides which span more than 700 meters start at the back of the Bell House and traverse the Yellow Trail. Tree Top Adventure has an average of 20 visitors on weekdays and 150 to 200 visitors on weekends, garnering an average gross annual income of Php 5.1 Million.



➤ **Environment Protection**

The Environment and Project Services Department has implemented programs for the sustainable maintenance of forest density and enhancement of the Camp John Hay Reservation through Tree Planting Activities. As of December 31, 2011, a total of 3,885 trees were planted by JHMC personnel.

In line with the Adopt-A-Tree Program, the installation of 95 markers was completed the recognition of other agencies and individuals enjoined by JHMC to be its partners in the conservation of the forest.

➤ **Human Resource Development**

For the year 2011, operational systems at JHMC were instituted to enable management to accomplish its goals efficiently. The importance of good governance was emphasized and the values of honesty, integrity and transparency in the delivery of public service were instilled among the employees.

The organizational structure of the Corporation was re-evaluated to optimize the workforce and ensure the efficiency of its operations.

### **Scope of Audit**

A financial and compliance audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of presentation of the financial statements.

### **State Auditor's Report on the Financial Statements**

A qualified opinion is rendered on the Corporation's financial statements as of December 31, 2011 due to the overstatement of the Property, Plant and Equipment by Php38.368 million comprising the leased property not owned by the Corporation.

### **Comments and Observations**

The following are the comments and observations noted for the year and their corresponding audit recommendations:

1. Property, Plant and Equipment account is overstated by Php 38,368,073.79 due to inclusion of leased out property of the Bases Conversion and Development Authority (BCDA).

We have recommended and Management has agreed to 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.

2. Accuracy of the reported balance of the Accounts Receivable-Long Term totaling Php 21,354,258.51 is rendered unreliable due to non-maintenance of subsidiary ledgers; the absence of records/documents to support the receivables being claimed; and non provision of allowance for doubtful accounts.

We have recommended and Management has agreed to require the Finance Department the following; (a) Maintain subsidiary ledgers for the accounts receivable and exert effort to locate documents/records to support the accounts being claimed and recorded; and (b) Establish allowance for doubtful accounts to appropriately present the accounts receivable at its realizable value.

3. Existence and accuracy of the reported balance of the Inventories totaling Php 7,606,038.69 is rendered unreliable or doubtful due to non preparation of Report of Supplies and Materials Issued, non maintenance of stock cards and failure to conduct the physical count of inventories.

We have recommended and Management has agreed to consider the following: (a) Require the Property and Procurement Management Unit (PPMU) to prepare and submit the RSMI to the Finance Department as basis to update the supplies ledger cards and to prepare JEV for stock issuances; (b) Require the PPMU to maintain stock cards to record all the receipts and issuances for each item of supplies and materials; and (c) The conduct of the physical count of inventory and the preparation and submission of the corresponding Report on the Physical Count of Inventories.

4. Property, Plant and Equipment account totaling Php 109,285,890.16 is rendered unreliable due to non maintenance of property, plant and equipment ledger cards and property cards and non-submission of the Report on the Physical Count of Property, Plant and Equipment.

We have recommended and Management has agreed to consider the following: (a) Require the Finance Department to maintain property, plant and equipment ledger cards; (b) Require the Property and Procurement Management Unit to maintain property cards; (c) Require the Finance Department and the Property and Procurement Management Unit to conduct regular reconciliation of the PPE account; and (d) The conduct of physical inventory of PPE and the preparation and submission of the corresponding Report on the Physical Count of Property, Plant and Equipment.

5. Accounts Payable – Current includes obligations incurred in prior years and inappropriately presented as negative entries totaling Php 9,357,397.50.



We have recommended and Management has agreed to require the Finance Department 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.

6. Unreliable balances of obligations under accounts Due to Home Office and Other Long Term Liabilities amounting to Php 2,310,218.04 and Php 3,743,356.00, respectively, due to incomplete documentation.

We have recommended and Management has agreed to instruct the Finance Department to properly document the accounts affected in order to establish their authenticity in compliance with the provisions of PD No. 1445.

7. Absence of policies and procedures in the process of billing, payment and recording of overtime services resulted to unauthorized claim of overtime pay by the Custom Clearance Division personnel.

We have recommended and Management has agreed to consider the following: (a) Prepare a policy on overtime services to authorize the process of billing, payment and recording in the books of the Corporation and to provide rules and regulations in its imposition to locators/enterprises; and (c) Comply with the provisions of the Rules and Regulations governing and regulating the JHSEZ pursuant to Presidential Proclamation No. 420 in relation to Republic Act No. 7227, otherwise known as the "Bases Conversion Development Act of 1992."

8. Health Insurance coverage was paid without legal basis to Fortune Medicare, Inc. in the amount of Php 458,298.00.

We have recommended that Management obtain an authority or legal basis exempting JHMC from COA Resolution NO. 2005-001 dated February 3, 2005, otherwise, cause the immediate refund of the disbursements. *HR*

9. Salary differential was paid in the amount of Php 50,759.00 which is not in concurrence to the provisions of JHMC Policy No. 003-2004. *J. Dancelgan*

We have recommended 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.

10. Improper payment of security services due to the non adherence to the provisions of the contract by the Superb Security and Investigation Agency, Inc. and non imposition by JHMC.

We have recommended and Management has agreed to consider the following: (a) Enforce the compliance of the provisions of Section 7 of the contract for security services; (b) Cause the preparation of billing statement for the payment of

lease corresponding to the area occupied by the security agency in the stockyard and in the CCA; and (c) Require the posting of Performance Security Bond and Wage Bond by security agency, Superb Security Services as stated under Section 12 of the security contract.

11. Delayed submission of financial statements, trial Balances, disbursements vouchers, official receipts and journal entry vouchers defers auditorial function of the Commission on Audit.

We have recommended and Management has agreed to consider the following:  
(a) Require all accountable officers to immediately submit supporting documents to the Finance Department for recording of the transactions in the books of accounts and later submission to the Office of the Auditor; and (b) Require the Finance Department Manager to supervise and monitor the submission of the financial reports to the Office of the Auditor within the prescribed period.

12. Non submission of disbursement vouchers and necessary evidences to support claims against government funds totaling Php 814,995.00 contrary to the provisions of Section 4 of Presidential Decree No. 1445 and COA Circular No. 2009-006 dated September 15, 2009.

We have recommended and Management has agreed to instruct the Finance Department for the immediate submission of disbursement vouchers and other required evidences to support government expenditures.

13. Non maintenance of subsidiary ledgers to supplement the accuracy of the general ledger in deviation to the provisions of the New Government Accounting System and Section 403 of the Government Accounting and Auditing Manual.

We have recommended and Management has agreed to require the Finance Department to maintain subsidiary ledgers to provide substantial audit support for the general ledger.

14. Record book for accountable forms and Report of Accountability for Accountable Forms as required by the provisions of Section 95 and Section 98 of the Government Accounting and Auditing Manual (GAAM), Volume I, are not appropriately prepared for control and accountability of the forms.

We have recommended and Management has agreed to instruct the concerned employees to prepare the record book and the report of accountability for accountable forms as prescribed under Sections 95 and 98 of the GAAM.

15. 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 have recommended and Management has agreed to 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.

#### **Status of Implementation of Prior Years' Audit Recommendations**

Out of the 22 audit recommendations contained in the previous years' Annual Audit Report, 7 were fully implemented, 4 were partially implemented and 11 were not implemented which were reiterated under Part II of this report.

## **Part I – Financial Statements**



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

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## **STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

### **The Board of Directors**

John Hay Management Corporation  
Camp John Hay, Baguio City

### *Report on the Financial Statements*

We have audited the accompanying financial statements of John Hay Management Corporation (JHMC), a wholly-owned subsidiary of the Bases Conversion Development Authority (BCDA), which comprise the statement of financial position as at December 31, 2011, and the statement of income and expenses, 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 pursuant to Section 2, Article XII-D of the Philippine Constitution and Section 43 of the Government Auditing Code of the Philippines.

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

Management is responsible for all the information and presentations contained in the financial statements that were prepared in conformity with generally accepted accounting principles, and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration of 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 all liabilities are recognized.

### *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 International Standards of Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement

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 is 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. The recording of the leased property not owned by the Corporation resulted in the overstatement of Property, Plant 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, 2011 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:

**LYNN S.F. SICANGCO**  
Director III  
Officer-In-Charge



April 18, 2012

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## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of John Hay Management Corporation is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2011, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.


The Commission on Audit, in pursuance of its mandate under Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Presidential Decree 1445, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature 

Printed Name of the Chairman of the Board: **SILVESTRE C. AFABLE JR.**

Signature 

Printed Name of Chief Executive Officer: **JAMIE ELOISE M. AGBAYANI, M. D.**

Signature 

Printed Name of Chief Financial Officer: **MIRIAM M. MOSUELA**

Signed this 17th day of April 2012.

**JOHN HAY MANAGEMENT CORPORATION**  
**(A wholly-owned subsidiary of the Bases Conversion and Development Authority)**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2011**  
**(With Comparative Figures for CY 2010)**

	2011	2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents (Note 3)	P 30,427,421.80	P 32,767,595.76
Receivables (Note 4)	7,590,657.31	15,473,057.28
Inventories (Note 5)	7,606,038.69	7,072,750.02
Prepayments (Note 6)	104,934.33	160,679.13
Guaranty Deposits (Note 7)	594,203.40	556,453.44
<b>Total Current Assets</b>	<b>P 46,323,255.53</b>	<b>P 56,030,535.63</b>
<b>Non-Current Assets</b>		
Accounts Receivable - Long Term, Net (Note 8)	P 21,354,258.51	P 8,767,128.17
Investments (Note 9)	132,000.00	132,000.00
Property, Plant and Equipment - Net (Note 10)	48,195,564.78	52,171,737.07
Other Non-Current Assets (Note 11)	11,283,249.28	11,283,249.28
<b>Total Non-Current Assets</b>	<b>80,965,072.57</b>	<b>72,354,114.52</b>
<b>TOTAL ASSETS</b>	<b>P 127,288,328.10</b>	<b>P 128,384,650.15</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Payable Accounts (Note 12)	P 15,552,971.59	P 18,648,576.66
Inter-Agency Payables (Note 13)	699,735.28	797,498.77
Intra-Agency Payables (Note 14)	13,328,117.99	6,799,680.97
Other Liability Accounts (Note 15)	618,831.91	9,845,029.62
<b>Total Current Liabilities</b>	<b>P 30,199,656.77</b>	<b>P 36,090,786.02</b>
<b>Long-Term Liabilities</b>		
Other Long-Term Liabilities (Note 16)	P 3,737,355.92	P 3,743,355.92
<b>TOTAL LIABILITIES</b>	<b>P 33,937,012.69</b>	<b>P 39,834,141.94</b>
<b>Deferred Credits</b>		
Other Deferred Credits (Note 17)	P 1,108,308.22	P 3,150,208.69
<b>EQUITY</b>	<b>P 92,243,007.19</b>	<b>P 85,400,299.52</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P 127,288,328.10</b>	<b>P 128,384,650.15</b>

*See accompanying Notes to Financial Statements.*

**JOHN HAY MANAGEMENT CORPORATION**  
(A wholly-owned subsidiary of the Bases Conversion and Development Authority)  
**STATEMENT OF INCOME AND EXPENSES**  
For the year ended December 31, 2011  
(With Comparative Figures for CY 2010)

	2011	2010
<b>REVENUES</b>		
Subsidy Income from Central / Home Office (Note 18)	P 45,565,223.70	P 33,249,170.88
General Income (Note 19)	4,376,272.66	7,133,849.42
<b>GROSS INCOME</b>	P 49,941,496.36	P 40,383,020.30
<b>LESS:</b>		
<b>Personal Services</b>		
Salaries and Wages	P 11,019,353.91	P 10,483,434.57
Personnel Economic Relief Allowance	519,002.80	479,798.09
Representation Allowance	1,052,996.56	1,511,600.00
Transportation Allowance	878,457.93	1,173,400.00
Clothing/Uniform Allowance	160,000.00	180,000.00
Productivity Enhancement Incentive	437,000.00	426,000.00
Cash Gift	216,625.00	214,750.00
Overtime and Night Pay	665,823.68	705,968.94
Other Bonuses and Allowances	1,046,000.00	215,000.00
Honoraria	0.00	201,752.78
Year-End Bonus	990,539.18	2,346,706.53
Life and Retirement Insurance Contributions	516,998.60	521,349.60
Pag-ibig Contributions	52,900.00	56,762.50
Philhealth Contributions	116,650.00	118,487.50
ECC Contributions	12,560.00	12,580.00
Terminal Leave Benefits	812,211.33	497,008.03
Other Personnel Benefits	1,465,609.77	1,355,362.07
<b>Total Personal Services</b>	P 19,962,728.76	P 20,499,960.61
<b>Maintenance and Other Operating Expenses</b>		
Security Services	P 12,863,834.64	P 12,330,877.64
Council/Board Members Benefits (Note 20)	2,879,808.30	3,810,000.00
Depreciation	3,008,793.02	3,024,937.24
General Services	907,774.36	1,136,189.97
Traveling Expenses	590,341.27	1,331,708.38
Office Supplies Expenses	1,170,903.04	800,017.75
Taxes, Duties and Licenses	137,125.29	696,481.93
Representation Expenses	1,601,693.69	1,170,921.45
Telephone Expenses	776,328.68	795,303.57
Cable Expenses	0.00	2,880.00
Auditing Services	974,476.55	1,687,756.38
Repairs and Maintenance	2,178,772.18	1,566,055.96
Gasoline, Oil, Lubricants and Other Fuel Expenses	1,444,878.01	843,926.32
Marketing and Advertising Expenses	662,136.54	570,771.71
Legal Services	331,973.88	486,168.23
Light and Water	478,807.36	408,940.78



**JOHN HAY MANAGEMENT CORPORATION**  
**(A wholly-owned subsidiary of the Bases Conversion and Development Authority)**  
**STATEMENT OF CHANGES IN EQUITY**  
**AS OF DECEMBER 31, 2011**  
**(With Corresponding Figures for CY 2010)**

	2011	2010
<b>CAPITAL STOCK - P100.00 par value</b>		
Authorized, issued and fully paid - 1,200,000 shares	P 120,000,000.00	P 120,000,000.00
<b>DEPOSIT FOR FUTURE SUBSCRIPTIONS (Note 21)</b>		
Balance at beginning of year	252,767,566.12	252,767,566.12
Additional equity	0.00	0.00
Transfer of asset from BCDA	0.00	0.00
Fund for CAPEX/Capital Outlay	1,297,800.42	0.00
Balance at end of year	P 254,065,366.54	P 252,767,566.12
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance at beginning of year		
As previously reported	(287,367,266.60)	(262,496,840.21)
Correction of prior years' errors (Note 21)	8,963,741.93	(11,220,315.65)
As restated	(278,403,524.67)	(273,717,155.86)
Net income	(3,506,360.13)	(13,650,110.74)
Balance at end of year	(281,909,884.80)	(287,367,266.60)
<b>Ending Balance, December 31, 2011</b>	<b>P 92,155,481.74</b>	<b>P 85,400,299.52</b>

*See accompanying Notes to Financial Statements.*



**JOHN HAY MANAGEMENT CORPORATION**  
**(A wholly-owned subsidiary of the Bases Conversion and Development Authority)**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2011**  
**(With Comparative Figures for CY 2010)**

	2011	2010
<b>CAPITAL STOCK - P100.00 par value</b>		
Authorized, issued and fully paid - 1,200,000 shares	P 120,000,000.00	P 120,000,000.00
<b>DEPOSIT FOR FUTURE SUBSCRIPTIONS (Note 20)</b>		
Balance at beginning of year	252,767,566.12	252,767,566.12
Additional equity	0.00	0.00
Transfer of asset from BCDA	0.00	0.00
Fund for CAPEX/Capital Outlay	1,297,800.42	0.00
Balance at end of year	P 254,065,366.54	P 252,767,566.12
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance at beginning of year		
As previously reported	(287,367,266.60)	(262,496,840.21)
Correction of prior years' errors (Note 21)	8,963,741.93	(11,220,315.65)
As restated	(278,403,524.67)	(273,717,155.86)
Net income	(3,418,834.68)	(13,650,110.74)
Balance at end of year	(281,822,359.35)	(287,367,266.60)
<b>Ending Balance, December 31, 2011</b>	<b>P 92,243,007.19</b>	<b>P 85,400,299.52</b>

*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, 2011**  
**(With Comparative Figures for CY 2010)**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Cash Inflows:</b>		
Estate Management Fee (Current and Unreleased for Prior Years )	P 46,015,223.70	P 67,763,910.93
CAPEX Fund	1,297,800.42	0.00
Collection of Income	19,879,335.06	12,304,981.07
Collection of Purchase Price of Scout Barrio Lots	3,430,298.54	3,380,608.96
Collection of Accounts Receivable	2,028,067.15	6,877,719.51
Interest from Bank Accounts	146,432.53	366,004.84
Collection of Cost of Bid Doc/Bidder's Bond/Cleanliness Bond	408,000.00	1,095,456.40
Collection from Sale of Movable Assets/Appraisal of Property	0.00	428,000.00
Cancellation of Stale Checks	927,398.76	354,054.66
Panagbenga Account Proceeds	0.00	216,216.03
Collection of security deposit paid to Grant Properties	0.00	37,500.00
Collection for Adopt-a-Tree Project	0.00	10,322.30
Collection of PEZA Remittances	6,107,789.19	5,975,086.37
<b>Total Cash Inflows</b>	<b>P 80,240,345.35</b>	<b>P 98,809,861.07</b>
<b>Cash Outflows:</b>		
Payment to Suppliers/Creditors and Employees	P (53,624,396.07)	P (41,794,855.19)
Remittance/Charges to Scout Barrio Collections	(2,137,901.84)	(5,429,177.58)
Remittance / Charges to PEZA Collections	(6,106,646.77)	(18,854,519.16)
Remittance / Charges to IHG Collections	(13,265,734.92)	(48,094,817.09)
Remittance / Charges to Treetop Adventure Collections	(2,712,111.13)	0.00
Remittance / Charges to Adopt a Tree Project	(48,984.37)	(48,984.37)
Remittance of PAG-IBIG/SSS/PHIC/BIR	(4,013,656.47)	(4,624,128.91)
Payment of GSIS Fire and Earthquake Insurance	(25,479.88)	(511,511.44)
Refund of Security Deposit/Advance Rental	(121,131.20)	0.00
Payment of Taxes and Duties	(133,371.23)	(77,826.99)
Refund of Bid Bond	(498,149.40)	(29,300.00)
<b>Total Cash Outflows</b>	<b>P (82,687,563.28)</b>	<b>P (119,465,120.73)</b>
<b>Total Cash Provided(Used) by Operating Activities</b>	<b>P (2,447,217.93)</b>	<b>P (20,655,259.66)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Cash Inflows:</b>		
Proceeds from Sale of Property and Equipment	P 100,094.00	P 0.00
Capital Expenditures	0.00	0.00
<b>Total Cash Inflows</b>	<b>P 100,094.00</b>	<b>P 0.00</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>6,949.97</b>	<b>(1,243,319.96)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>107,043.97</b>	<b>(1,243,319.96)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>32,767,595.76</b>	<b>54,666,175.38</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>P 30,427,421.80</b>	<b>P 32,767,595.76</b>



**JOHN HAY MANAGEMENT CORPORATION**  
**(A wholly-owned subsidiary of the Bases Conversion and Development**  
**Authority)**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. AGENCY BACKGROUND**

The John Hay Management Corporation (JHMC) is a subsidiary corporation, wholly-owned by the Bases Conversion and Development Authority (BCDA) which is a government-owned and-controlled corporation (GOCC) created on March 13, 1992 under Republic Act (RA) No. 7227 to accelerate the sound and balanced conversion of former U.S. Bases and their extensions to productive use for the Filipino people and to form, establish and maintain a subsidiary corporation.

The history of JHMC dates back to the issuance of Presidential Proclamation No. 198 dated June 29, 1993, transferring the John Hay Air Station, the former American Rest and Recreation facility, to BCDA, renaming it as Club John Jay, and declaring it for tourism, human resource development center and multiple-use forest watershed reservation purpose.

In same year, Executive Order No. 103 created the John Hay Development Corporation (JHDC) as the operating and implementing arm of the BCDA to manage the Club John Hay. The same EO mandated that JHDC shall be a corporate body and subsidiary corporation of the BCDA, formed in accordance with Philippine Corporation Law and existing rules and regulations promulgated by the Securities and Exchange Commission (SEC) pursuant to Section 16 of RA No. 7227. The JHDC is also subjected to the policies, rules and regulations of the BCDA and with the primary purpose of developing, managing, leasing and operating all establishments and facilities within the camp.

Executive Order No. 103, series of 1993 was later amended by Executive Order No. 31, where the former Wallace Air Station in Poro Point, La Union was encompassed in JHDC's scope of responsibility. It was also through this Executive Order No. 31 that it was renamed as the John Hay Poro Point Development Corporation (JPDC).

On July 5, 1994, Proclamation No. 420 was issued which created and designated the John Hay Special Economic Zone (JHSEZ) from a portion of land occupied by the former Camp John Hay Reservation as embraced, covered and defined under the 1947 Military Bases Agreement between the Philippines and the United States of America. The objective of this is to lease out certain portions of the land for the purpose of developing the leased property into a wholesome family oriented public tourism complex, multiple use of forest watershed and human resource development center.

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 No. 9400 dated July 24, 2006 which amended RA No. 7227, the JHSTEZ was reverted back to JHSEZ to be entitled to the same tax and duty incentives as provided for under RA No. 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. Contribute in human resource development through job generation.

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; the Honeymoon Cottage, a "favorite" for newlyweds which used to be the home of nurses assigned at 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 (NGAS) in the preparation of financial reports.

### Cash and Cash Equivalents

Cash includes Cash on Hand and in Banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement.

The Petty Cash Fund is being maintained under the Imprest System.



Foreign Currency deposits are revalued at the exchange rate prescribed by the Bangko Sentral ng Pilipinas (BSP) as of balance sheet date.

#### Inventories

Inventories are stated at cost using the Moving Average Method.

#### Property and Equipment

Property and Equipment are stated at cost less accumulated depreciation, except for Building and Structure and Machinery and Equipment which are stated at appraised value as determined by independent appraisers less accumulated depreciation. Depreciation is computed using the Straight Line Method over the estimated useful lives of the assets ranging from 5 to 20 years. A residual value equivalent to 10 percent of the cost of the asset is provided.

Construction in Progress is stated at cost. This includes the costs of construction, property and equipment and other direct costs. Construction in Progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Maintenance and repairs are charged to operations.

#### Revenue and Expense Recognition

The Corporation adopts the accrual method of accounting for revenue and are recognized in the actual period that they are earned.

### **3. CASH AND CASH EQUIVALENTS**

This account consists of the following:

	<b>2011</b>	<b>2010</b>
Cash on Hand	Php 64,432.15	Php 1,733,707.62
Cash in Bank-Local Currency, Current Account	22,109,207.09	22,873,658.31
Cash in Bank-Local Currency, Time Deposits	1,037,686.50	1,020,021.86
Cash in Bank-Foreign Currency, Savings Account	1,076,495.18	1,075,352.76
Cash in Bank-Foreign Currency, Time Deposits	6,139,600.88	6,064,855.21
	<b>Php 30,427,421.80</b>	<b>Php 32,767,595.76</b>

*Cash in Bank - Local Currency, Current Account* consists of the Operating Expenses Fund, Generated Fund, Retirement Fund (Peso) and Scout Barrio Fund which earn interest at the respective bank deposit rates. It also includes Adopt-a-Tree Fund and Intercontinental Hotels Group Collection which are non-interest bearing accounts.

*Cash in Bank - Local Currency, Time Deposits* refers to short term placement and is placed for varying periods of up to 60 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. Quarterly collections were regularly remitted to BCDA in 2011.

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 Php43.928:\$1.00 for CY 2011 and Php43.885:\$1.00 for CY 2010.

#### 4. RECEIVABLES

The account consists of the following:

		2011		2010
Accounts Receivable	Php	782,745.96	Php	6,153,960.25
Due from Officers and Employees		79,352.25		675,650.74
Inter-Agency Receivable		60,000.00		30,000.00
Intra-Agency Receivable		6,247,956.87		6,394,232.56
Other Receivables		420,602.23		2,219,213.73
	<b>Php</b>	<b>7,590,657.31</b>	<b>Php</b>	<b>15,473,057.28</b>

*Due from Officers and Employees* consists mainly of Car Plan receivables from former members of the Board of Directors, telephone charges and other receivables from employees of JHMC.

*Inter-Agency Receivables* consists of due from SSS for maternity benefits of employees for the CY 2011.

*Due from Central Office/Home Office* account includes other expenses advanced by JHMC for the maintenance of the BCDA cottages. It also includes advances in behalf of BCDA and subject to reimbursement upon billing.

*Other Receivables* consists of receivables from members of the Board of Directors (BOD) who were replaced in July 2007 on their Car Plan amounting to Php2,086,811.65 (net of recovered vehicles). The Motor Vehicle Lease-Purchase Plan of JHMC provides that an officer who avails of the plan has an option to purchase the vehicle upon separation from the service at a redemption book value, provided rentals have been paid for at least one year. To date, only two of the separated BOD members have not fully settled their car plan balances.

## 5. INVENTORIES

This account consists of the following:

		2011		2010
Office Supplies Inventory	Php	1,446,155.73	Php	1,237,317.32
Other Supplies Inventory		293,832.87		138,360.11
Construction Materials Inventory		5,866,050.09		5,697,072.59
	<b>Php</b>	<b>7,606,038.69</b>	<b>Php</b>	<b>7,072,750.02</b>

*Construction Materials Inventory* consists of the unused steel fences for the perimeter fencing of Camp John Hay. The project for the perimeter fencing of the camp was stopped due to opposition by affected residents. The added amounts for CY 2011 are for the upgrade and repairs of Cottages and Carport.

## 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 website subscription.

## 7. GUARANTY DEPOSITS

This account consists of the following deposits with:

		2011		2010
Philippine Fuji Xerox	Php	5,390.00	Php	5,390.00
BENECO		1,096.57		1,096.57
Feliza Ronquillo		12,216.37		12,216.37
Smart Communications		8,260.00		8,260.00
DENR-CENRO		7,250.00		4,500.00
National Labor Relations Commission		559,990.46		524,990.50
	<b>Php</b>	<b>594,203.40</b>	<b>Php</b>	<b>556,453.44</b>

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) have been issued pending the resolution of various labor cases filed against the JHMC.



## 8. ACCOUNTS RECEIVABLE – LONG TERM

This account consists of the following:

	2011	2010
Accounts Receivable	Php 11,849,638.74	Php 7,129,443.02
Receivables/Disallowances/Charges	6,635,553.82	572,896.70
Other Receivables	4,893,803.48	3,089,525.98
Allowance for Doubtful Accounts	(2,024,737.53)	(2,024,737.53)
	<b>Php 21,354,258.51</b>	<b>Php 8,767,128.17</b>

*Accounts Receivable* consists of uncollected accounts from 1998-2006. It includes receivables from the Camp John Hay Development Corporation (CJHDevCo) amounting to Php5,912,516.00 composed of the net gain derived from the demolition of cottages and structures which are part of the leased area, payable to JHMC by CJHDevCo per Agreement dated March 25, 1998. Section 6 of the Agreement provides that upon the completion of the above stated demolition of structures in Camp John Hay, the net gain that may be derived will pertain to the former JPDC and, in case of net loss, the CJHDevCo will solely shoulder the loss. Net gain is equivalent to the appraised value of the structure demolished less the cost of demolition.

*Receivables/Disallowances/Charges* consists of missing properties that were included in Lease Agreement between CJHDevCo & BCDA in 1996 with net book value of Php2,793,547.50, disallowances for employer's share on Employees Provident Fund in the amount of Php1,336,358.57, other benefits granted to personnel of JPDC in the amount of Php1,125,751.05 and to previous employees of JHMC in the amount of Php235,000.00, and benefits granted to previous BODs in the amount of Php572,000.00.

*Other Receivables* substantially consists of the uncollected receivables during the Resort Operations arising from the use of government facilities by concessionaires, travel agencies, government entities and other corporations and accounts of establishments amounting to Php2,024,738.00 which are subject of pending litigation. One hundred percent allowance for doubtful accounts was provided considering that the possibility of collection is nil and that they had been outstanding for more than seven years. A request for write off was submitted to the Commission on Audit but was not acted upon due to lack of supporting document. This account also includes the tax due on the retirement benefits given to 12 retired employees amounting to Php1,062,608.00 which was not withheld by the previous Finance Officers since 2003.

## 9. INVESTMENTS

This account consists of 6,600 shares with Php1.00 par value Common Stock with Pilipino Telephone Company (PILTEL). On May 7, 2010, PILTEL has changed its name to PLDT Communications and Energy Ventures, Inc. New stock certificates in the name of JHMC was issued in August 2011.



*Furniture and Fixtures, Motor Vehicle, and Machinery and Equipment* includes leased out properties by BCDA to Camp John Hay Development Corporation totaling Php38,368,074.00, transfer of which was not acknowledged by BCDA due to incomplete supporting documents.

*Other Property and Equipment* amounting to Php30,291,791.00 were found missing during the inventory of JHMC's assets in January 2004 and revised on June 21, 2005. These missing properties with a net book value of Php2,793,548.00 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. A Notice of Finality of Decision (NFD) was received by the office on June 11, 2010 and the said amount was removed from the books of account and recorded as receivables from the persons liable in January 2011.

*Motor Vehicle* includes the 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 labor and materials used for the extension of Carport and accrual of all previously recorded construction expenses for the said structure; to be reversed to other structure account upon proper documentation.

## **10. OTHER NON-CURRENT ASSETS**

This account consists of the following:

	2011	2010
Hydro - Electric Power Dam	Php 4,390,000.00	Php 4,390,000.00
Unserviceable Machinery and Equipment		
Furniture and Equipment	6,893,249.28	6,893,249.28
	<b>Php 11,283,249.28</b>	<b>Php 11,283,249.28</b>

The *Hydro-electric Power Dam* is recorded at appraised value based on the appraisal conducted by E-value appraisal in June 2004. This has been unserviceable since the BCDA took over the management of Camp John Hay in 1993.

### 13. INTRA-AGENCY PAYABLES

This account consists of the following:

	2011		2010
Due to Central Office / Home Office	7,954,208.92	Php	2,875,274.96
Due to Other Funds	5,373,909.07		3,924,406.01
	<b>Php 13,328,117.99</b>	<b>Php</b>	<b>6,799,680.97</b>

*Due to Central Office/Home Office* consists mainly of rentals collected from International Hotels Group and Treetop Adventure including Common Usage Area (CUSA) received in behalf of BCDA for the fourth quarter of 2011 which are remitted at the end of each quarter. These collections were periodically remitted to BCDA in CY 2011 according to the agreed schedule of remittance. It also includes lease rental of Asian Institute of Management (AIM) for 1997 which is still due for reconciliation with BCDA.

Breakdown of the *Due to Other Funds* is as follows:

	2011		2010
Scout Barrio Fund	Php 2,587,667.60	Php	1,287,615.65
Adopt a Tree	387,553.30		382,553.30
BID Fees	(5,000.00)		-
Disallowances/Charges deducted from SIP	436,242.90		436,242.90
PEZA	1,057,821.36		1,056,678.94
Provident Fund	702,557.35		650,078.72
Transfer of Funds ( Generated & OPEX Funds)	95,830.06		-
Sale of Disposed Assets Booked by BCDA	111,236.50		111,236.50
	<b>Php 5,373,909.07</b>	<b>Php</b>	<b>3,924,406.01</b>

*Due to Other Funds-Scout Barrio Fund* represents collections made by JHMC in behalf of BCDA of the purchase price of the Scout Barrio lots awarded to residents. The accumulated Scout Barrio collections have been remitted periodically to BCDA in 2011.

*Due to Other Funds-Adopt a Tree* represents collections from sponsors who have committed to provide funds for the preservation of particular 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.

#### 14. OTHER LIABILITY ACCOUNTS

This account consists of the following:

		2011		2010
Guaranty Deposits Payable	Php	232,054.02	Php	8,599,502.33
Performance Bond Payable		247,407.00		1,133,156.40
Other Payables		139,370.89		112,370.89
	<b>Php</b>	<b>618,831.91</b>	<b>Php</b>	<b>9,845,029.62</b>

*Guaranty Deposits Payable* represents mainly of the 2007 security deposit of Asian Institute of Management in the amount of Php200,000.00. The decrease in the Guaranty Deposits Payable is due to the remittance to BCDA of the SC Reservation's 6-months security deposit and 3-months advance rental for the use of JHMC Office Building in the amount of Php8,028,502.29 and SC Reservation's refund of security deposit and advance rental for the use of Cottages 627 and 628 in the amount of Php400,000.00.

*Performance Bond Payable.* The significant decrease in the account is due to the remittance to BCDA of the security deposit of Treetop Adventure Phils.

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

#### 15. OTHER LONG-TERM LIABILITIES

This account consists mainly of unamortized portion of 2007 Car Plan in the amount of Php3,381,594.31.

#### 16. OTHER DEFERRED CREDITS

This account consists of the following:

		2011		2010
Deferred Income Tax	Php	1,062,608.22	Php	1,062,608.22
Bell Amphitheatre Rentals - Advances		45,550.00		11,500.00
Gate Pass - Advances		150.00		
SC Reservations Rentals - Advances		-		1,076,100.47
Tree Top Adventure - Advances		-		1,000,000.00
	<b>Php</b>	<b>1,108,308.22</b>	<b>Php</b>	<b>3,150,208.69</b>

#### 17. SUBSIDY INCOME FROM CENTRAL / HOME OFFICE

Formerly termed as *Estate Management Fees*, this account represents the funds received from BCDA for the operating 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:

	2011	2010
Permits and Licenses	Php 1,296,581.11	Php 1,314,327.40
Service Income	2,540,654.02	1,932,555.75
Business Income	440,708.00	3,493,598.72
Other Income	98,329.53	393,367.55
	<b>Php 4,376,272.66</b>	<b>Php 7,133,849.42</b>

The increase in the Service Income comes from the various events spearheaded by the Business and Development Department for the CY 2011. The decrease in the Business Income is due to the non-recognition of income from the collections of rental and CUSA of Intercontinental Hotels Group and Treetop Adventure Phils., Inc.. These were remitted periodically to BCDA and were recorded in JHMC books as Due to Central Office in 2011.

## 19. BOARD MEMBER'S BENEFITS

This account is broken down as follows:

	2011	2010
Per Diem	Php 1,772,000.00	Php 3,810,000.00
Representation Allowance	429,343.24	-
Transportation Allowance	540,339.32	-
Communication Expenses	138,125.74	-
	<b>Php 2,879,808.30</b>	<b>Php 3,810,000.00</b>

The Board of Director's benefits are in consonance with Executive Order (EO) No. 24 issued on February 10, 2011 by the Office of the President of the Philippines.

## 20. 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 (Php120,000,000.00) to Eight Hundred Million Pesos (Php800,000,000.00) 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 pending reconciliation and coordination with BCDA.

The dollar collection from Resort Operations of Club John Hay amounting to Php12,748,755.00 was treated as investment of BCDA only in 2007 pursuant to 1993 BCDA Board Resolution.

JHMC has an extended Memorandum of Agreement with the Office of the Government Corporate Counsel (OGCC) which includes the update of the JHMC Stock and Transfer Book (STB). The update of the STB is a requirement for the amendment of the Articles of Incorporation to increase JHMC's Authorized Capital Stock. The STB was turned over to OGCC in 2011 and still awaiting favorable reply.

## **21. CORRECTION OF PRIOR YEARS**

The remittance to BCDA of current and prior year's collections from SC Reservations Phils., Inc. (otherwise known as IHG) is a major component of the account. The deduction from Retained Earnings in 2010 is reversed since the Security Deposits of IHG amounting to Php8,028,502.29 remitted to BCDA was previously recorded as Guaranty Deposits Payable, which is likewise adjusted, and not closed to Retained Earnings as previously stated in 2010.

Other material amounts in the adjustments were recorded disallowances of previous management which were issued Notice of Finality of Decision in June 2011 and the remittance to BCDA of prior year collections of rentals and CUSA from Treetop Adventure Phils., Inc.

Subsequent payments made in 2011 for expenses incurred in previous years, as well as corrections and adjustments to previously reported items are also reflected.

## **Part II – Comments and Observations**



## PART II

### COMMENTS AND OBSERVATIONS

#### FINANCIAL AND COMPLIANCE

1. **Property, Plant and Equipment account is overstated by Php 38,368,073.79 due to the inclusion of leased out property of the Bases Conversion and Development Authority (BCDA).**
  - 1.1 Verification of the Property, Plant and Equipment (PPE) account revealed that it includes leased out property of BCDA totaling Php 38.368 million as of December 31, 2011. These represent the remaining property which were not accepted or acknowledged by BCDA pending verification of documents supporting the transfer and existence of the property.
  - 1.2 As a result, the reported balance of the PPE account in the financial statement as of December 31, 2011 is overstated by Php 38,368,073.79.
  - 1.3 This is a recurring exception and as of audit, the issue remains unresolved.
  - 1.4 We have recommended and Management has agreed to 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.
  - 1.5 Management commented that the reconciliatory inventory to be conducted between JHMC, BCDA and CJHDevCO has been deferred due to the Temporary Restraining Order (TRO) issued by CHJDevCo against BCDA.
2. **Accuracy of the reported balance of the Accounts Receivable-Long Term totaling Php 21,354,258.51 is rendered unreliable due to non maintenance of subsidiary ledgers; absence of records/documents to support the receivables being claimed and recorded; and non provision of allowance for doubtful accounts.**
  - 2.1 Section 111(1) of Presidential Decree No. 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 information needed by fiscal or control agencies of the government."*

- 2.2. Section 64 of the Government Accounting and Auditing Manual (GAAM), Volume I, reads:

*“Section 64. Recording of receivables. – Each accounting unit with accounts receivables shall keep one or more subsidiary ledgers showing, for customer or other types of debtors, the amounts due and received from them and the balances of their accounts. These subsidiary records shall support the general ledger control account.”*

- 2.3 Verification made on the accounts receivables disclosed that subsidiary ledgers on the accounts were not being maintained. Schedule of accounts receivable is prepared by the Finance Department. However, details of each of the accounts receivables were not provided since there are no available records/documents to support the accounts being claimed and recorded.
- 2.4 Moreover, review of the Schedule of Accounts Receivable as of December 31, 2011 includes transactions covering the years 1996 to 2009 and the appropriate allowance for doubtful accounts has been provided only for receivables covering 1996 transactions.
- 2.5 The New Government Accounting System Corporate (NGAS - Corporate) prescribes the following:

*“Trade receivables shall be valued at their face amount minus, whenever appropriate, allowance for doubtful accounts...”*

*“The Allowance for Doubtful Accounts shall be provided in an amount based on the collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experiences of the agency, expected loss experiences and identified doubtful accounts.”*

- 2.6 Setting up of allowance for doubtful accounts is necessary to properly present the accounts receivable at its realizable value in the financial statements.
- 2.7 The non maintenance of subsidiary ledgers; absence of documents to support the accounts being claimed and recorded; and non provision of allowance for doubtful accounts rendered the balances of the receivable accounts in the financial statements unreliable.
- 2.8 We have recommended and Management has agreed to require the Finance Department the following:
- Maintain subsidiary ledgers for the accounts receivables and exert effort to locate documents/records to support the accounts being claimed and recorded; and



- Establish allowance for doubtful accounts to appropriately present the accounts receivable at its realizable value in the financial statements.

3. **Existence and accuracy of the reported balance of the Inventories totaling Php 7,606,038.69 is rendered unreliable or doubtful due to non preparation of Report of Supplies and Materials Issued(RSMI); non maintenance of stock cards; and failure to conduct the physical count of inventories.**

3.1 The New Government Accounting System (NGAS) provides the Instructions on the preparation of the following forms:

Report of Supplies and Materials Issued (RSMI)

*"The Report of Supplies and Materials Issued (RSMI) shall be prepared by the Supply and Property Unit on a daily basis and shall be used by the Accounting Unit to support the Journal Entry Voucher (JEV), which shall be drawn to record issuance from the stocks. The accounting copy shall be supported with all the accomplished Requisition and Issue Slip (RIS), as enumerated in the RSMI."*

Stock Card (SC)

*"The Stock Card shall be maintained by the Supply and Property Unit for each type of supplies, to record all receipts and issuances and monitor stock movement. The total of the stock cards shall be reconciled with the Supplies Ledger cards maintained by the accounting unit and any discrepancy/ies should be immediately verified and adjusted."*

Report on the Physical Count of Inventories (RPCI)

*"The Report On The Physical Count of Inventories (RPCI) shall be used to report the physical count of inventory items by type such as materials, office supplies, agricultural, fishery and forestry inventory, etc., that are owned by the agency. The physical inventory shall be conducted every six months and the corresponding reports shall be prepared in four copies, certified correct by the Inventory Committee and approved by the Head of the Agency. It shall be submitted to the Auditor concerned not later than July 31 and January 31 of each year for the first and second semesters, respectively."*

3.2 Verification disclosed that from January to December 2011, RSMI for supplies and materials issued on stock with approved Requisition and Issue Slip (RIS) were not prepared daily by the Property and Procurement Management Unit



(PPMU). RSMI shall be forwarded to the Finance Department to support the Journal Entry Voucher (JEV) to record issuance from the stocks.

- 3.3 Further, the total amount of issuances is not deducted regularly from the inventory balances due to the non preparation of the RSMI and as basis for the preparation of the corresponding JEV by the Finance Department.
- 3.4 Stock Cards were not also maintained by the PPMU to record the date, reference, quantity received, quantity issued, office issued, balance in quantity and other information for each item of supplies and materials. The PPMU prepares the Monthly Office Supply Report for office supplies and other supplies inventory but no complete information is provided. There is no inventory record or report prepared for the Construction Materials Inventory account.
- 3.5 Moreover, the required semestral physical count of inventories is not conducted by Management.
- 3.6 Due to the non preparation of the RSMI, non maintenance of stock cards and failure to conduct the physical count for inventories, the balance of the inventory account could not be ascertained, thus, rendering the account doubtful.
- 3.7 We have recommended and Management has agreed to consider the following:
  - Require the Property and Procurement Management Unit (PPMU) to prepare and submit the RSMI to the Finance Department as basis to update the supplies ledger cards and to prepare JEV for stock issuances;
  - Require the PPMU to maintain stock cards to record all the receipts and issuances for each item of supplies and materials; and
  - The conduct of the physical count of inventory and the preparation and submission of the corresponding Report on the Physical Count of Inventories.
- 3.8 Management commented the following:

“We have already tasked the Property Division to prepare all the necessary reports regarding the latest inventory count undertaken during the 4<sup>th</sup> quarter of 2011. Our department is currently coordinating with the Finance Department in reconciling our supplies and PPE inventory reports.

“Initial preparations for our stock cards were already accomplished and these records shall be monitored from time-to-time to comply with accounting and auditing requirements.

"The Report of Supplies and Materials Issued (Office Supplies and Other Supplies Inventory) for the previous periods were already submitted to Finance Department on March 30, 2012.

"We have already submitted a Report on the Physical Count of Inventories to our Vice President for submission to our President and the BCDA. We shall then ensure that a copy of the same to your office shall be submitted every semester, as an NGAS requirement."

4. **Property, Plant and Equipment account totaling Php 109,285,890.16 is rendered unreliable due to non maintenance of property, plant and equipment ledger cards and property cards and non-submission of the Report on the Physical Count of Property, Plant and Equipment.**

- 4.1 The New Government Accounting System (NGAS) provides the Instructions on the use of the following ledger/report as follows:

Property, Plant and Equipment Ledger Cards (PPELC)

*"The Property, Plant and Equipment Ledger Cards shall be kept by the Accounting Unit for each specific item of property to record the acquisition, description, estimated life, depreciation, disposal, accumulated maintenance expenses incurred and other information about the assets."*

*Property Card*

*"Property Card shall be kept for each item of property, plant and equipment to record the description, acquisition, transfer/disposal/issuance and other information about the asset."*

*Report on the Physical Count of Property, Plant and Equipment*

*"Report on the Physical Count of Property, Plant and Equipment - This report shall be prepared yearly in four copies and shall be certified correct by the Inventory Committee and approved by the Head of the Agency . . . "*

- 4.2 Moreover, Section 490 of the Government Accounting and Auditing Manual (GAAM), Volume 1, prescribes the following regulations for effective control of government property:

*" a. Chiefs of agencies are required to take a physical inventory of all equipment and supplies belonging to their respective offices at least once a year, unless otherwise determined by the COA Chairman in*



*specific cases. Such inventory shall be made as of December 31 on General Form 41 (A) (appendix 12), and submitted to the Auditor not later than January 31 of each year, . . . . ”*

- 4.3 Property, Plant and Equipment Ledger Cards (PPELC) are not maintained by the Finance Department. Schedule of property, plant and equipment is prepared by the Finance Department, however, no complete information is provided for each item of property such as the acquisition, description, estimated life, depreciation, disposal, accumulated maintenance expenses incurred and other information about the asset.
- 4.4 Property and Procurement Management Unit is not also maintaining Property Cards (PC) for each item of property, plant and equipment to record the description, acquisition, transfer/disposal/issuance and other information about the asset.
- 4.5 Report of Physical Count of Property, Plant and Equipment for the year 2011 is not submitted to the Office of the Auditor though physical inventory taking has been conducted for the period October to December 2011.
- 4.6 Reconciliation of the Property, Plant and Equipment (PPE) account was not undertaken by the Finance Department and the Property and Procurement Management Unit due to the absence of the PPELC, the PC and the Report of Physical Count of Property, Plant and Equipment.
- 4.7 As a result, the accuracy of the reported balance of the PPE account as of December 31, 2011 could not be ascertained resulting to the unreliability of the account as presented in the financial statements.
- 4.8 We have recommended and Management has agreed to consider the following:
  - Require the Finance Department to maintain property, plant and equipment ledger cards;
  - Require the Property and Procurement Management Unit to maintain property cards;
  - Require the Finance Department and the Property and Procurement Management Unit to conduct regular reconciliation of the property, plant and equipment account; and
  - The conduct of physical inventory of PPE and the preparation and submission of the corresponding Report on the Physical Count of Property, Plant and Equipment.



5. **Accounts Payable – Current includes obligations incurred in prior years and inappropriately presented as negative entries totaling Php 9,357,397.50.**

5.1 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*
- “d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.”*

5.2 COA Circular Nos. 2001-004 and 2002-02 dated October 30, 2001 and June 16, 2002, respectively, provide the following policies and basic features of the New Government Accounting System (NGAS):

*“Corollary and Negative entries - The use of corollary and negative journal entries shall be stopped.”*

5.3 Detailed list of Accounts Payable - Current as of December 31, 2011 is presented as follows:

Particular	Amount
Accounts Payable – Camp John Hay Development Corporation (CJHDEVCO)	4,111,284.51
Accounts Payable- 2008 Prior Year’s Accrued	1,622,825.84
Accounts Payable – 2005 –March 31, 2008	1,205,223.08
Accounts Payable – Unliquidated Obligations	122,395.61
Accounts Payable - 2009	100,256.58
Accounts Payable - Miscellaneous	1,005,875.98
Accruals - 2010	399,171.88
Accruals - 2011	5,573,905.96
Unreleased Checks	1,164,579.16
Total	15,305,518.60

5.4 Verification of items in the Schedule of Accounts Payable - CJHDEVCO disclosed obligations incurred for the years 1997 to 2008. Details of the obligations presented negative entries totaling Php 4,811,319.79.

- 5.5 The Schedule of Accounts Payable - 2005 shows obligations incurred for the years 2005 to 2008. Details of accrued expenses are mostly accruals for employees and other operating costs and remained unsettled within 12 months after the balance sheet date. It also presented negative entries totaling Php 3,808,712.33
- 5.6 The Schedule of Accounts Payable – Miscellaneous also disclosed obligations incurred for the years 2001 to 2008 and again presents negative entries totaling Php 737,365.41.
- 5.7 Due to misclassification of the transactions and the presentation of payables with net negative balances, the accounts payable is not fairly presented in the financial statements.
- 5.8 This is a reiteration of prior year's audit observation since as of audit date, the issue remains unresolved.
- 5.9 We have recommended and Management has agreed to require the Finance Department the following:
- Resolve the accounts payable which are maturing within one year and more than one year for reclassification purposes; and
  - Establish the obligations which are authentic and valid to modify the negative entries in the accounts payable account.
6. **Unreliable balances of obligations under the accounts Due to Home Office and Other Long Term Liabilities amounting to Php 2,310,218.04 and Php 3,743,355.92, respectively, due to incomplete documentation.**
- 6.1 Section 4(6) of Presidential Decree (PD) No. 1445 states that "*Claims against government funds shall be supported with complete documentation.*"
- 6.2 Moreover, Section 111 of PD No.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.*"
- 6.3 Audit disclosed that the accounts Due to Central Office/Home Office and Other Long Term Liabilities amounting to Php 2,310,218.04 and Php 3,743,356.00, respectively, have no supporting detailed schedules and necessary documents to support obligations. Thus, the validity and accuracy of these account balances are doubtful.
- 6.4 This is a reiteration of prior year's audit observation since as of audit date, the issue remains unresolved.



6.5 We have recommended and Management has agreed to instruct the Finance Department to properly document the accounts affected in order to establish their authenticity in compliance with the provisions of PD No. 1445.

**7. Absence of policies and procedures in the process of billing, payment and recording of overtime services resulted to unauthorized claim of overtime pay by the Custom Clearance Division personnel.**

7.1 In the audit of overtime services, the Customs Clearance Division (CCD) personnel renders overtime to inspect and release various articles entering and leaving the John Hay Special Economic Zone (JHSEZ). JHMC Memorandum Circular No. 2004-09-001 dated September 15, 2004 provides that request for overtime to do inspection of articles entering or leaving the JHSEZ not within the JHMC work schedule shall be at the expense of the requesting party (locators/enterprises).

7.2 Finance Department prepares billing statement to locators/enterprises for payment of overtime services to CCD personnel. Review of the billing statement to locators/enterprises disclosed that the overtime rate per hour is computed as follows:

Php 20, 092.58 x 12-262/8 = 115.03 rate per hour

where:

20,092.58	=	basic pay (job level/Step 2)
12	=	months in year
262	=	number of working days in a year
8	=	number of hours per day

7.3 In the event the locators/enterprises pay the bills, payment of overtime services to the concerned personnel is processed and computed based on JHMC Policy and Procedure No. 006-2004. Overtime pay to concerned personnel are lesser than the amount billed and the difference is recorded as income of the corporation.

7.4 However, the rates used and the procedures for billing and recording are inappropriate since there is no policy issued by the JHMC as operating guidelines comprising the process of billing, payment and recording of the overtime services.

7.5 Moreover, the purpose/objective of overtime services by the CCD personnel is not exclusively provided for in the Rules and Regulations governing and regulating the JHSEZ pursuant to Presidential Proclamation No. 420 in relation to Republic Act No. 7227, otherwise known as the "Bases Conversion Development Act of 1992." Provided under Sections 20 and 22 thereof are as follows:



*" Section 20 . . . JPDC (now JHMC) may conduct at any time during office hours audit, check, or inventory count for the verification and reconciliation of the records with the inventory of articles in the JHSEZ.*

.....

*" Section 22 .*

*" a. AUDIT*

*"Officials of JPDC (now JHMC) and Customs are authorized to jointly conduct, at any time during office hours, any audit, check or inventory count for the verification and reconciliation of the accounts or records of any JHSEZ Enterprise."*

- 7.6 The above-stated provisions clearly declares the time when to conduct inspection, which is during office hours, and not specifically stating the stringent and regular inspection of all goods entering and leaving the territory of JHSEZ.
- 7.7 Likewise, check and inventory count must be jointly performed by the JHMC personnel and a representative of the Bureau of Customs. Review of the forms issued by the CCD revealed that the clearance certifications are not signed by a Bureau of Customs Examiner.
- 7.8 We have recommended and Management has agreed to consider the following:
- Prepare a policy on overtime services to authorize the process of billing, payment and recording in the books of the Corporation and to provide rules and regulations in its imposition to locators/enterprises; and
  - Comply with the provisions of the Rules and Regulations governing and regulating the JHSEZ pursuant to Presidential Proclamation No. 420 in relation to Republic Act No. 7227, otherwise known as the "Bases Conversion Development Act of 1992."
8. **Health insurance coverage was paid without legal basis to Fortune Medicare, Inc. in the amount of Php 458,298.00.**
- 8.1 JHMC Board Resolution Nos. 2001-0125-028 dated January 25, 2010 approved the 2010 JHMC health and insurance benefits for all JHMC directors, officers and employees regardless of status.
- 8.2 Health insurance coverage was paid by the corporation to Fortune Medicare, Inc. under DV No. 2010-02-22 dated February 26, 2010 and DV No. 2010-03-315 dated March 15, 2010 amounting to Php 396,980.00 and Php 61,318.00, respectively.

- 8.3 COA Resolution No. 2005-001 dated February 3, 2005 prohibits any agency including government-owned and/or-controlled corporations from securing health care insurance from private insurance agencies, provisions quoted as follows:

*“ . . . Whereas, the government already provides for the health insurance of its employees by appropriating funds therefore in the General appropriations Act;*

*“Whereas, procurement of another health insurance by government agencies from private health insurance companies is a disbursement of public funds for the same purpose and must be viewed as form of additional allowance and compensation;*

*“The procurement of private health insurance by any agency or instrumentality of the government is an irregular expenditure and constitutes unnecessary use of public funds which cannot be countenanced by this commission.”*

- 8.4 JHMC provides health care benefits to its employees thru the Philippine Health Insurance Corporation and Social Security Systems; hence, membership to private insurance company like Fortune Medicare, Inc has the same purpose and may be considered a form of additional allowance and compensation.

- 8.5 This is a reiteration of prior year's audit observation since as of audit date, the issue remains unresolved.

- 8.6 Management comments are as follows:

“In particular, we cite the opinion of the Office of the General Corporate Counsel No. 133 stating that:

“Thus, the prohibition set by the last paragraph of COA Resolution extends to government agencies, instrumentalities and government-owned and/or controlled corporations covered by the Civil Service laws, rules and regulations and whose funds for health insurance are provided by the General Appropriations Act.

“We are of the belief that this corporation is exempt from the COA Resolution No. 2005-001 considering that JHMC not covered by Civil Service Rules and regulations and its funding source is provided by the BCDA and not through the General Appropriations Act.”

- 8.7 The government power of the Board of Directors of the subsidiaries of BCDA to determine the organizational structure, defines the duties and responsibilities of all officials and adopts a pay plan and position classification is not absolute but subject to the existing laws and regulations duly issued by competent authority, e.g. Office of the President of the Philippines.



- 8.8 The sole authority of the Board of Directors of JHMC in granting the insurance benefits to the employees without the required prior approval and authorization via Administrative Order or at least the consideration of the Office of the President is improper and insufficient.
- 8.9 We have recommended Management to obtain an authority or legal basis exempting JHMC from COA Resolution No. 2005-001 dated February 3, 2005, otherwise, cause the immediate refund of the disbursements.
9. **Salary differential was paid in the amount of Php 50,759.20 which is not in concurrence to the provisions of JHMC Policy No. 003-2004.**
- 9.1 JHMC Policy No. 003-2004 provides that *"A newly-hired employee (Job Level 3 to 15) on a probationary status shall be paid a hiring rate which is ten percent (10%) less than the regular rate of Step 1. Upon regularization, the employee shall receive a regular rate corresponding to Step 1 of the Job Level as provided for in the approved salary scale."*
- 9.2 It further provides that *"A promotion in rank shall be accompanied by an increase in pay after six (6) months corresponding to the new pay of the position. During the three-month period, his designation shall be on acting capacity. If after this period he is not confirmed to the position and issued a new appointment, he is reverted to his original position. However, if the employee is confirmed to the position, he/she shall be entitled to a retroactive pay corresponding to the period he/she held the position in acting capacity."*
- 9.3 An employee was hired through contract of service on January 8, 2009 to December 31, 2010 as "HR Clerk" with a daily rate of Php 423.39. Her contract was continuously renewed and was hired as "Accounting Clerk" from January 1, 2010 to August 15, 2010 with the same rate. Among the terms and conditions of the contract of service is that the contract does not create an employer-employee relationship between JHMC and the Contractor, the services rendered are not considered government service and that the latter is not entitled to benefits enjoyed by the regular personnel of JHMC.
- 9.4 On August 16, 2010, said employee was issued a new Personnel Status Form (PSF) as "Regular Cashier", job level 8, step 1, with a basic monthly salary of Php14,920.41. However, she was paid salary differential effective January 8, 2010 to August 31, 2010 amounting to Php 50,759.20.
- 9.5 As stated in the policy, an employee shall receive a regular rate corresponding to Step 1 of the Job Level as provided for in the approved salary scale upon regularization. JHMC has not issued any designation to her in "acting capacity" as Cashier; hence, her PSF must not be effective January 8, 2010.



9.6 The letter of the Department of Labor and Employment, Cordillera Administrative Region, Baguio City dated July 22, 2011 opined that Ms. Julie Ann Dawagui is entitled to the salary differential to be reckoned from February 10, 2010 when she started performing the functions of a cashier.

9.7 In the 2008 JHMC Organizational Study, the qualification standard of a Cashier is as follows:

*“Job Summary - responsible and accountable for the collection of accounts, receiving of payments for JHMC and the submission of disbursements vouchers, duplicate copies of JHMC official receipts and deposit to COA.”*

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 position of a “Cashier” is also required by law to be bonded for being a legally responsible officer.

9.8 Review disclosed that the work program of Ms. Dawagui since February 1, 2010 are clerical tasks/activities and not that of the functions of a regular cashier. Ms. Josephine Tecan, Treasury and Investment Officer/Cashier, issued/signed the official receipts and prepared/certified the necessary financial reports.

9.9 The PSF issued to Ms. Dawagui as a “Regular Cashier” on August 16, 2010 is the authority established by JHMC management designated her as 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.

9.10 This is a reiteration of prior year’s audit observation since as of audit date, the issue remains unresolved.

9.11 We have recommended Management to consider the following:

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

**10. Improper payment of security services due to the non conformity to the provisions of the contract by the Superb Security and Investigation Agency, Inc. and non imposition by JHMC.**

10.1 Review of the contract entered into between JHMC and Superb Security and Investigation Agency, Inc. revealed non-observance to the provisions of Section 7

which is the establishment of office by the agency, Superb Security and Investigation Agency, Inc. in the JHMC Building and to be rented at the prevailing lease rate.

- 10.2 Since the effectivity of the security contract, office of the security agency is located in various places within the vicinity of Camp John Hay. Spot inspection conducted by the COA Audit Team revealed the presence of security personnel in the stockyard (Signey) of JHMC. As represented by the staff the Administrative Services Department, this place is the office of the security agency. Also, staff of the Security and Safety Department disclosed that the office of the security agency is located in the Customs Clearance Area.
- 10.3 Further, the Performance Security Bond and Wage Bond required to be posted to guarantee the faithful performance of the security agency and clearly stated under Section 12 of the contract is not complied with.
- 10.4 As a consequence of the non observance of the provisions of the contract by the Superb Security and Investigation Agency, Inc and the non imposition by JHMC, the payment of security services is inappropriate.
- 10.5 We have recommended and Management has agreed to consider the following:
  - Enforce the compliance of the provisions of Section 7 of the contract for security services;
  - Cause the preparation of billing statement for the payment of lease corresponding to the area occupied by the security agency in the stockyard and in the CCA;
  - Require the posting of Performance Security Bond and Wage Bond by security agency, Superb Security Services as stated under Section 12 of the security contract.

**11. Delayed submission of financial statements, trial balances, disbursements vouchers, official receipts and journal entry vouchers defers auditorial function of the Commission on Audit.**

- 11.1 Section 122 of Presidential Decree No. 1445 states that:

*“Whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit trial balances, physical reports, current*



*plantilla of personnel, and such other reports as may be necessary for the exercise of its functions.”*

- 11.2 Corollary to the above provisions, paragraph 7.2.1 of COA Circular No. 2009-006, dated September 15, 2009, requires that:

*“The Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that: a) the reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month.”*

- 11.3 The status of submission of financial statements and reports by Management comprising CY 2011 transactions, is as follows:

<b>Period of transaction</b>	<b>Due date</b>	<b>Date received</b>	<b>No. of days delayed</b>
January	February 10	July 22, 2011	163
February	March 10	July 22, 2011	134
March	April 10	July 22, 2011	103
April	May 10	August 2, 2011	84
May	June 10	August 19, 2011	69
June	July 10	October 24, 2011	106
July	August 10	November 29, 2011	111
August	September 10	November 29, 2011	80
September	October 10	December 20, 2011	71

- 11.4 The delayed submission of financial reports is causing substantial delay in post audit and/or review of the corporation’s transactions. As a result, deficiencies were not immediately communicated to management.

- 11.5 We have recommended and Management has agreed to consider the following:

- Require all accountable officers to immediately submit supporting documents to the Finance Department for recording of the transactions in the books of accounts and later submission to the Office of the Auditor; and
- Require the Finance Department Manager to supervise and monitor the submission of the financial reports to the Office of the Auditor within the prescribed period.



12. **Non submission of disbursement vouchers and necessary evidences to support claims against government funds totaling Php 814,995.30 contrary to the provisions of Section 4 of Presidential Decree No. 1445 and COA Circular No. 2009-006 dated September 15, 2009.**
- 12.1 Section 4 of Presidential Decree No. 1445 provides that *"Claims against government funds shall be supported with complete documentation."*
- 12.2 Paragraph 7.2.1 of COA Circular No. 2009-006, dated September 15, 2009 requires that: *"The Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that: a) the reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month."*
- 12.3 Review made on the Report of Checks Issued and bank statements covering the year 2010 and January to June 2011, disclosed that the disbursement vouchers and its supporting documents were not submitted to the Office of the Auditor despite repeated representation to the Finance Department. List of unsubmitted disbursement vouchers is shown in Annex A.
- 12.4 Disbursement vouchers and its supporting documents are indispensable to prove the legality and propriety of expenditures of government funds. It is essential that these documents must be submitted regularly and promptly to the Office of the Auditor.
- 12.4 We have recommended and Management has agreed to instruct the Finance Department for the immediate submission of disbursement vouchers and other required evidences to support government expenditures.
13. **Non maintenance of subsidiary ledgers to supplement the accuracy of the general ledger contrary to the provisions of the New Government Accounting System and Section 403 of the Government Accounting and Auditing Manual.**
- 13.1 New Government Accounting System (NGAS) provides that subsidiary ledgers shall be kept for the each control account in the General Ledger.
- 13.2 Section 403 of the Government Accounting and Auditing Manual (GAAM) provides the rationale of Subsidiary Ledger when it states that *" [t] the Subsidiary Ledger (SL) is a book of final entry containing the details or breakdown of the balances of controlling accounts appearing in the General Ledger ... Posting to the Subsidiary Ledger generally comes from the source documents."* Further, the same section requires the total of subsidiary ledger

balances be reconciled with their respective control account at the end of each month.

- 13.3 Verification of the accounts in the financial statements particularly for cash, receivables, inventories, investments, property, plant and equipment and liabilities revealed that these are not supported by subsidiary ledgers. Schedules of the accounts are prepared by the Finance Department but no subsidiary ledgers are maintained to record the details/breakdown of the accounts posted in the general ledger.
- 13.4 Since the subsidiary ledgers provide the detailed individual balances making up the general ledger total, non maintenance thereof resulted in the difficulty of determining the validity and accuracy of the accounts as presented in the financial statements.
- 13.5 We have recommended and Management has agreed to require the Finance Department to maintain subsidiary ledgers to provide substantial audit support for the general ledger.
- 14. **Record book for accountable forms and Report of Accountability for Accountable Forms as required by the provisions of Section 95 and Section 98 of the Government Accounting and Auditing Manual (GAAM), Volume 1, are not appropriately prepared for control and accountability of the forms.**
- 14.1 Section 95 of the GAAM, Volume 1, provides the following:

*“Permanent record book for accountable forms. - Collecting Officers/Treasurers/Property Officers accountable for receipts, stamps and other accountable forms in their possession or in the hands of deputies and other employees entrusted therewith, shall keep adequate permanent record books which should show, among others things, the whereabouts of the accountable forms with which they are charged, the name and title of the officer or employee to whom such forms have been given, and the evidence of the receipt and subsequent sale and issuance of the same. The record books shall contain the following column headings:*

- “a. Booklet Number/Total Value (in case of official receipt without money value)*
- “b. Serial Number/Total Value (in case of official receipt with money value)*
- “c. Name (in print) of accountable officer to whom issued*
- “d. Signature of accountable officer*
- “e. Date received by accountable officer*



*"f. Date reported totally used, sold, issued"*

- 14.2 Section 98 also provides that *"Accountable Officers shall render a report to the COA Unit Auditor on their accountability for accountable forms at least once a month in the prescribed form. Such report shall also be prepared in case of transfer of office or accountability by the accountable officer. The report shall include, among others, the name/type, quantity and serial number and/or value of the accountable forms as of last month/period, the forms received and issued during the month/period and the balances as of end of the month/period."*
- 14.3 As verified, Report of Accountability for Accountable Forms is prepared only for official receipts and commercial checks issued by the Cashier while record book and report for other accountable forms where revenues are derived are not prepared by the Department/personnel concerned where such forms are entrusted.
- 14.4 Pre-numbered JHSEZ forms like F-2, F-13, F-16 F-19, F-20, F-21, F-22, F-25, F-26B, F-34) are forms in custody and issued by the One Stop Action Center (OSAC) under the Finance Department. No record book and report of accountability for these forms are prepared and maintained by the OSAC to reflect the quantity of the forms received, issued and the balance on hand.
- 14.5 Form A-01, Inspection Report, Application for Certificate of Occupancy/Change of Use of Occupancy and Certificate of Occupancy/Use, Certificate of Environmental Compliance are pre-numbered forms in custody and issued by the Environment and Project Services Department. No record book and report of accountability are also prepared by the Department concerned.
- 14.6 Likewise, no record book and report of accountability are prepared on the accountable forms issued by the Business Development Department.
- 14.7 Accountabilities of the personnel in custody of the forms could not be established due to the non preparation of the Report of Accountability for Accountable Forms. Moreover, the requisitions, issuances and balances of accountable forms at the end of the month could not be determined.
- 14.8 We have recommended and Management has agreed to instruct the concerned employees to properly prepare the record book and the report of accountability for accountable forms as prescribed under Sections 95 and 98 of the GAAM.
15. **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.**



- 15.1 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.
- 15.2 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.
- 15.3 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.
- 15.4 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%
2. Hillside	18	68	278%
3. Camp 7	7	-	
4. Loakan	19	401	2,010%
5. ERDS Cpd	30	-	
6. Dagsian	46	208	352%
7. Country Club	203	623	207%
8. Happy Hollow	149	-	
9. St. Escolatisca		20	

10. Lucnab		84	
Total	564	1,727	

15.5 As presented in the table, the increase in the number of informal settlers in the year 1991 to year 2001 within the reservation area based on the structures constructed ranges from a staggering 207 percent to 2,010 percent. The 2001 report of the NHA is the latest census conducted and considering the significant increase of informal settlers, this would be a hindrance in attaining the objectives in the creation of BCDA and JHMC.

15.6 This is a reiteration of prior year's audit observation since as of audit date, the issue remains unresolved.

15.7 We have recommended and Management has agreed to consider the following:

- 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;
- Design also a monitoring mechanism to validate effectiveness of the policies and its implementation; and
- Conduct comprehensive survey within the reservation area to identify the actual number of informal settlers.

15.8 Management's comments are as follows:

"With the eventual completion of the relocation with structure survey, and utility survey for the 13 barangays within the John Hay Reservation Area (JHRA), with Military Cut-off and Outlook Drive for further validation as to its inclusion into the JHRA, the result generated from the survey will provide us with the following data:

- "a) Delineation of boundaries for the barangays within the JHRA;
- "b) Actual number of structures (with or without census) within the JHRA;
- "c) Delineation of residential areas from the forest area and watersheds; and
- "d) Demarcation of open spaces.

"The generated data shall be used for establishing guidelines for the following issues:

- "a) Preservation of delineated forest covers and watersheds;
- "b) Open areas to be retained by BCDA/JHMC shall be proposed for master planning for investment possibilities;

- “c) Updated census for actual occupants within the JHRA; and
- “d) Prevention of entry of illegal settlers into non-segregated areas.”

## **SETTLEMENT OF ACCOUNTS**

- 16. The Statement of Audit Suspensions, Disallowances and Charges (SASDC) which summarizes the total suspensions, disallowances and charges as of December 31, 2011 showed a zero balance.
- 16.1 However, ND/NC/NS issued prior to the effectivity of the COA Rules and Regulations on the Settlement of Accounts (RRSA) on October 1, 2009 not included in the balances in SASDC but are deemed disallowances/charges/suspensions shall continue to be enforced accordingly. As of December 31, 2011, the outstanding balance of disallowances amounted to Php 6,635,553.82.



**Part III – Status of Implementation of Prior Year's  
Audit Recommendations**

### Part III

#### STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of the 22 audit recommendations contained in the previous year's Annual Audit Report, 7 were fully implemented, 4 were partially implemented and 11 were not implemented which were reiterated under Part II of this report.

Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>1. Leased out and missing property of the Bases Conversion and Development Authority (BCDA) amounting to Php 38.368 million and Php 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> <p>➤ Conduct a joint re-inventory of leased property to determine proper accounting thereof and submit to BCDA complete</p>	<p>AAR 2010 – page 22</p>	<p>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.</p>	<p>Not Implemented</p> <p>Conduct of joint re-inventory for the leased out property amounting to Php 38.368 million has not been undertaken. Audit observation is reiterated under Part II- Item 1 of this report.</p>

Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>documents to support the transfer for final acceptance.</p> <p>➤ Account for the missing property in order to pinpoint responsibility and accountability, then record accountabilities as a debit to Due from Officers and Employees at replacement cost less accumulated depreciation and a credit to Other Deferred Credits since the request for relief was already denied.</p>		<p>Missing property amounting to Php 30.292 million has been appropriately adjusted under Journal Entry Voucher No. 2011-01-022 dated January 21, 2011.</p>	<p>Fully Implemented</p>
<p>2. JHMC Stock and Transfer Book is not updated.</p> <p>We have recommended that Management consider the following:</p> <p>➤ Update the Stock and Transfer Book;</p>	<p>AAR 2010 – page 22</p>		<p>Partially implemented</p>





Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>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.</p>		<p>Updating the stock and transfer book is a prerequisite to the approval of the increase in the authorized capital and Management is in process of collecting data needed to update its stock and transfer book.</p>	<p>Audit team will continuously monitor the courses of action undertaken by management for the immediate resolution of the audit exception.</p>
<p>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.</p> <p>We have recommended that Management consider the following:</p> <p>➤ Design policies</p>	<p>AAR 2010- page 25</p>		<p>Not implemented</p>

Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>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;</p> <p>➤ Design also a monitoring mechanism to validate effectiveness of the policies and its implementation ; and</p> <p>➤ Conduct comprehensive survey within the reservation area to identify the actual number of informal settlers.</p>		<p>Management 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.</p>	<p>Not Implemented</p> <p>Not Implemented</p> <p>Audit observation is reiterated under Part II- Item 15 of this report.</p>



Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>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.</p> <p>We have recommended for the immediate execution of Contract to Sell to the remaining 75 beneficiaries of the Project.</p>	<p>AAR 2010 – page 27</p>	<p>A Contract to Sell (CTS) template has been prepared and made available for use and implementation for the next batch of beneficiaries.</p>	<p>Fully Implemented</p>
<p>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.</p> <p>We have recommended and Management has agreed to consider the following:</p> <p>➤ Issue an amended</p>	<p>AAR 2010 – page 29</p>	<p>A new Contract to Sell (CTS) template/Certificate</p>	<p>Fully Implemented</p>

Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>Certificate of Award to include the manner of payment by beneficiaries in the housing project; and</p> <p>➤ 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.</p>		<p>of Award has been prepared for issuance to the beneficiaries</p> <p>The new CTS prepared includes the mode of payment.</p>	Fully Implemented
<p>7. Accounts Payable – Current includes obligations incurred in prior years and inappropriately presented as negative entries totaling Php 11,081.444.00.</p> <p>We have recommended and Management has agreed to consider the following:</p> <p>➤ Resolve the accounts payable which are maturing</p>	AAR 2010 – page 29		Not Implemented

Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>within one year and more than one year for reclassification purposes; and</p> <p>➤ Establish the obligations which are authentic and valid to modify the negative entries in the Accounts Payable.</p>		<p>Management is in process of gathering documents/records to reconcile the accounts.</p>	<p>Not Implemented</p> <p>Audit observation is reiterated under Part II- Item 5 of this report.</p>
<p>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.</p> <p>We have 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</p>	<p>AAR 2010- page 31</p>	<p>Management is in process of reconciling the accounts affected.</p>	<p>Not Implemented</p> <p>Audit observation is reiterated under Part II- Item 6 of this report.</p>



Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
the provisions of PD 1445.			
<p>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.</p> <p>We have recommended and Management has agreed to require the Accounting Unit to record purchases and issuance of supplies and materials in the appropriate inventory accounts.</p> <p>We have recommended and</p>	AAR 2010 – page 31	<p>Perpetual Inventory Method is adopted by the Finance Department in the recording of purchases.</p> <p>PPU has not yet prepared the RSML.</p>	<p>Fully Implemented</p> <p>Not Implemented</p> <p>Audit Observation</p>

Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>Management has agreed to require the PPU to prepare and submit the RSMI to the Accounting Unit for recording in the books.</p> <p>We have 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.</p> <p>We have recommended and Management has agreed to require (a) the PPU and Accounting Unit to prepare and maintain SC and SLC, respectively; and (b) the Accounting Unit to compute issuances of supplies based on the Moving Average Method.</p>		<p>Adjustments are supported by schedules of inventory items.</p> <p>Finance Department is computing the issuance of supplies based on the Moving Average Method.</p>	<p>Memorandum on the non preparation of RSMI has been issued and integrated under Part II- Item 3 of this report.</p> <p>Fully Implemented</p> <p>Fully Implemented</p>
<p>10. Health Insurance coverage was paid without legal basis to Fortune Medicare, Inc. in the amount of Php</p>	<p>AAR 2010 – page 34</p>		

Observations and Recommendations	Reference	Action(s) taken by management	Auditor's validation results
<p>458,298.00.</p> <p>We have recommended that Management obtain an authority or legal basis exempting JHMC from COA Resolution NO. 2005-001 dated February 3, 2005, otherwise, cause the immediate refund of the disbursements.</p>		<p>Management cited OCGG Opinion No. 133 stating among others that the prohibition set by the last paragraph of the COA Resolution extends to government agencies, instrumentalities and government owned and/or controlled corporations covered by the Civil Service Law, rules and regulations and whose funds for health insurance are provided by the GAA.</p>	<p>Not Implemented</p> <p>Audit observation is reiterated under Part II- Item 8 of this report.</p>
<p>11. Salary differential was paid in the amount of Php 50,759.00 which is not in concurrence to the provisions of JHMC Policy No. 003-2004.</p> <p>We have recommended that Management</p>	<p>AAR 2010 – page 36</p>		





## **Part IV – Annex**

## ANNEX A

**JOHN HAY MANAGEMENT CORPORATION, BAGUIO CITY**  
**List of Unsubmitted Disbursement Vouchers**  
**As of December 31, 2011**

<b>Date of Check</b>	<b>Check No.</b>	<b>DV No</b>	<b>Payee</b>	<b>Particulars</b>	<b>Amount</b>
02/12/2010	32316814	2010-02-167	Inbound Supermarket	Payment of assorted groceries	14,036.83
03/03/2010	33287754	2010-03-294	Hyundai La Union, Inc	Vehicle maintenance of the JHMC EVP	20,409.37
03/31/2010	33287839	2010-03-376	FLM Print Corp	Payment of 1 tarpaulin signage and 1 symbolic cheque	1,087.51
06/03/2010	33288129	2010-06-671	Geodetic Engrs of the Phils, Inc	Seminar registration fee, June 5-7, 2010	7,000.00
06/11/2010	33288139	2010-06-683	GelynGrace Lumanta	Salary, June 1-15, 2010	3,864.10
06/17/2010	33288190	2010-06-739	Ma Cristina Corona	Fuel expenses	1,756.86
07/23/2010	33288270	2010-07-825	Ruth Marie P. Blanco	Salaries and allowances July 1-15, 2010	7,861.92
08/18/2010	33288382	2010-08-901	P.T. Diamond Mdse Goodyear Servitek	Repair & maintenance of SHG 504 (Innova)	8,837.34
09/09/2010	33288488	2010-09-954	Leonarda O. Capuyan	Expenses incurred, BOD June 7 to July 14, 2010	14,884.93
09/27/2010	33288528	2010-09-1000	Smart Communications Inc.	Cellphone charges, August 1-30, 2011	11,947.28
09/29/2010	33288558	2010-09-	Toyota Baguio	Labor & materials for the	



<b>Date of Check</b>	<b>Check No.</b>	<b>DV No</b>	<b>Payee</b>	<b>Particulars</b>	<b>Amount</b>
		1014	City	repair of Innova (SHG 504)	8,837.74
11/17/2010	35421314	2010-11-1131	Rizzel D. Pascua	Purchases for Family Day Activity, Oct. 29, 2010	6,046.50
12/20/2010	35421442	2010-12-1239	Montanosa Motors	Repair & maintenance of official vehicle SFS 118	78,137.50
12/30/2010	35421569	2010-12-1333	Ma. Josefina Bornales	Repair & maintenance of official vehicle SEF 189 (FX)	12,207.50
12/30/2010	35421579	2010-12-1241	Ma. Josefina Bornales	Repair & maintenance of official vehicle SES 200 (L300)	65,559.50
12/30/2010	35421629	2010-12-1353	Inbound Pacific, Inc	Golf shirt & cap for FIL-AM	24,607.15
01/28/2011	35421730	2011-01-047	PLDT	Tel charges, Dec 1-31, 2010	10,280.26
02/07/2011	35421754	2011-02-072	Natural Essence Purified Water	Water consumption for January 2011	3,192.00
02/09/2011	35421755	2011-01-049	Robelle Commercial & Trading Inc	Accomodation of JHMC employees for Dec 6-7, 2010	3,328.13
02/25/2011	35421796	2011-02-014	Le Chef, Inc.	Meal expenses	2,053.12
03/14/2011	35421820	2011-03-126	Natural Essence Purified Water	Water consumption for Feb 2011	2,712.00
03/23/2011	35421857	2011-03-140	Anita Sy See	Meals for February 26-27, 2010	9,120.00
03/23/2011	35421859	2011-03-	Anita Sy See	Snacks/meals	

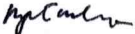
Date of Check	Check No.	DV No	Payee	Particulars	Amount
		158		during locators inspection, March 16, 2011	441.60
03/25/2011	35421868	2011-03-167	Montanosa Motors & Auto Repair Shop	Repair and maintenance of official vehicle SRF-189 (FX)	7,695.00
03/31/2011	35421883	2011-03-186	New Superior Hardware & Const'n Supply	Materials for plumbing & electrical maintenance – Cottages & Bellhouse	34,007.54
03/31/2011	35421888	2011-03-190	New Superior Hardware & Const'n Supply	Materials for repairs & maintenance of cottage 629	22,185.24
03/31/2011	35421885	2011-03-188	New Sup Hardware & Const'n Supply	Materials for construction of driver's quarters/septic tank & carport area	13,978.74
04/06/2011	35421905 35421906 35421907 35421908 35421909 35421910	2011-04-179	Raul Creencia, etal Manuel Fernandez, Roy C Mallari, Ma. D Rigonan Kate Uy Rebadulla Doris P.  Gamboa	Special legal services rendered for February 2011	6,000.00 6,000.00 4,500.00 4,500.00 4,500.00 4,500.00
04/15/2011	35421938 35421939 35421940 35421941 35421943 35421942	2011-04-229	Raul Creencia, etal Manuel Fernandez, Anthony Tabaquin Ma. D Rigonan Kate Uy	Legal Services for March 2011	6,000.00 6,000.00 4,500.00 4,500.00 4,500.00 4,500.00

Date of Check	Check No.	DV No	Payee	Particulars	Amount
			Rebadulla Doris P.  Gamboa		
05/03/2011	35422018	2011-05-316A	Thelma D. Murillo	Travelling expenses & meals	2,099.12
05/09/2011	35422063	2011-05-308	LTO	Insurance of JHMC vehicle SHG 505	2,829.06
05/11/2011	35422068	2011-06-305	PLDT	Telephone charges (424 5823)	2,560.01
05/19/2011	35422082	2011-05-326	Careful Hands Laundry Express	Laundry Services	12,750.00
05/19/2011	35422087	2011-05-331	Thelma D. Murillo	Per Diem, April 4, 2011	2,700.00
05/19/2011	35422088	2011-05-331	Leonarda Capuyan	Per Diem, April 4, 2011	2,700.00
05/19/2011	35422099	2011-05-334	Aloysius R. Santos	Per diem, May 3, 2011	2,700.00
05/19/2011	35422100		John J. Arenas		2,700.00
05/19/2011	35422101		Catherine Biazon		2,700.00
05/19/2011	35422102		Marissa O. Bondoc		2,700.00
05/19/2011	35422103		Antonio H. Tengco		2,700.00
05/27/2011	35422128	2011-05-358	PLDT	Telephone Charges, Apr 16-28, 2011	20,983.42
05/27/2011	35422129	2011-05-360	John Hay Water Systems, Inc.	Water consumption, April 2011	40,158.40
06/10/2011	35422188	2011-06-410	Montanosa Motors & Auto Repair Shop	Repair and maintenance of SEF 118 Canter	8,075.00
06/10/2011	35422189	2011-06-411	Montanosa Motors & Auto Repair shop	Repair and maintenance of SEF 189	8,550.00



Date of Check	Check No.	DV No	Payee	Particulars	Amount
06/16/2011	35422197	2011-06-416	Boss Incorporated	Purchase of 2 units desktop monitor wt built in speaker	10,732.50
06/16/2011	35422198	2011-06-420	Proc Service - BM	2011 second quarter office supplies	152,379.95
06/17/2011	35422209	2011-06-426	Hyundai La Union	Repairs & maintenance of JHMC vehicle ZSW 727 Starex	17,278.12
06/29/2011	35422253	2011-06-448	John Hay Water Systems Inc	Water consumption for May 2011	55,211.56
06/29/2011	35422281	2011-06-462	CJH Hotel Corp	Hotel accommodation at Manor	6,412.50
<b>Total</b>					<b>814,995.30</b>

Prepared by:

  
**MARY MAY T. VELASCO**  
 Audit Team Member

Reviewed by:

  
**SHALYMAR M. GARCIA**  
 Audit Team Leader



Republic of the Philippines  
**COMMISSION ON AUDIT**  
**CORDILLERA ADMINISTRATIVE REGION**  
La Trinidad, Benguet

May 15, 2012

**Ms. Jamie Eloise M. Agbayani**  
President and Chief Executive Officer  
John Hay Management Corporation  
Baguio City

Madam:

We are pleased to transmit the Annual Audit Report on the John Hay Management Corporation for the year ended December 31, 2011, in compliance with Section 2, Article IX-D of the Philippine Constitution, and Section 43 of Presidential Decree No. 1445.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of presentation of the financial statements.

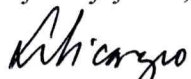
The report consists of four parts: Part I – Financial Statements, Part II – Comments and Observations, and Part III – Status of Implementation of Prior Year's Audit Recommendations and Part IV- Annex.

The comments and observations were discussed in an exit conference with concerned Management officials and staff whose comments were incorporated in the report where appropriate.

We request that the comments and observations contained in the said report be addressed and we would appreciate being informed of the actions taken within 60 days from receipt hereof.

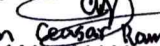
We acknowledged with thanks the cooperation extended to the audit team by the officials and staff of that agency.

Very truly yours,

  
**LYNN SF. SICANGCO**  
Director III  
Officer In Charge

RECEIVED

15 MAY 2012

  
Jun. Cesar Ramirez