



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Cordillera Administrative Region  
Km 6, La Trinidad, Benguet



**Mr. ALLAN R. GARCIA**  
President and Chief Executive Officer  
John Hay Management Corporation  
John Hay Special Economic Zone  
Baguio City



Sir:

We are pleased to transmit the Annual Audit Report on the John Hay Management Corporation for the year ended December 31, 2017 in compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The audit aimed to verify the level of assurance that may be placed in management's assertions of the financial statements, ascertain compliance with rules and regulations and determine whether resources were managed economically and efficiently. It was conducted in accordance with Philippine Public Sector Standards of Auditing and we believe that it provided reasonable basis for the results of our audit.

A qualified opinion was rendered on the fairness of the presentation of the financial statements as of December 31, 2017 due to:

- incomplete disclosure of additional information in the Notes to Financial Statements as required under Philippine Accounting Standards 1, thus information contained would not adequately assist users in understanding the financial position of the Corporation, as well as, errors in several amounts and balances presented therein.
- doubtful reliability of Property, Plant and Equipment (PPE) with a total carrying amount of P10,782,812.12 due to (a) non-recognition in the books of accounts of PPE worth P4,779,424.51 acquired thru donation/transfer; (b) non-depreciation of PPE with a total cost of P720,557.46; (c) use of residual values equivalent to less than ten percent (10%) in the computation of depreciation for PPE with a total cost of P7,660,080.24 resulting in a total net value of only P92.00;
- uncertain reliability of Accounts Receivable with a year-end balance of P5,196,525.13 due to (a) improper offsetting of receivables from and payables to



Camp John Hay Development Corporation of P4,060,916.98; (b) irregular derecognition of receivables from the books of accounts totaling P1,246,344.58; (c) inadequately supported Journal Entry Vouchers to adjust the receivables account in the total amount of P4,421,084.19; and (d) other deficiencies which understated the AR account by P83,729.72, and affecting also the balances of other accounts, which includes, among others, Accounts Payable, Other Deferred Credits, and Other Unearned Revenue;

- overstatement of the Input Taxes account by P4,091,938.42, representing the accumulated input tax credits attributable to zero-rated sales for the years 2012 to 2015 that could no longer be recovered;
- doubtful accuracy of the Due from and Due to Central/Home/Head Office account balances due to (a) misclassification to the said accounts of receivables from and payables to the Baguio Conversion and Development Authority (BCDA) amounting to P17,536,740.76 and P12,510,558.21, respectively; (b) unreconciled payables to the BCDA amounting to P2,310,218.04; (c) long outstanding unutilized funds totaling P4,805,330.57; and (d) existence of negative balances in the accounts which reduced the balance of the Due to Central Office account by P2,486,327.59;
- understatement of the Investment Property-Buildings account P47,475.65 due to the non-recognition of a building that is being leased to interested parties for the conduct of special events.

The following are the other significant findings and observations, the details of which are discussed in the Observations and Recommendations portion of the report:

1. Disbursement vouchers and supporting documents of recorded transactions totaling P70,517,048.46 were not submitted for audit;
2. Adjusting journal entries to drop several motor vehicles from the books in the net amount of P4,725,837.45 were not supported with necessary documents and explanations to justify the said entries; and
3. Items worth P1,809,317.00 were procured through Shopping and Small Value Procurement without complying with the requirements and procedures provided under Sections 52 and 53.9 of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184 and its Annex "H"; hence, the JHMC was not assured that the most advantageous terms and prices had been obtained.

We request that the recommended remedial measures be immediately implemented and we will appreciate being informed of the actions(s) taken thereon within 60 days from



receipt of this report, pursuant to Section 88 of the General Provisions of the General Appropriations Act for FY 2017 or Republic Act No. 10924.

We acknowledge the assistance and support extended to the Audit Team by the officials and employees of the Corporation.

Very truly yours,

  
**JOSEPH B. ANACAY**  
Regional Director