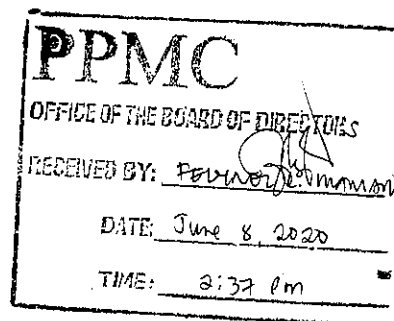




Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 1  
City of San Fernando, La Union  
Tel. No. (072) 888-6780-1

March 15, 2020

**The Board of Directors**  
Poro Point Management Corporation  
City of San Fernando, La Union



**Dear Sirs:**

We transmit herewith the report on the financial and compliance audit of the accounts and operations of the Poro Point Management Corporation, City of San Fernando, La Union for the year ended December 31, 2019, in compliance with Section 2, Article IX – D of the Philippine Constitution and pertinent Sections of Presidential Decree No. 1445.

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

The report consists of four parts: Part I – Audited Financial Statements, Part II – Audit Observations and Recommendations and Part III – Status of Prior Year's Audit Recommendations. The observations and recommendations were discussed with the concerned management officials and staff in an exit conference held on February 27, 2020. Management's comments are included in the report, where appropriate.

We rendered an unmodified opinion on the fair presentation of the Financial Statements as to the financial position of the Poro Point Management Corporation as of December 31, 2019, and the results of its operations and cash flows for the year then ended in conformity with Philippine Financial Reporting Standards (PFRS).

Presented in next page are the significant observations and recommendations for the CY 2019:

1. The inaction of the Management to require the contractor to perform its obligations under the construction contract caused delay in the work completion of the project,

Baywalk with Events Center costing P60,156,383.46 contrary to pertinent provisions of the 2016 Revised IRR of RA 9184, thus, has been incurring liquidated damages of P5,464,892.98 from May 31, 2016 to September 30, 2018. Likewise, several damages were noted during technical inspection.

We reiterated the prior year's recommendation that Management:

- a. Require the contractor for the immediate completion of the project, otherwise, enforce legal action against the latter, terminate the contract and enforce rights against the performance security posted by the contractor;
  - b. Charge the contractor for the liquidated damages incurred for the period covering May 31, 2016 to the actual completion or termination;
  - c. Conduct investigation relative to the damages, such as the destroyed asphalt road due to the construction of a new 24-meter wide concrete pavement by the DPWH; landscaping works and 23 units of gazebos, to determine the proper persons liable; and
  - d. Submit the required documents for further technical evaluation.
2. The Agency paid P545,873.03 for Extraordinary and Miscellaneous Expenses (EME) for the period January 1 to December 31, 2019 exceeding the allowed amount set forth under Section 47 of the General Provisions of the General Appropriations Act (GAA) for the Fiscal Year 2019, in relation to COA Circular 2006-01

We recommended that Management limit the spending for Extraordinary and Miscellaneous Expenses to the amount as authorized under GAA and expenses charged should only be within the purview of EME; and exercise prudence and sound financial management to ensure economy and efficiency in the use of public funds.

3. The inability of the Agency to prepare a Project Procurement Management Plan (PPMP) for Sillag project resulted in decentralized procurement of goods, supplies and materials and non-availment of volume discounts through bulk purchases, contrary to Section 7 of the IRR of RA 9184, thereby casting doubt on the economy, propriety and regularity of the procurement.

In view of the foregoing, we recommended that Management consolidate all procurement of goods, supplies and materials in order to resort to competitive public bidding as the general mode of procurement or appropriate alternative mode of procurement to obtain prices which are most advantageous to the government and to adhere to the government policy of competitiveness, transparency, economy and efficiency in the procurement process as prescribed under RA 9184.

Details of other observations and recommendations were discussed in Part II – Audit Observations and Recommendations of the report.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action taken in this regard within sixty (60) days from receipt hereof, pursuant to Section 99 of the General Provisions of Republic Act No. 11260, otherwise known as the General Appropriations Act of 2019, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

We acknowledge the cooperation extended to the audit team by the officials and staff of the agency.

Very truly yours,

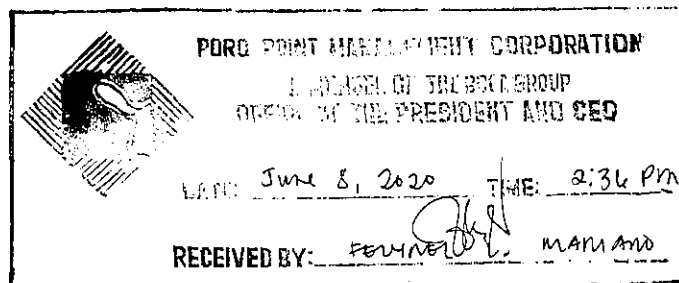
  
**MICHAEL R. BACANI**  
Regional Director



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 1  
City of San Fernando, La Union  
Tel. No. (072) 888-6780-1

March 15, 2020

**ATTY. FELIX S. RACADIO**  
**President and CEO**  
Poro Point Management Corporation  
City of San Fernando, La Union



**Dear Atty. Racadio:**

We transmit herewith the report on the financial and compliance audit of the accounts and operations of the Poro Point Management Corporation, City of San Fernando, La Union for the year ended December 31, 2019, in compliance with Section 2, Article IX – D of the Philippine Constitution and pertinent Sections of Presidential Decree No. 1445.

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

The report consists of four parts: Part I – Audited Financial Statements, Part II – Audit Observations and Recommendations and Part III – Status of Prior Year's Audit Recommendations. The observations and recommendations were discussed with the concerned management officials and staff in an exit conference held on February 27, 2020. Management's comments are included in the report, where appropriate.

We rendered an unmodified opinion on the fair presentation of the Financial Statements as to the financial position of the Poro Point Management Corporation as of December 31, 2019, and the results of its operations and cash flows for the year then ended in conformity with Philippine Financial Reporting Standards (PFRS).

Presented in next page are the significant observations and recommendations for the CY 2019:

1. The inaction of the Management to require the contractor to perform its obligations under the construction contract caused delay in the work completion of the project,

Baywalk with Events Center costing P60,156,383.46 contrary to pertinent provisions of the 2016 Revised IRR of RA 9184, thus, has been incurring liquidated damages of P5,464,892.98 from May 31, 2016 to September 30, 2018. Likewise, several damages were noted during technical inspection.

We reiterated the prior year's recommendation that Management:

- a. Require the contractor for the immediate completion of the project, otherwise, enforce legal action against the latter, terminate the contract and enforce rights against the performance security posted by the contractor;
  - b. Charge the contractor for the liquidated damages incurred for the period covering May 31, 2016 to the actual completion or termination;
  - c. Conduct investigation relative to the damages, such as the destroyed asphalt road due to the construction of a new 24-meter wide concrete pavement by the DPWH; landscaping works and 23 units of gazebos, to determine the proper persons liable; and
  - d. Submit the required documents for further technical evaluation.
2. The Agency paid P545,873.03 for Extraordinary and Miscellaneous Expenses (EME) for the period January 1 to December 31, 2019 exceeding the allowed amount set forth under Section 47 of the General Provisions of the General Appropriations Act (GAA) for the Fiscal Year 2019, in relation to COA Circular 2006-01

We recommended that Management limit the spending for Extraordinary and Miscellaneous Expenses to the amount as authorized under GAA and expenses charged should only be within the purview of EME; and exercise prudence and sound financial management to ensure economy and efficiency in the use of public funds.

3. The inability of the Agency to prepare a Project Procurement Management Plan (PPMP) for Sillag project resulted in decentralized procurement of goods, supplies and materials and non-availment of volume discounts through bulk purchases, contrary to Section 7 of the IRR of RA 9184, thereby casting doubt on the economy, propriety and regularity of the procurement.

In view of the foregoing, we recommended that Management consolidate all procurement of goods, supplies and materials in order to resort to competitive public bidding as the general mode of procurement or appropriate alternative mode of procurement to obtain prices which are most advantageous to the government and to adhere to the government policy of competitiveness, transparency, economy and efficiency in the procurement process as prescribed under RA 9184.

Details of other observations and recommendations were discussed in Part II – Audit Observations and Recommendations of the report.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action taken in this regard within sixty (60) days from receipt hereof, pursuant to Section 99 of the General Provisions of Republic Act No. 11260, otherwise known as the General Appropriations Act of 2019, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

We acknowledge the cooperation extended to the audit team by the officials and staff of the agency.

Very truly yours,

  
**MICHAEL R. BACANI**  
Regional Director



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

**ANNUAL AUDIT REPORT**

**on the**

**PORO POINT MANAGEMENT CORPORATION**  
**City of San Fernando, La Union**

**For the Year Ended December 31, 2019**

## EXECUTIVE SUMMARY

### A. Introduction

The Poro Point Management Corporation (PPMC) was created and registered with the Securities and Exchange Commission (SEC) as the operating and implementing arm of the Bases Conversion and Development Authority (BCDA) to manage the Poro Point Special Economic and Freeport Zone (PPSEFZ), now Poro Point Freeport Zone (PPFZ) pursuant to Republic Act (RA) No. 9400 (An Act Amending RA No. 7227, as amended, otherwise known as the Bases Conversion and Development Act of 1992, and Other Purposes). PPMC's scope of responsibility encompasses the former Wallace Air Station in Poro Point, La Union, home to Thunderbird Resorts, the San Fernando Airport and the San Fernando International Seaport.

### B. Financial Highlights

Presented below is the summary of comparative financial highlights of the Agency:

	2019	2018	Percentage of Change
Assets	P214,220,636.08	P200,025,023.08	7.10%
Liabilities	103,894,887.49	100,363,499.29	3.52%
Government Equity	110,325,748.59	99,661,523.79	10.70%
Income	93,613,480.41	87,307,513.79	7.22%
Expenses	P68,550,145.56	P 70,480,869.65	(2.74%)

	2019	2018	Percentage of Change
Budget	P144,094,822.00	P99,261,600.00	45.17%
Actual Expenditures	P 68,550,145.56	P70,480,869.65	(2.74%)

### C. Scope of Audit and Methodology

A comprehensive audit was conducted on the accounts and operations of Poro Point Management Corporation for the year ended December 31, 2019. It was aimed at expressing an opinion as to whether the financial statements present fairly the Corporation's financial position, results of operations and cash flows and at determining the Corporation's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of operations.



#### **D. Auditor's Opinion on the Financial Statements**

The Auditor rendered an unmodified opinion on the fair presentation of the Financial Statements as to the financial position of the Poro Point Management Corporation as of December 31, 2019, and the results of its operations and cash flows for the year then ended in conformity with Philippine Financial Reporting Standards (PFRS).

#### **E. Significant Audit Observations and Recommendations**

It is worthy to note that the Corporation withheld and remitted taxes amounting to P9,404,515.25 and P11,706,055.26, respectively, as of December 31, 2019 which is composed of various taxes on compensation, purchases from suppliers/contracts, taxes on per diems, fringe benefits and corporate income tax. Hence, the Agency was found compliant to their tax obligations.

We commended the Agency for dutifully complying on their tax obligations.

However, presented below is the summary of the significant Audit Observations and Recommendations. These were discussed with the agency officials concerned during the exit conference and their corresponding comments were incorporated in Part II of the report, where appropriate:

1. The inaction of the Management to require the contractor to perform its obligations under the construction contract caused delay in the work completion of the project, Baywalk with Events Center costing P60,156,383.46 contrary to pertinent provisions of the 2016 Revised IRR of RA 9184, thus, has been incurring liquidated damages of P5,464,892.98 from May 31, 2016 to September 30, 2018. Likewise, several damages were noted during technical inspection.

We reiterated the prior year's recommendation that Management:

- a. Require the contractor for the immediate completion of the project, otherwise, enforce legal action against the latter, terminate the contract and enforce rights against the performance security posted by the contractor;
- b. Charge the contractor for the liquidated damages incurred for the period covering May 31, 2016 to the actual completion or termination;
- c. Conduct investigation relative to the damages, such as the destroyed asphalt road due to the construction of a new 24-meter wide concrete pavement by the DPWH; landscaping works and 23 units of gazebos, to determine the proper persons liable; and
- d. Submit the necessary documents for further technical evaluation.

2. The Agency paid P545,873.03 for Extraordinary and Miscellaneous Expenses (EME) for the period January 1 to December 31, 2019 exceeding the allowed amount set forth under Section 47 of the General Provisions of the General Appropriations Act (GAA) for the Fiscal Year 2019, in relation to COA Circular 2006-01

We recommended that Management limit the spending for Extraordinary and Miscellaneous Expenses to the amount as authorized under GAA and expenses charged should only be within the purview of EME; and exercise prudence and sound financial management to ensure economy and efficiency in the use of public funds.

3. The inability of the Agency to prepare a Project Procurement Management Plan (PPMP) for Sillag project resulted in decentralized procurement of goods, supplies and materials and non-availment of volume discounts through bulk purchases, contrary to Section 7 of the IRR of RA 9184, thereby casting doubt on the economy, propriety and regularity of the procurement.

In view of the foregoing, we recommended that Management consolidate all procurement of goods, supplies and materials in order to resort to competitive public bidding as the general mode of procurement or appropriate alternative mode of procurement to obtain prices which are most advantageous to the government and to adhere to the government policy of competitiveness, transparency, economy and efficiency in the procurement process as prescribed under RA 9184.

4. Several deficiencies were noted in the Gender and Development (GAD) activities of the Agency contrary to pertinent provisions of Joint Circular No. 2012-01 of PCW, NEDA and DBM, hence mainstreaming on gender awareness, gender issues through programs, activities and projects were not achieved.

We recommended that Management:

- a. Prepare GAD Plan and Budget equivalent to at least five percent of the Corporate Budget;
- b. Implement GAD activities pursuant to the approved GAD Plan and Budget; and
- c. Establish and maintain GAD Database which includes sex disaggregated file based on various GAD indicators.

#### **F. Summary of Audit Suspensions, Disallowances and Charges**

As of December 31, 2019, PPMC has no outstanding suspensions and charges, however, disallowances totaling to P1,234,904.05 are under appeal.

### **G. Status of Prior Year's Audit Recommendations**

Out of the four audit recommendations contained in the previous year's Annual Audit Report, two were fully implemented and two were not implemented and reiterated in Part II of the report.

## TABLE OF CONTENTS

### **PART I - AUDITED FINANCIAL STATEMENTS**

Independent Auditor's Report	1
Statement of Management Responsibility	3
Detailed Statement of Financial Position	4
Detailed Statement of Comprehensive Income	8
Statement of Changes in Equity	10
Statement of Cash Flow	11
Notes to the Financial Statements	12

<b>PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>	<b>27</b>
---	-----------

<b>PART III - STATUS OF PRIOR YEAR'S AUDIT RECOMMENDATIONS</b>	<b>42</b>
--	-----------

**PART I**

**AUDITED FINANCIAL STATEMENTS**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Office of the Supervising Auditor  
**CGS 7-A WATER DISTRICTS AND  
OTHER STAND ALONE AGENCIES**  
Regional Office No. 1  
City of San Fernando, La Union

---

**INDEPENDENT AUDITOR'S REPORT**

**THE BOARD OF DIRECTORS**

Poro Point Management Corporation  
Poro Point Freeport Zone  
City of San Fernando, La Union

**Unmodified Opinion**

We have audited the financial statements of the Poro Point Management Corporation, which comprise the statement of financial position as at December 31, 2019, and the statement of financial performance, statement of changes in net assets/equity and statement of cash flows of the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Poro Point Management Corporation as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

**Basis for Unmodified Opinion**

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are independent of the agency in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Responsibilities of Management and those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

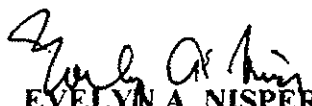
Those charged with governance are responsible for overseeing the Agency's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **COMMISSION ON AUDIT**

By:

  
**EVELYN A. NISPEROS**  
Supervising Auditor

February 28, 2020



**PORO POINT MANAGEMENT CORPORATION**

A Member of the BCDA Group  
City of San Fernando, La Union  
Tel. No. (072) 888-5954

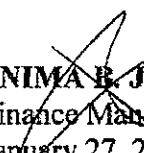
---

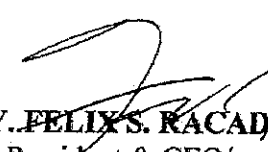
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR  
FINANCIAL STATEMENTS**

The management of the Poro Point Management Corporation is responsible for the preparation of the financial statement as at December 31, 2019, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The 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 before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the Poro Point Management Corporation in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

  
**LENIMA B. JUDAN**  
Finance Manager  
January 27, 2020  
Date Signed

  
**ATTY. FELIX S. RACADIO**  
President & CEO/  
OIC-Chairman of the Board  
January 27, 2020  
Date Signed



**PORO POINT MANAGEMENT CORPORATION**  
(A Member of The BCDA Group)  
**Detailed Statement of Financial Position**  
**As of December 31, 2019**  
(With comparative figures as of December 31, 2018)

	Notes	2019	2018
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
<b>Cash and Cash Equivalents</b>			
Cash on Hand			
Cash-Collecting Officer	2    P	2,700.00	P    3,206,487.60
Cash in Bank	3		
Cash in Bank-Local Currency, CA		11,872,931.82	7,164,582.21
Cash in Bank-Local Currency, SA		24,327.80	25,139.81
Cash Equivalents			
Time deposits-Local Currency	4	7,108,081.61	7,050,836.26
Total		<u>19,008,041.23</u>	<u>17,447,045.88</u>
<b>Investments</b>			
Investments in Time Deposits			
Investments in Time Deposits-Local Currency	5	<u>70,958,520.23</u>	<u>70,438,695.22</u>
<b>Receivables</b>			
Loans and Receivables Account			
Accounts Receivable	6	1,644,710.30	1,760,725.86
Interest Receivable		98,661.97	13,575.98
Intra-Agency Receivables			
Due from BCDA	7	8,731,929.95	4,797,070.36
Other Receivables			
Due from Officers and Employees	8	423,224.98	463,721.24
Total		<u>10,898,527.20</u>	<u>7,035,093.44</u>
<b>Inventories</b>			
Inventory Held for Consumption	9		
Office Supplies Inventory		848,321.23	1,664,177.72
Total		<u>848,321.23</u>	<u>1,664,177.72</u>
<b>Other Assets</b>			
Advances			
Advances to Officers and Employees		-	-
Prepayments	10		
Advances to Contractors		1,502,508.10	1,172,604.34
Prepaid Registration		3,185.06	43,123.02
Prepaid Insurance		138,682.60	589,356.84

	Notes	2019	2018
Other Prepayments		105,655.18	
Deposits			
Guaranty deposits	11	168,884.00	168,884.00
Other Assets			
Other Assets		320,751.10	320,751.10
Total		<u>2,239,666.04</u>	<u>2,294,719.30</u>
<b>Total Current Assets</b>		<b>P <u>103,953,075.93</u></b>	<b>P <u>98,879,731.56</u></b>
<b>Non-Current Assets</b>			
<b>Investments</b>	12		
Investments in Joint Venture			
Investments in Joint Venture		15,000,000.00	15,000,000.00
Other Investments			
Investment in Stocks		15,000.00	15,000.00
Total		<u>15,015,000.00</u>	<u>15,015,000.00</u>
<b>Investment Property</b>	13		
Land and Buildings			
Investment Property, Land		21,441,469.65	21,441,469.65
Investment Property, Buildings		6,676,047.56	6,676,047.56
Construction in Progress			
Const. in Progress-Investment Property, Buildings		60,368,054.09	49,909,596.64
Total		<u>88,485,571.30</u>	<u>78,027,113.85</u>
<b>Property, Plant and Equipment</b>	14		
Land Improvements			
Other Land Improvements		276,082.12	276,082.12
Accumulated Depreciation-Other Land Improvements		(262,278.01)	(262,278.01)
Infrastructure Assets			
Power Supply Systems		516,605.02	516,605.02
Accumulated Depreciation-Power Supply Systems		(490,774.77)	(490,774.77)
Buildings and Oher Structures			
Buildings		6,309,335.20	6,309,335.20
Accumulated Depreciation-Buildings		(4,154,108.48)	(3,785,601.28)
Other Structures		2,669,275.51	2,669,275.51
Accumulated Depreciation-Other Structures		(2,482,771.32)	(2,482,771.32)
Machinery and Equipment			
Office Equipment		5,528,792.13	5,442,793.13
Accumulated Depreciation-Office Equipment		(4,881,287.40)	(4,694,131.29)
Information and Communication Tech. (ICT) Equip.		4,894,630.66	4,247,420.66
Accumulated Depreciation-ICT Equipment		(3,266,252.96)	(3,261,055.60)
Communication Equipment		377,262.20	377,262.20
Accumulated Depreciation-Communication Equip.		(363,572.95)	(363,572.95)
Technical and Scientific Equipment		413,387.52	413,387.52

	Notes	2019	2018
Accumulated Depreciation-Tech. and Scientific Equip.		(366,259.65)	(366,259.65)
Furniture, Fixtures and Books			
Furniture and Fixtures		2,592,033.10	2,547,033.10
Accumulated Depreciation-Furniture and Fixtures		(2,278,269.96)	(2,240,878.03)
Transportation Equipment			
Motor Vehicle		10,367,897.02	9,594,572.02
Accumulated Depreciation-Motor Vehicle		(9,907,478.42)	(9,254,902.58)
Watercrafts		-	773,325.00
Accumulated Depreciation-Watercrafts		-	(410,213.89)
Total		<u>5,492,246.56</u>	<u>5,554,652.11</u>
<b>Intangible Assets</b>			
Intangible Assets	15		
Computer Software		851,469.58	851,469.58
Accumulated Amortization-Computer Software		(830,992.68)	(830,992.68)
Total		<u>20,476.90</u>	<u>20,476.90</u>
<b>Other Assets</b>			
Other Assets			
Other Assets	16	<u>1,254,265.39</u>	<u>2,528,048.66</u>
<b>Total Non-Current Assets</b>		<u><b>110,267,560.15</b></u>	<u><b>101,145,291.52</b></u>
<b>TOTAL ASSETS</b>		<b>P <u>214,220,636.08</u></b>	<b>P <u>200,025,023.08</u></b>

### LIABILITIES AND EQUITY

#### Current Liabilities

##### Financial Liabilities

###### Payables

###### Accounts Payable

17	P	<u>6,494,223.96</u>	P	<u>6,514,347.28</u>
----	---	---------------------	---	---------------------

##### Inter-Agency Payables

###### Inter-Agency Payables

###### Due to BIR

552,413.66	643,108.00
------------	------------

###### Due to Pag-ibig

135,544.52	113,464.60
------------	------------

###### Due to Philhealth

7,416.31	3,952.57
----------	----------

###### Due to SSS

78,944.54	24,071.36
-----------	-----------

###### Income Tax Payable

609,244.18	2,820,089.85
------------	--------------

###### Total

<u>1,383,563.21</u>	<u>3,604,686.38</u>
---------------------	---------------------

##### Intra-Agency Payables

###### Intra-Agency Payables

###### Due to Other Funds

3,968.57	515,323.27
----------	------------

###### Due to BCDA

68,862,691.72	63,417,721.11
---------------	---------------

	Notes	<u>2019</u>	<u>2018</u>
Total		68,866,660.29	63,933,044.38
<b>Trust Liabilities</b>			
Trust Liabilities	19		
Trust Liabilities		1,538,816.48	1,218,854.02
Guaranty Deposits Payable		35,000.00	12,000.00
Security Deposit		32,000.00	
Total		<u>1,605,816.48</u>	<u>1,230,854.02</u>
<b>Other Payables</b>			
Other Payables			
Other Payables	20	<u>7,107,513.79</u>	<u>6,643,457.47</u>
<b>Total Current Liabilities</b>		<u><b>85,457,777.73</b></u>	<u><b>81,926,389.53</b></u>
<b>Non-Current Liabilities</b>			
<b>Intra-Agency Payables</b>			
Intra-Agency Payables			
Due to BCDA	21	<u>18,437,109.76</u>	<u>18,437,109.76</u>
<b>Total Liabilities</b>	<b>P</b>	<u><b>103,894,887.49</b></u>	<u><b>P 100,363,499.29</b></u>
<b>Equity</b>			
<b>Stockholders' Equity</b>			
Stockholders' Equity			
Share Capital	22	68,143,720.23	68,143,720.23
Other Equity Instruments	23	<u>15,000,000.00</u>	<u>15,000,000.00</u>
Total		<u>83,143,720.23</u>	<u>83,143,720.23</u>
<b>Retained Earnings/(Deficit)</b>			
Retained Earnings/(Deficit)			
Retained Earnings/(Deficit)		27,182,028.36	16,517,803.56
<b>Total Equity</b>		<u><b>110,325,748.59</b></u>	<u><b>99,661,523.79</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P</b>	<u><b>214,220,636.08</b></u>	<u><b>P 200,025,023.08</b></u>

See Accompanying Notes to Financial Statements

**PORO POINT MANAGEMENT CORPORATION**  
(A Member of The BCDA Group)  
**Detailed Statement of Comprehensive Income**  
**For the year ended December 31, 2019**  
(With comparative figures as of December 31, 2018)

	Notes	2019	2018
<b>Revenues</b>			
Service and Business Income			
Business Income			
Management Fees	24 P	90,718,356.84	P 83,818,562.19
Interest Income		1,176,526.43	720,314.53
Permit fees		950,297.14	1,071,867.47
Miscellaneous Income			
Miscellaneous Income	25	768,300.00	1,696,769.60
<b>Total Revenues</b>		<u><b>93,613,480.41</b></u>	<u><b>87,307,513.79</b></u>
<b>Less: Expenses</b>			
<b>Personnel Services</b>			
Salaries and Wages			
Salaries and Wages-Regular		30,311,007.63	26,926,799.35
Other Compensation			
Personnel Economic Relief Allowance (PERA)		1,333,386.52	767,051.51
Representation Allowance		744,500.00	704,500.00
Transportation Allowance		742,500.00	704,500.00
Clothing/Uniform Allowance		336,000.00	324,000.00
Longevity Pay		1,763,654.62	90,000.00
Overtime and Night Pay		2,511,325.80	1,219,790.67
Year-End Bonus		274,000.00	2,173,815.49
Cash Gift		80,000.00	265,000.00
Other Bonuses and Allowances		3,259,915.00	3,419,199.60
Personnel Benefit Contributions			
Pag-ibig Contributions		57,400.00	70,600.00
Philhealth Contributions		304,326.80	222,731.65
Employees Compensation Insurance Premiums		16,740.00	19,640.00
Provident/Welfare Contribution		-	325,465.61
Other Personnel Benefit Contributions			
Retirement Gratuity			-
Other Personnel Benefit Contributions		912,512.25	1,027,073.86
Terminal Leave Benefits		524,197.30	
<b>Total Personnel Services</b>		<u><b>43,171,465.92</b></u>	<u><b>38,260,167.74</b></u>
<b>Maintenance and Other Operating Expenses</b>			
Travelling Expenses			
Travelling Expenses-Local		3,081,915.68	3,316,145.33
Training and Scholarship Expenses			

	Notes	2019	2018
Training Expenses		1,374,242.13	1,025,024.39
Supplies and Materials Expenses		2,073,624.52	2,519,776.23
Utility Expenses			
Electricity Expenses		849,837.47	1,123,092.82
Communication Expenses			
Postage and Courier Services		1,080,249.91	62,708.29
Telephone Expenses			1,257,554.77
Confidential, Intelligence and Extraordinary Expenses			
Extraordinary and Miscellaneous Expenses		398,594.58	668,336.05
Professional Services			
Auditing Services		1,192,728.59	1,318,685.13
Consultancy Services		-	18,888.89
General Services			
Janitorial Services		344,581.14	312,070.18
Security Services		1,101,638.67	990,871.10
Repair and Maintenance			
Repair and Main.-Building and Other Structures		342,758.34	244,596.46
Repair and Main.-Transportation Equipment		127,974.90	251,761.16
Repair and Main.-Furniture and Fixtures		38,765.00	50,517.00
Taxes, Insurance Premiums and Other Fees			
Taxes, Duties and Licenses		83,623.14	112,881.28
Fidelity Bond Premiums			19,968.75
Insurance Expenses	26	674,134.17	1,172,160.44
Income Tax Expenses		3,426,473.77	6,902,712.69
Other Maintenance and Operating Expenses			
Advertising, Promo. and Marketing Expense	27	521,985.73	799,807.06
Representation Expenses		1,279,639.75	1,246,273.98
Subscription Expenses		59,111.75	73,187.00
Directors and Committee Members Fees		1,342,000.00	1,611,000.00
Other Main. and Other Operating Expenses	28	5,144,185.85	5,848,393.35
<b>Total Main. and Other Operating Expenses</b>		<b><u>24,538,065.09</u></b>	<b><u>30,946,412.35</u></b>
<b>Non-Cash Expenses</b>			
Depreciation			
Depreciation-Buildings and Other Structures		368,507.20	442,763.76
Depreciation-Machinery and Equipment		192,353.47	322,200.92
Depreciation-Transportation Equipment		242,361.95	467,782.44
Depreciation-Furniture, Fixtures and Books		37,391.93	41,542.44
Amortization			
Amortization-Intangible Assets		-	-
<b>Total Non-Cash Expenses</b>		<b><u>840,614.55</u></b>	<b><u>1,274,289.56</u></b>
<b>Total Expenses</b>		<b><u>68,550,145.56</u></b>	<b><u>70,480,869.65</u></b>
<b>NET INCOME / (LOSS)</b>	<b>P</b>	<b><u>25,063,334.85</u></b>	<b><u>16,826,644.14</u></b>

See Accompanying Notes to Financial Statements

**PORO POINT MANAGEMENT CORPORATION**  
(A Member of The BCDA Group)  
**Statement of Changes in Equity**  
**For the year ended December 31, 2019**  
(With comparative figures as of December 31, 2018)

	Notes	2019	2018	
<b>Share Capital</b>				
Balance at Beginning of the Period				
Authorized, issued and fully paid 800,000 shares, P100.00 par value	P	68,143,720.23	P	68,143,720.23
<b>Balance at End of the Period</b>		<u><b>68,143,720.23</b></u>		<u><b>68,143,720.23</b></u>
<b>Other Equity Investments</b>				
Balance at Beginning of the Period		15,000,000.00		15,000,000.00
Additions		-		-
Deductions		-		-
<b>Balance at End of the Period</b>		<u><b>15,000,000.00</b></u>		<u><b>15,000,000.00</b></u>
<b>Retained Earnings</b>				
Balance at Beginning of the Period		16,517,803.56		6,603,367.52
Correction of prior year's errors	29	<u>(14,399,110.05)</u>		<u>(6,912,208.10)</u>
As restated		2,118,693.51		(308,840.58)
Net Income (Loss)		<u>25,063,334.85</u>		<u>16,826,644.14</u>
<b>Balance at End of the Period</b>		<u><b>27,182,028.36</b></u>		<u><b>16,517,803.56</b></u>
<b>TOTAL EQUITY</b>		<u><b>P 110,325,748.59</b></u>		<u><b>P 99,661,523.79</b></u>

**PORO POINT MANAGEMENT CORPORATION**  
(A Member of The BCDA Group)  
**Statement of Cash Flows**  
**For the year ended December 31, 2019**  
(With comparative figures as of December 31, 2018)

	<b>2019</b>	<b>2018</b>
<b>Cash Flow from Operating Activities</b>		
Cash Inflow		
OPEX funds received from BCDA	P 100,941,414.68	P 97,183,085.19
Collection of Zone revenues in behalf of BCDA	-	59,441,433.04
Collection of Receivables	16,583,111.28	29,415,457.66
Collection of Regulatory Fees		1,062,867.47
Collection of Miscellaneous Income	1,718,597.14	1,834,806.40
Proceeds from termination of investment in TD	70,482,344.91	50,940,732.69
<b>Total Cash Inflow</b>	<u><b>189,725,468.01</b></u>	<u><b>239,878,382.45</b></u>
Cash Outflow		
Payment to Employees and Suppliers	(106,996,145.37)	(94,169,659.22)
Remittance of Collections to BCDA	(70,000,000.00)	(58,058,259.36)
Payment of Taxes	(3,199,987.60)	(12,624,645.55)
Investment in Time Deposit	(9,735,569.93)	(70,000,000.00)
<b>Total Cash Outflow</b>	<u><b>(189,931,702.90)</b></u>	<u><b>(234,852,564.13)</b></u>
<b>Net Cash Provided by (used in) Operating Act.</b>	<u><b>(206,234.89)</b></u>	<u><b>5,025,818.32</b></u>
<b>Cash Flow from Investing Activities</b>		
Cash Inflow		
Interest received	1,176,526.43	237,069.67
Cash Outflow		
Capital Expenditure projects	(9,328,037.67)	
Acquisition of Land	-	
<b>Total Cash Outflow</b>	<u><b>(9,328,037.67)</b></u>	<u><b>-</b></u>
<b>Net Cash Provided by (used in) Investing Act.</b>	<u><b>(8,151,511.24)</b></u>	<u><b>237,069.67</b></u>
<b>Cash Flow from Financing Activities</b>		
Cash Inflow		
Capex from BCDA	9,918,741.48	-
<b>Net Cash Provided by (used in) Financing Act.</b>	<u><b>9,918,741.48</b></u>	<u><b>-</b></u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,560,995.35</b>	<b>5,262,887.99</b>
<b>Add: Cash and Cash Equivalents, Beginning</b>	<b>17,447,045.88</b>	<b>12,184,157.89</b>
<b>Cash and Cash Equivalents, Ending</b>	<u><b>P 19,008,041.23</b></u>	<u><b>P 17,447,045.88</b></u>



**PORO POINT MANAGEMENT CORPORATION**  
(A Member of the BCDA Group)  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**1. CORPORATE INFORMATION**

The Bases Conversion and Development Authority (BCDA) was created under Republic Act (RA) No. 7227 dated March 13, 1993. The main objective is to accelerate the sound and balanced conversion of former military reservations, especially the American Military Bases into alternative productive civilian uses for the benefit of the Filipino people.

Pursuant to this Act, Presidential Proclamation No. 216 was issued creating and designating the area covered by the former Wallace Air Station, the San Fernando Seaport and Airport, and contiguous areas in Poro Point as Poro Point Special Economic and Freeport Zone (PPSEFZ), now the Poro Point Freeport Zone (PPFZ).

On June 29, 1993, Executive Order (EO) No. 103 was issued, establishing the John Hay Development Corporation (JHDC) as a subsidiary and implementing arm of BCDA for Club John Hay.

Subsequently, on October 07, 1998, EO No. 31 was issued amending Sections 1 and 3 of EO No. 103, series of 1993, renaming John Hay Development Corporation (JHDC) to John Hay Poro Point Development Corporation (JPDC) as the authorized operating and implementing arm of the BCDA to manage the John Hay Special Economic Zone (JHSEZ) and the PPFZ and its contiguous areas.

On October 03, 2002, EO No. 132 was issued authorizing the creation of Poro Point Management Corporation (PPMC) as the implementing arm of BCDA over the PPFZ and renaming the John Hay Poro Point Development Corporation (JPDC) as the John Hay Management Corporation (JHMC).

PPMC was registered with the Securities and Exchange Commission (SEC) on January 06, 2003.

On March 20, 2007, Republic Act (RA) No. 9400 was enacted affirming the Freeport status of the PPSEFZ, renaming it as the Poro Point Freeport Zone (PPFZ).

**Performance Agreement**

Pursuant to EO No. 62 issued on February 27, 1993 on the prescribed policies and guidelines for the implementation of RA No. 7227, BCDA is mandated to perform oversight over subsidiaries and adopt and implement an oversight mechanism to

implement efficient utilization of scarce resources and to ensure that the plans and programs of subsidiaries are proceeding according to national goals and objectives.

In order to carry out this objective, EO No. 62 likewise mandates that BCDA and its subsidiaries enter into a Performance Agreement embodying the performance criteria and target for the year and the desired goals of the succeeding years.

Towards this goal, BCDA and PPMC entered into a Performance Agreement on setting the performance standards in accordance with the general strategies and governance standards of BCDA which is mutually acceptable to both parties.

Foremost among the features of the Agreement is about the financial undertakings that BCDA and PPMC have to comply with, briefly summarized as follows:

- BCDA as property owner of the PPFZ shall earn from lease rentals, joint venture agreements, and other business arrangements generated in the PPFZ and from dividends to be declared by PPMC. PPMC shall record these revenues as Trust Liability and remit the same to BCDA through a designated bank account. The same shall now be recorded as income of BCDA.
- PPMC as estate manager shall earn estate management fees due from BCDA either a 50 percent share in the revenues of the PPFZ or fixed amount of PhP60.5 million annually for the next two (2) years beginning 2014 to cover Personal Services (PS) and Maintenance & Other Operating Expenses (MOOE), whichever is higher. In addition, PPMC shall receive a 10 percent share on the net income of the zone.
- PPMC shall ensure that all necessary and appropriate insurance coverage for properties within the zone as well as security services for the property are secured. Insurance coverage, maintenance and depreciation expenses of BCDA properties within the zone, as well as maintenance and security services for the property, however, shall be charged to BCDA as owner of the land.
- PPMC shall formulate an annual work plan and budget to be submitted to BCDA for approval in accordance with Financial Policy No. 502-2.
- PPMC shall submit a rolling five-year OPEX schedule for BCDA funding and approval while maintaining the expected Return on Assets (ROA) and Return on Equity (ROE) targets for BCDA. A yearly submission of the actual OPEX for review and next year's projected OPEX schedule for consideration and approval of BCDA shall be presented during the planning and budgeting deliberations

#### **Note 1 – Summary of Significant Accounting Policies**

The significant accounting policies are set forth to facilitate understanding of data presented in the financial statements.

## **Basis of preparation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines. These are the Company's first financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS), where PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, was then applied.

The financial statements comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to Financial Statements.

## **Use of Estimates and Judgements**

The preparation of the financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. It also requires management to exercise its judgements in the process of applying the accounting policies consistent with that of the BCDA.

**PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards***, requires an entity adopting PFRS for the first time (a first-time adopter) to comply with each PFRS that has come into effect at the reporting date for its first PFRS financial statements. It also requires a first-time adopter to prepare an opening PFRS balance sheet at the date of transition to PFRS, the beginning of the earliest adoption to which it represents the full comparative information under PFRS.

**PAS 1, *Presentation of Financial Statements***, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or non-current; (c) prohibits the presentation of items of income and expenses as extraordinary items in the financial statements; and (d) specifies the disclosures

**IAS 2 – Inventories.** This standard prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

**IAS 16 – Property, Plant and Equipment.** This standard prescribes the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at cost. An entity shall choose either the cost model or the revaluation model as its accounting

policy and shall apply that policy to an entire class of property, plant and equipment. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The residual value and the useful life of an asset shall be reviewed at least each financial year-end and, if expectations differ from previous estimates, the changes(s) shall be accounted for as change in an accounting estimate in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

### **Cash and Cash Equivalents**

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less from date of acquisition.

### **Supplies and Materials**

This account carries the value of unused supplies and materials in stock using the moving average inventory method.

### **Property, Plant and Equipment**

Property and Equipment are stated at cost less accumulated depreciation. Depreciation is measured using the straight-line method with composite rates ranging from 5% to 20%. In accordance with COA Circular No. 2004-3 dated October 4, 2004 and COA Circular No. 2015-002 dated March 9, 2015 the computation of depreciation expense shall start on the following month after the purchase/completion of the PPE, irrespective of date within the month. The current and subsequent month depreciation expense shall be computed as follows:

$$\text{Monthly Depreciation Expense} = \frac{\text{Carrying Amount} - \text{Residual Value}}{\text{Remaining Useful Life}}$$

The effect of the recognition of depreciation as a result of the change in the estimated residual value from 10% to 5% of the cost shall be applied prospectively.

Assets acquired with value of not more than PhP15,000.00 are recorded under supplies and materials expense upon issue to the end-user pursuant to COA Circular No. 2015-007 dated October 22, 2015. However, items with individual values below the threshold of PhP15,000.00 but which work together in the form of a group of network asset whose total value exceeds the threshold shall be recognized as part of the primary PPE, e.g. computer network.

Maintenance and repairs of PPE are charged to operations. Improvements and/ or major repairs that considerably extend assets life or if the repair costs are material in amount are charged to the appropriate asset account.

## **Revenue Recognition**

Fund released for operating expenditures (OPEX) from BCDA are reflected as Management fees in the Statement of Financial Performance.

## **Collections received in trust**

PPMC shall remit to BCDA on a regular basis all revenues from contracts and other sources of revenues generated within the PPFZ and are deposited daily to BCDA Land Bank of the Philippines (LBP) Account No. 0202-0177-54 at City of San Fernando, La Union. Results of these activities are being reported to BCDA on a monthly basis.

## **2. CASH ON HAND**

The cash-collecting officer account consists of cash collections received after the cut-off time. PPMC entered into a deposit pick-up arrangement with the Land Bank of the Philippines (LBP) on November 7, 2014, wherein LBP collects daily at the PPMC Office from Monday through Friday, from 8:30 a.m. to 3:00 p.m.

## **3. CASH IN BANK-LOCAL CURRENCY**

This account consists of the following:

	<b>2019</b>	<b>2018</b>
Cash in Bank-Local Currency, LBP Opex Current	P10,763,375.87	P5,840,753.96
Cash in Bank-Local Currency, DBP Opex Current	-	215,456.82
Cash in Bank-Local Currency, LBP Capex Current	1,109,555.95	1,108,371.43
Cash in Bank-Local Currency, DBP Opex Savings	24,327.80	25,139.81
<b>Total Cash In Bank-Local Currency</b>	<b>P11,897,259.62</b>	<b>P7,189,722.02</b>

### **Cash in Bank-Local Currency, LBP Opex Current Account**

PPMC maintains a current account for its Operating Expenses (Opex) at the Land Bank of the Philippines (LBP). This was the original account of PPMC prior to its transfer to the Philippine National Bank (PNB) on 02 July 2004.

### **Cash in Bank-Local Currency, DBP Opex Current Account**

On 23 June 2014, PPMC opened a current account for its Operating Expenses (Opex) at the Development Bank of the Philippines (DBP) pursuant to the advice of the Department of Finance (DOF) to wind down PPMC's deposits at PNB and transfer the same to either LBP/DBP.

### **Cash in Bank-Local Currency, LBP Capex Account**

On 19 October 2018, PPMC opened a current account for its Capital Expenditures (Capex) at the Land Bank of the Philippines (LBP) pursuant to the advice of the Department of Finance (DOF) to wind down PPMC's deposits at PNB and transfer the same to either LBP/DBP.

### **Cash in Bank, Local Currency, DBP Opex Savings Account**

On 30 June 2016, PPMC opened a savings account for its Electronic Government (e-Gov) services account at DBP as approved by the PPMC Board per Resolution No. 2016-05-372 on 20 May 2016. The facility allows PPMC to pay premiums and loans on-line to the SSS, Pag-ibig Fund and Philhealth.

## **4. CASH EQUIVALENTS**

This account represents authorized placements of time deposit at the Land Bank of the Philippines (LBP) with a maturity of 90 days.

## **5. INVESTMENTS IN TIME DEPOSITS**

This account represents authorized placements of time deposit at the Land Bank of the Philippines (LBP) with maturities of 120 days.

## **6. ACCOUNTS RECEIVABLES**

The accounts receivable pertains to remittances of suppliers' taxes to BIR that will be collected from the concerned suppliers. The rest of the accounts are various receivables from former Officers of PPMC.

## **7. INTRA-AGENCY RECEIVABLES**

The due from BCDA account pertains to reimbursement of expenses for BCDA land related costs such as insurance coverage, maintenance and security services for the property.

## **8. OTHER RECEIVABLES**

The Due from Officers and Employees account are receivables from PPMC personnel for personal calls, prior year taxes due and other miscellaneous charges.

## **9. INVENTORIES**

The office supplies inventory, accountable forms, food supplies, chemical and filtering supplies inventory, construction materials and electrical supplies inventory are based on moving average method.

**PART II**

**AUDIT OBSERVATIONS  
AND RECOMMENDATIONS**

## 10. PREPAYMENTS

This account includes:

	2019	2018
Advances to Contractors	P1,502,508.10	P1,172,604.34
Prepaid Insurance & Registration	141,867.66	632,479.86
Other Prepayments	105,655.18	-
<b>Total Prepayments</b>	<b>P1,750,030.94</b>	<b>P1,805,084.20</b>

The Advances to Contractors account pertains to the advance payment (15% mobilization fees) made to the contractor of the Baywalk with events center project and miscellaneous advances made to other suppliers.

Prepaid registration refers to various prepayments made for the renewal of vehicles, firearm and radio licenses with a minimum coverage period of one (1) year.

Prepaid insurance represents unexpired portion of insurance premiums of PPMC occupied building, building contents, directors and officers' liability insurance and vehicle insurance.

Other prepayments represent payment to suppliers on a cash on delivery (COD) basis, subject to liquidation upon receipt of the items purchased and preparation of inventory acceptance report (IAR).

## 11. GUARANTY DEPOSITS

Guaranty deposits pertain on payments to service providers such as telephone and electric companies that are refundable upon cancellation/termination of contracts.

## 12. INVESTMENTS

This account includes:

	2019	2018
Investments in Joint Venture	P15,000,000.00	P15,000,000.00
Other Investments-Investment in Stocks	15,000.00	15,000.00
<b>Total Investments</b>	<b>P15,015,000.00</b>	<b>P15,015,000.00</b>

The investment in joint venture pertains to the 15% investment share of PPMC to Poro Point Industrial Corporation (PPIC) pursuant to the Pre-Incorporation Agreement dated September 21, 1999.



The investment in stocks represents subscription of shares of stock to PLDT.

### 13. INVESTMENT PROPERTY

This account consists of:

	2019	2018
Investment Property-Land	P21,441,469.65	P21,441,469.65
Investment Property-Building	6,676,047.56	6,676,047.56
Construction in Progress	60,368,054.09	49,909,596.64
<b>Total Investment Property</b>	<b>P88,485,571.30</b>	<b>P78,027,113.85</b>

Investment property-land refers to the validated land held-in trust within the Poro Point Freeport Zone in behalf of BCDA. Acquisition cost was valued at P1,250.00/P2,300.00 per square meter plus documentary stamp taxes & other similar incidental charges.

There are forty-seven (47) original land titles already forwarded to BCDA out of the seventy-three (73) land titles covering 5.43 hectares, more or less. Titles of the remaining lots are still subject to reconstitution as a result of the fire that gutted the Register of Deeds building on August 26, 2000.

On August 2, 2012, the Land Registration Administration (LRA) informed BCDA/PPMC that the following titles were issued with reconstitution orders: T-52521; T-52526; T-52530; T-52518; T-46198; T-52588. The LRA likewise informed BCDA that the rest of the TCT's with pending applications for reconstitution may have been damaged during the fire that destroyed the LRA office on July 22, 2011. PPMC will file the necessary documents in order to safeguard PPMC's rights to the properties.

Investment property-buildings represents finished capital expenditure projects such as provision of lighting at the industrial area and the relocation and replication of the Philippine Air Force (PAF) fence and guardhouse amounting to Php2,959,962.96 and Php3,716,084.60 respectively. These projects were already liquidated to BCDA on 11 February 2016 and 14 September 2016. However, BCDA will issue accounting instructions to PPMC to effect the liquidation in the books once the Certificate of Acceptance has been released by PPMC to the Contractors.

Construction in progress held in trust of P60,368,054.09 constitutes capital expenditure projects for the construction of baywalk with events center, construction of main gate and airport fence which are being funded by BCDA. Upon completion, these projects together with relevant documents will be turned-over to BCDA and the corresponding advances granted to PPMC are liquidated.

#### 14. PROPERTY, PLANT AND EQUIPMENT (PPE)

The details of this group of accounts consist of the following:

	<b>2019</b>	<b>2018</b>
Land Improvements	P 276,082.12	P 276,082.12
Infrastructure Assets	516,605.02	516,605.02
Buildings & Other Structures	8,978,610.71	8,978,610.71
Machinery and Equipment	11,214,072.51	10,480,863.51
Furniture, Fixtures and Books	2,592,033.10	2,547,033.10
Transportation Equipment	10,367,897.02	10,367,897.02
Total	33,945,300.48	33,167,091.48
Less: Accumulated Depreciation	28,453,053.92	27,612,439.37
Total	<b>P5,492,246.56</b>	<b>P5,554,652.11</b>

Property, plant and equipment pertain to assets acquired and are utilized and directly benefits PPMC which includes among others, properties such as buildings, furniture, fixtures, machineries, equipment and motor vehicles.

#### 15. INTANGIBLE ASSETS

This account consists of computer software used by PPMC in its operations.

#### 16. OTHER ASSETS

This account consists of accounts receivable held in trust by PPMC for BCDA amounting to P1,254,265.39. The accounts receivable-current of P244,540.89 refer to collectibles from airport users representing revenues generated within the Poro Point Freeport Zone held in trust by PPMC for BCDA while non-current trade receivables held in trust of P1,009,724.50 is long outstanding airport fees due from Ace Pilots Aviation Academy subject of a legal move to pursue collection in Court.

#### 17. ACCOUNTS PAYABLE

This account represents the outstanding payables on purchases made from local suppliers and contractors.

#### 18. INTRA-AGENCY PAYABLES

Due to other funds refers to the provident fund premium contributions and loans payable. Provident premiums of PPMC employees corresponds to 2.5% of their monthly salary and PPMC counterpart of 5% as provided under PPMC Policy No.011-2003. This will pool funds to serve as a financial facility to be utilized at some time in the future at

more favorable terms and conditions. Provident loans payable refers to loans of PPMC employees to the Provident fund. The Board of Trustees approved the implementing guidelines for the Employees Provident Fund Loan Program on October 20, 2005.

Due to BCDA pertains to the earned revenues within the PPFZ held in trust by PPMC for BCDA. Collections there from are to be remitted to BCDA through the designated bank account. Part of this account is the long outstanding airport fees due from ACE Pilots Aviation Academy in the amount of P1,009,724.50 subject of a legal move to pursue collection in court; and the accounts receivable current of P244,540.89. This account also includes funds released by BCDA for capital expenditure projects such as construction of bay walk with events center, construction of main gate and airport fence per accounting instructions issued by BCDA. Upon completion of these construction projects, PPMC will liquidate the advances made by turning over the completed projects to BCDA.

## **19. TRUST LIABILITIES**

This account consists of trust liabilities and performance security payables. Trust liabilities refer to bid fees collected from bidders. Performance security payable is posted by a bidder to guarantee the faithful performance of its obligations of an awarded contract, which may be forfeited or refunded in accordance with RA 9184.

## **20. OTHER PAYABLES**

This account consists of bid bond payables, retention payables and miscellaneous payables. Bid bond or bid security is posted by a bidder as a guarantee that the latter will enter into contract with the procuring entity. Retention payable represents the amount due to the contractor which shall be due for release upon final acceptance of its works to PPMC.

## **21. DUE TO BCDA**

This account refers to the cash advances from BCDA for the acquisition of private lots within the Wallace Area.

## **22. CAPITAL STOCK**

The company was authorized to issue 800,000 shares at P100 cost per share. BCDA has approved for an increase of authorized capital stock from PhP80 million to PhP300 million per letter dated May 4, 2012.

On October 15, 2014, PPMC wrote a letter to the Governance Commission for Government Owned and Controlled Corporation (GCG), requesting for the latter's endorsement/clearance/recommendation for the amendment of the Articles of Incorporation of PPMC prior to submission to the Securities and Exchange Commission (SEC) for approval. On October 27, 2014, GCG directed PPMC to submit documents to

be used in the evaluation process of the latter's request. On November 2, 2016, PPMC submitted additional documents required by GCG in the evaluation process. Finally, on November 23, 2016, the GCG approved the request for increase in capitalization of PPMC. PPMC is now currently reviewing the request for increase in capitalization in coordination with BCDA.

### **23. EQUITY IN JOINT VENTURE**

The Pre-Incorporation Agreement entered into on September 24, 1999 by and between the Bases Conversion and Development Authority (BCDA) and John Hay Poro Point Development Corporation (JPDC) now, Poro Point Management Corporation (PPMC) and Bulk Handlers, Inc. (BHI), a corporation duly organized under Philippine laws, created a joint venture corporation under the name of Poro Point Industrial Corporation (PPIC).

Section 1, paragraph 1.02 of the Pre-Incorporation Agreement provides that the PPIC shall be organized for the principal purpose of undertaking the utilization, development, operation, management, and administration of the seaport and industrial areas as well as all reclamation works within the project area.

Section 1, paragraph 1.03 also provides that the authorized capital stock of PPIC shall initially be in the amount of P100,000,000. BCDA/PPMC shall subscribe to shares equal to P30,000,000 constituting thirty percent (30%) ownership of the total outstanding capital stock. On the other hand, BHI and/or its consortium shall subscribe to and fully pay for shares equal to P70,000,000.00 for a seventy percent (70%) ownership of the total outstanding capital stock of PPIC.

It was likewise provided under the terms of the Agreement that BHI shall fund the thirty percent (30%) equity participation of BCDA/PPMC in exchange for the leasehold rights over the project area and that BHI shall always fund the equity participation of BCDA/PPMC in the event the capital stock of PPIC is increased to avoid dilution of the BCDA/PPMC shares.

To date, PPMC's equity share amounts to P15,000,000.00 equivalent to fifteen percent (15%) of the total authorized capital stock of PPIC.

### **24. MANAGEMENT FEES**

This account consists mainly of management fees. PPMC as estate manager of the PPFZ is compensated by BCDA in the form of OPEX fund releases corresponding to the budget for Personal Services (PS) and Maintenance and Other Operating Expenses (MOOE) of PPMC for the year. Such fund releases are recognized as estate management fees in the books of PPMC and are being released by BCDA at the start of the year.

BCDA, as property owner is entitled to the revenues generated from the PPFZ which comprise of lease rentals, airport fees, gaming revenue share, share in the sale of real estate projects and regulatory fees.

For the year ended December 31, 2019, BCDA earned a total revenue of Php102,213,669.64, net of Php53,822,312.04 uncollectible PPIC account subject to litigation.

The entry of Thunderbird Pilipinas Hotels and Resorts, Inc, whose Casino opened for business on April 28, 2006, provided a significant share in the revenues generated. Total percentage share in net winnings of 3% amounted to Php37,226,401.18 for the year ended December 31, 2019. This amount represents variable income for BCDA/PPMC on top of the monthly fixed lease rentals of Php1,797,646.25.

All collections accruing BCDA are deposited to BCDA's bank account.

## **25. MISCELLANEOUS INCOME**

This account consists of regulatory fees and building permit fees.

## **26. INSURANCE EXPENSES**

This account consists of insurance coverage at the Government Service Insurance System (GSIS) of motor vehicles, building and contents and Directors', Officers' Liability Insurance (DOLI) coverage of the Board of Directors and key officers of PPMC. Registration expense pertains to the registration of motor vehicles at the Land Transportation Office (LTO).

## **27. ADVERTISING, PROMOTIONAL AND MARKETING EXPENSES**

This account consists of advertisement to various media infrastructures, sponsorship to marketing events, procurement of marketing collaterals, membership in the Philippine Investment Promotion Plan (PIPP), participation in local expositions and various marketing events conducted inside the Poro Point Freeport Zone such as the Sillag Festival of Lights and promotion of the Baywalk Events Center.

## **28. OTHER MAINTENANCE AND OTHER OPERATING EXPENSES**

This account consists of:

	<b>2019</b>	<b>2018</b>
Special Projects	P4,716,971.85	P5,402,849.57
Other Board Expense-Meals	427,214.00	445,543.78
<b>Total Other MOOE</b>	<b>P5,144,185.85</b>	<b>P5,848,393.35</b>

One of the items under special projects is the Sillag Festival or Poro Point Festival of Lights which is an annual festival launched by PPMC on April 28, 2012. The festival focuses on the Poro Point Lighthouse which is being promoted by PPMC as an integral component of the tourism development inside the PPFZ. The festival aims to attract domestic and foreign tourists to create a mass market to encourage business and tourism inside the PPFZ as well as the City of San Fernando and the rest of the Province of La Union.

Special projects also included community development or inclusive growth which is paramount to PPMC. Alongside the development efforts and creation of business opportunities in the PPFZ, PPMC pursued community development projects to improve the quality of life of the impact communities. PPMC HELPS was institutionalized as PPMC's vehicle to implement Corporate Social Responsibility Program. HELPS stands for the various components of the program – health, education/environment, livelihood program and strengthening linkages.

Also part of the special projects is the trade mission to provide opportunity to showcase and promote the PPFZ as an investment destination in the Philippines. Trade missions also provide an avenue for PPMC to explore business opportunities as well as get insights on the developments and trends in the markets of Asia and other countries.

## 29. RETAINED EARNINGS

Correction of Prior Year's Errors charged to Retained Earnings as of December 31, 2019 are shown below:

Date	Reference	Particulars	Amount
1/14/19	JV 221/APV 0000089	Monetization of leaves of Mr. Villareal	(46,750.00)
1/30/19	JV 71/ APV 0000071	Adjustment of prior year's expenses	112.51
1/31/19	JV 75/ APV 0000048	Adjustment of prior year's expenses	(3,615.00)
1/31/19	JV 82/ APV 0000050	Adjustment of prior year's expenses	(338.00)
1/31/19	JV 89/ APV 0000052	Adjustment of prior year's expenses	3,388.19
1/31/19	JV 2019-01-001	Adjustment of prior year's expenses	93,243.20
2/11/19	JV 140/ APV 0000083	Adjustment of prior year's expenses	3,000.00
2/18/19	JV 326/ APV 000120	Reimbursement of BOD expenses	(1,150.00)
2/21/19	JV 325/ APV 000121	Reimbursement of BOD expenses	(3,000.00)
2/21/19	JV 334/ APV 000122	Adjustment of prior year's expenses	7,210.60

2/22/19	JV 333/ APV 000125	Adjustment of accrued expenses	7,156.04
2/28/19	JV 2019-02-003	Adjustment of prior year's expenses	(93,243.20)
3/31/19	JV 2019-03-006	Adjustment of prior year's expenses	(65,640.47)
3/31/19	JV 641/ APV 274	Adjustment of prior year's expenses	1,829.91
4/30/19	JV 868, 1278, 1430	Adjustment of prior year's expenses	(11,316.32)
5/2/19	JV 1279	Remittance of dividends to the DOF for the CY 2018	(8,413,322.07)
5/15/19	JV 1542	Monetization of leaves of Mr. Marquez (CY 2003-2018)	(208,509.20)
5/31/19	JV 2432/2426	Adjustment of prior year's expenses	61,449.99
6/24/19	JV 2212/2213	Adjustment of prior year's expenses	26,184.52
7/24/19	JV 2697	Remittance of dividends for CY 2016	(5,038,418.16)
7/31/19	JV 2655/ 3036/ 3039/ 2857	Adjustment of prior year's expenses	26,935.70
8/31/19	JV 2881/3253	Adjustment of prior year's expenses	44,006.86
9/30/19	JV 3611/ 4096	Adjustment of prior year's expenses	(311,734.82)
10/31/19	JV 4098/4107	Adjustment of prior year's expenses	(1,110.01)
11/30/19	JV 5010/5132	Adjustment of prior year's expenses	215,520.81
12/9/19	JV 5266	Monetization of leaves of Mr. Joselito V. Galvez (CY 2003-2018)	(297,660.83)
12/31/19	Various JV	Adjustment of prior year's expenses	(393,340.30)
		<b>TOTAL</b>	<b>(P14,399,110.05)</b>

### 30. STATUS OF PENDING LITIGATIONS

CASE	STATUS/UPDATE
1. PPMC vs. Ace Pilots Aviation Academy, Inc. Civil Case No. 9007 Collection of Sum of Money PhP1,031,258.80	-The Honorable Court issued a Notice of Garnishment on July 11, 2018 and served upon BPI and BDO head offices, Makati on July 17, 2018 and July 19, 2018 respectively. BPI and BDO in their reply dated 19 July 2018, stated that defendant had no account with their bank.
2. BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shipside Incorporated Re: Expropriation Cases (for eminent domain)	-Defendants filed petition for Certiorari from the decision of the Court of Appeals to remand the case to the trial court. The case is pending in the Supreme Court. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC) as the handling and statutory counsel. No

<p>3. Bulk Handler's Inc. (BHI), Moran, Tan, Venturina and Poro Point Industrial Corporation (PPIC) vs. BCDA and PPMC  Re: Petition for Injunction brought under the Interim Rules of Procedure Governing Intra-Corporate Controversies (to prevent implementation of PPMC Resolution No. 2006-01-10 declaring the Pre-Incorporation Agreement null and void <i>ab initio</i>.)</p> <p>4. PPMC vs. Poro Exim Corporation  Re: Collection of Sum of Money with damages.</p>	<p>feedback yet from OGCC.</p> <p>-BCDA opted to wait for the final decision of the higher court and did not approve the proposal to enter into a compromise agreement with BHI. The case is pending in the Supreme Court where BCDA elevated the adverse decision of the Court of Appeals. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC) as the handling and statutory counsel. No feedback yet from OGCC.</p> <p>-PPMC filed in court, RTC Branch 26, City of San Fernando, La Union. Summon was served to defendants on 23 November 2018. Mediation failed in Court Annexed Mediation (CAM). Hearing was set for mediation before RTC Branch 26, City of San Fernando, La Union on July 2, 2019. Judicial Dispute Resolution (JDR) is scheduled on February 5, 2020 after several postponement.</p>
--	---



## PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AND COMPLIANCE

#### Delayed completion of the project amounting to P60,156,383.46

1. The inaction of the Management to require the contractor to perform its obligations under the construction contract caused delay in the work completion of the project, Baywalk with Events Center, costing P60,156,383.46 contrary to pertinent provisions of the 2016 Revised IRR of RA 9184, thus, had been incurring liquidated damages of P5,464,892.98 from May 31, 2016 to September 30, 2018. Likewise, several damages were noted during technical inspection.

Records show that PPMC entered into a contract with WERR Corporation for the Construction of Baywalk with Events Center. As of September 30, 2018, the agency paid P49,909,596.64 and reported an accomplishment of 99.03%.

The Audit Team requested technical inspection from the Regional Technical Services, COA RO I, San Fernando City, La Union and the following were observed:

#### a. Running liquidated damages due to delay in work completion

Technical inspection was conducted by the Regional Technical Services, COA RO I, San Fernando City, La Union on the construction of the project last June 18, July 2, August 7, September 20 and October 1, 2018. Presented in Annex A is the Inspection Report for Infrastructure Projects.

The table shows the chronology of events pertaining to the project:

Activities	Date
Date of Contractor's receipt of NTP	06/25/2015
Date of Start (Within 7 days after the receipt of NTP)	07/02/2015
Initial Date of Completion without extensions (180 days)	12/28/2015
Date of Completion as per First Notice of Extension (45 days)	02/11/2016
Date of Completion as per Second Notice of Extension (50 days)	04/01/2016
Date of Completion as per Third Notice of Extension (60 days)	05/30/2016

Based on the above table, the project should have been completed on May 30, 2016, hence, already delayed for 853 days from May 31, 2016 to September 30, 2018, with running liquidated damages amounting to P5,464,892.98, pursuant to Item 8.1 of Annex E of the Revised 2016 IRR of RA 9184, quoted as follows:

*“Where the contractor refuses or fails to satisfactorily complete the work within the specified contract time, plus any time extension duly granted and is hereby in default under the contract, the contractor shall pay the procuring entity for liquidated damages, and not by way of penalty, an amount, as provided in the conditions of contract, equal to at least one tenth (1/10) of one (1) percent of the cost of the unperformed portion of the works for every day of delay.”*

Likewise, Item 8.4., Annex E of the above-mentioned IRR provides that:

*“In case that the delay in the completion of the work exceeds a time duration equivalent to ten percent (10%) of the specified contract time plus any time extension duly granted to the contractor, the procuring entity concerned may rescind the contract, forfeit the contractor's performance security and takeover the prosecution of the project or award the same to a qualified contractor through negotiated contract.”*

Once the project is completed, the revised amount of liquidated damages from May 31, 2016 to the period of completion will be computed and the same will be charged against the contractor.

#### **b. Several damages on the project**

Technical inspection of the project disclosed the following damages due to its non-immediate completion and non-monitoring of the project:

1. Constructed asphalt road was destroyed with the construction of a new 24-meter wide PCCP by the Department of Public Works and Highways.
2. Landscaping works can no longer be evaluated.
3. Twenty three (23) out of 44 units of Gazebo were destroyed.

Section 62.2 of the Revised 2016 IRR of RA 9184 provides the following provision of warranties:

*“62.2. For the procurement of Infrastructure Projects, the following warranties shall be made:*

*62.2.1. From the time project construction commenced up to final acceptance, the contractor shall assume full responsibility for the following:*

- a) any damage or destruction of the works except those occasioned by force majeure; and*
- b) safety, protection, security, and convenience of his personnel, third parties, and the public at large, as well as the works,*

*equipment, installation and the like to be affected by his construction work.”*

Based on the above provision, the contractor shall assume his responsibility if there are damages or destruction except those occasioned by force majeure.

**c. Several documents were not submitted for evaluation.**

In addition, the following documents relative to the project were not submitted for technical evaluation:

1. As Built Plans including Cross Sections for all Roadway Excavations, Embankment, Aggregate Base Course, PCCP, Asphalt Road, Stone Masonry and Riprap. Also no shop drawings/ plans for the playground amenities.
2. Quantity Back-up Computations for all “As Built” Quantities/Items.
3. Approved Budget for the Contract Detailed Unit Price Analysis (ABC-DUPA) for item 8.a-f in the Inspection Report for Infrastructure Project.
4. Bill of Quantities Detailed Unit Price Analysis (BOQ-DUPA) for item 9.a-m in the Inspection Report for Infrastructure Project.
5. Test Results for item 10 in the Inspection Report for Infrastructure Project.

A copy of the Inspection Report for Infrastructure Projects was forwarded to the Agency requiring the submission of the documents. However, as of this writing, these have not yet been submitted, thus, a final Inspection Report for Infrastructure Project was not yet rendered.

**d. Variation Orders approved way beyond the contract duration which expired on May 30, 2016**

Item 13.5 of Annex G of the Revised IRR of RA 9184, provides the following:

***“13. CONTRACT IMPLEMENTATION***

*13.5. As a rule, changes in design and construction requirements shall be limited only to those that have not been anticipated in the contract documents prior to contract signing and approval.”*

Presented below is the breakdown of variation orders:

<b>Variation Order No.</b>	<b>Date</b>	<b>Particulars</b>	<b>Amount</b>
1	April 5, 2017	Increase/Additional Works	P5,102,391.61
2	November 8, 2017	Increase/Additional Works	1,807,397.16
		Deductions	(4,198,964.18)
		<b>Net Deductions for Variation No. 2</b>	<b>(P2,391,567.02)</b>

The approved Variation Order Nos. 1 and 2 dated April 5, 2017 and November 8, 2017, respectively, were beyond the contract duration which expired on May 30, 2016. These variation orders are therefore not allowed and should not have been implemented. Variation orders should have been approved in the period of contract implementation and not after the expiry date of the contract.

Variation Order Nos. 1 and 2 have a total additional works of P5,102,391.61 and P1,807,397.16, respectively, hence progress payments are not allowed in audit.

**We reiterated the prior year's recommendation that Management:**

- a. **Require the contractor for the immediate completion of the project, otherwise, enforce legal action against the latter, terminate the contract and enforce rights against the performance security posted by the contractor;**
- b. **Charge the contractor for the liquidated damages incurred for the period covering May 31, 2016 to the actual completion or termination;**
- c. **Conduct investigation relative to the damages, such as the destroyed asphalt road due to the construction of a new 24-meter wide concrete pavement by the DPWH; landscaping works and 23 units of gazebos, to determine the proper persons liable; and**
- d. **Submit the documents under item observation "c" for further technical evaluation.**

Management commented that the delay of its completion is due to deviations on the billings given by the Contractor and the actual accomplishment verified by Management, hence, the Contractor opted not to continue the project until the billings' deviations is settled.

The Management also commented that there are project accomplishments done after May 30, 2016, thus, they sought for the reduction of the computed liquidated damages.

In addition, Management remarked that due to the DPWH road widening project on the road of the baywalk, the asphalt road could no longer be evaluated. Also, the landscaping area could no longer be evaluated due to some destroyed plants and trees. Further, Management commented that the Gazebos were destroyed during typhoon/storm surge. They committed to the Audit Team that they will submit report and photographs that the asphalt road, landscaping works and Gazebos were constructed in accordance with the Contract.

Relative to the lacking documents, Management committed to submit them to the Audit Team. Meanwhile, with respect to the approval of Variation Orders after the completion date, Management justified that the Variation Orders were approved by the Board of Directors (BODs) before May 30, 2016, however, these only contained rough estimates, hence, they committed to submit the documents pertaining the BOD's approval of Variation Orders before completion date and they are requesting for reconsideration.

Moreover, Management committed to make a timeframe or action plan to be submitted to the Audit Team regarding on the actions to be undertaken relative to the completion of the project.

#### **Auditor's Rejoinder:**

The Audit Team replied that the project is already overdue for more than two years; therefore, the problem should have been resolved immediately. The Agency should consider enforcement of rights against the Performance Security or termination of the project since the Contractor stopped in his obligation to complete the project.

The documents to prove the existence of asphalt road, landscaping design and erected Gazebos as well as the BODs' approval of Variation Orders with rough estimates before the completion date must be submitted for further evaluation of the Regional Technical Evaluation Services of the Commission on Audit Regional Office No.1, City of San Fernando, La Union.

#### **Economical and efficient use of funds.**

- 2. The Agency paid P545,873.03 for Extraordinary and Miscellaneous Expenses (EME) for the period January 1 to December 31, 2019 exceeding the allowed amount set forth under Section 47 of the General Provisions of the General Appropriations Act (GAA) for the Fiscal Year 2019, in relation to COA Circular 2006-01**

COA Circular No. 2006-01 dated January 3, 2006 provides the guidelines on the disbursement of EME and other similar expenses in government owned and controlled corporations(GOCCs)/government financial institutions (GFIs) and their subsidiaries. The circular pertinently states that the amount of EME as authorized in

the corporate charters GOCCs/GFIs shall be the ceiling in the disbursements of these funds and if the ceiling for extraordinary and miscellaneous expenses were not provided in the GOCC's charters, the amounts fixed in the GAA shall be considered as the ceiling. It also provides that payments shall be made on a non-commutable or reimbursable basis.

On the other hand, Section 47 of the General Provisions of the GAA for the Fiscal Year 2019 expressly states that:

*“Sec. 47. Extraordinary and Miscellaneous Expenses. Appropriations authorized in this Act may be used for the annual extraordinary expenses of the following officials with the following ranks and their equivalent, as may be determined by the DBM, not exceeding the amounts indicated:*

- (a) P264,000 for each Department Secretary;*
- (b) P108,000 for each Department Undersecretary;*
- (c) P60,000 for each Department Assistant Secretary;*
- (d) P45,600 for each head of bureau or organization of equivalent rank, and for each head of a Department Regional Office including General Manager of Water District in Category A and B;*
- (e) P26,400 for each head of a Bureau Regional Office or organization of equivalent rank including General Manager of Water District in Category C and D; and*
- (f) P19,200 for each Municipal Trial Court Judge, Municipal Circuit Trial Court Judge, and Shari'a Circuit Court Judge.*

*In addition, miscellaneous expenses not exceeding Seventy-Two Thousand Pesos (P72,000) for each of the offices under the above named officials are authorized herein. For the purpose of this Section, extraordinary and miscellaneous expenses include, but not limited to, expenses incurred for:*

- (a) Meetings, seminars and conferences;*
- (b) Official entertainment;*
- (c) Public relations;*
- (d) Educational, athletic and cultural activities;*
- (e) Contributions to civic or charitable institutions;*
- (f) Membership in government associations;*
- (g) Membership in national professional organizations duly accredited by the Professional Regulation Commission;*
- (h) Membership in the Integrated Bar of the Philippines;*
- (i) Subscription to professional technical journals and informative magazines, library books and materials;*
- (j) Office equipment and supplies; and*
- (k) Other similar expenses not supported by the regular budget allocation.*

*In case of deficiency, the requirements for the foregoing purposes shall be charged against available allotments of the agency concerned. No portion of the amounts authorized herein shall be used for salaries, wages, allowances, confidential and intelligence expenses.”*

Accounting records showed that the total amount of ₱398, 594.58 was charged as EME as of December 31, 2019. However, examination of disbursement vouchers and its supporting documents revealed that a total amount of ₱545,873.03 were reimbursed for the activities purportedly the incurrence of expenses of food, transportation, hotel accommodations and other miscellaneous items, as tabulated in the table below:

Particulars	Amount
Meals and Snacks	₱ 334,538.73
Transportation Expenses	68,190.58
Gasoline Expense	48,034.28
Hotel Accommodations	42,958.00
Other various miscellaneous expenses	52,151.44
<b>Total</b>	<b>₱ 545,873.03</b>

The PPMC had no corporate charter and it was only created under Executive Order No. 132, s. 2002, thus, the amount set forth under the GAA should have been the ceiling in the disbursements for EME and should have been the basis for control in the disbursement of public funds. Under the 2019 GAA, the allowed EME for the PPMC was P336, 000.00; hence, the above reported disbursements exceeded what was authorized.

Moreover, it bears emphasizing that payment for hotel accommodations, gasoline expense and toll fees were expenses not falling within the purview of EME as delineated in the GAA and the mentioned COA Circular. On the other hand, payments of gasoline and toll fees should have not been granted since the official was already receiving monthly Representation and Transportation Allowance (RATA).

**We recommended that management limit the spending for Extraordinary and Miscellaneous Expenses to the amount as authorized under GAA and expenses charged should only be within the purview of EME; and exercise prudence and sound financial management to ensure economy and efficiency in the use of public funds.**

Management commented that they will comply with the given recommendation. Management further committed to adhere on the proper granting and utilization of the Extraordinary and Miscellaneous Expenses (EME).

While we commend management for their commitment to adhere with the existing COA rules and regulations, the Audit Team informed management that a Notice of Disallowance will be issued for the above-mentioned excessive disbursements.

### **Non-preparation of Project Procurement Management Plan (PPMP)**

- 3. The inability of the agency to prepare a Project Procurement Management Plan (PPMP) for Sillag project resulted in decentralized procurement of goods, supplies and materials and non-availment of volume discounts through bulk purchases, contrary to Section 7 of the IRR of RA 9184, thereby casting doubt on the economy, propriety and regularity of the procurement.**

Sillag Festival or Poro Point Festival of Lights is an annual festival launched by PPMC on April 28, 2012. The festival focuses on the Poro Point Lighthouse which is being promoted by PPMC as an integral component of the tourism development inside the Poro Point Freeport Zone (PPFZ). The festival aims to attract domestic and foreign tourists to create a mass market to encourage business and tourism inside the PPFZ as well as the City of San Fernando and the rest of the Province of La Union.

Section 7 of the Revised Implementing Rules and Regulations (RIRR) of RA No. 9184 provides that all procurement shall be within the approved budget of the Procuring Entity and should be meticulously and judiciously planned and no government procurement shall be undertaken unless it is in accordance with the approved APP of the procuring entity and must be consistent with its duly approved yearly budget. Thus, the preparation of a Project Procurement Management Plan reflecting the different programs, activities and projects shall be submitted to the Budget Office for inclusion in its annual budget proposal and subsequent approval by the Head of the Procuring Entity (HOPE).

Proper planning ensures that only goods, infrastructure projects and consulting services which have been included in the approved Annual Procurement Plan (APP) shall be procured thereby precluding occasions for unnecessary government purchases and circumventions of the prescribed procurement procedures such as splitting, advance deliveries, “suki system” or unwanted resort to alternative methods of procurement, among others. Procurement Planning should be done with budgetary context, reflecting the Corporation’s priorities and objectives for the budget period.

The PPMPs and budget proposals as approved shall be furnished to the Bids and Awards Committee (BAC) Secretariat for its review and consolidation into the proposed APP. The proposed APP shall be consistent with the procuring entity’s budget proposal.



As soon as the corporate budget becomes final, the end-user units shall revise and adjust the PPMP to reflect the budgetary allocation for their respective PAPs. The revised PPMPs shall be submitted to the BAC, through Secretariat, for the finalization of the modes of procurement under the proposed APP. The APP shall then be approved by the HOPE or second-ranking official designated by the Head of the Procuring Entity to act on his behalf.

In the consolidation of PPMPs, the BAC may adopt a strategy through which similar items of procurement are packaged into one procurement undertaking and under a single PPMP in which the original PPMPs shall be consolidated and revised. Also, during the review of the PPMPs, the BAC shall determine the nature of the procurement, whether they be procurement of goods, infrastructure or consulting services.

The BAC shall prepare a consolidated APP, which shall classify the different procurement according to their nature. The APP shall contain the following information:

- a. Name of the project/procurement;
- b. End-user unit;
- c. General description of the project/procurement;
- d. The procurement methods to be adopted, and indication if the procurement tasks are to outsourced as provided in Section 53 (e) of the IRR-A;
- e. The Approved Budget for the Contract.

Further, Section 48.2 Rule XVI, of the RIRR of RA 9184 states that the procuring entities shall adopt public bidding as the general mode of procurement and shall see to it that the procurement program allows sufficient lead time for such bidding. Alternative methods shall be resorted to only in highly exceptional cases.

Relative thereto, Section 52 of the same regulation define shopping as the method of procurement of goods whereby the procuring entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment to be produced directly from suppliers of known qualifications. However, this method of procurement shall on be employed when there is an unforeseen contingency requiring immediate purchase, provided that the amount shall not exceed the thresholds prescribed by the same republic act.

Review of the procurement activities of the Corporation disclosed that the procurement of goods, office supplies and materials for ground and site preparation related to Sillag activities were mostly done per office and on a “need arises” basis.

During the year, the Corporation incurred various purchases of the same/related goods needed for the Sillag activities totaling P2,186,410.44, as presented in the table below:

<b>Particulars</b>	<b>Amount</b>
Marketing and Promotion (Tarpaulin Printing & Various Supplies)	P 120,023.57
Meals (Participants, Volunteers, Guest, Employees & Laborers)	368,921.30
Ground Maintenance and/Site Preparation	1,352,102.67
Plaque, Medals, Certificates and Others	78,762.90
Various Materials (Sunset Run for Hope & Thousand Dreams)	240,145.00
Other Expenses (Art Competition)	26,455.00
<b>Total</b>	<b>P 2,186,410.44</b>

These above-activities resulted in decentralized procurement through alternative method mostly shopping. Had the agency consolidated similar items into one procurement undertaking, said purchases would have resulted in a sum which is beyond the threshold allowed for the public bidding or for appropriate alternative mode of procurement, thus volume discounts could have been availed.

Consequently, the inability of the agency to prepare a Project Procurement Management Plan (PPMP) for Sillag project and the failure to conduct public bidding or appropriate alternative mode of procurement defeated the government's policy of competitiveness, transparency, economy and efficiency in the procurement process, thereby casting doubt on the propriety and regularity of the procurement.

**In view of the foregoing, we recommended that Management consolidate all procurement of goods, supplies and materials in order to resort to competitive public bidding as the general mode of procurement or appropriate alternative mode of procurement to obtain prices which are most advantageous to the government and to adhere to the government policy of competitiveness, transparency, economy and efficiency in the procurement process as prescribed under RA 9184.**

Management commented that while Sillag project had been programmed and included in the annual Corporate Operating Budget, changes in the actual festival requirements necessitated revisions in the Project Procurement Management Plan (PPMP) and Annual Procurement Plan (APP). The end user unit prepared the revised PPMP based on the final actual requirements of the project and the same was included in the APP as amended and approved by the Management.

Management further commented that they will comply with the given recommendation by consolidating procurement of goods of the same category.

**Inappropriate charging of traveling expenses and hotel accommodations**

4. **Hotel accommodations of Bases and Conversion Development Authority (BCDA) and Office of the Solicitor General (OSG) personnel amounting to P83,776.81 which were paid by the Corporation lacks legal basis and could be considered as expenditures which fall within the ambit of COA Circular No. 2012-03, thus depriving the Corporation of the funds that could be used for operations.**

COA Circular No. 2012-003 dated October 29, 2012 defined Irregular Expenditures as an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrance of an irregular expenditure. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular.

Our audit revealed that there were payments for hotel accommodations of BCDA personnel and lawyers from Office of the Solicitor General (OSG) totalling P83,776.81 which were made in connection with their travel to attend hearings as shown below:

<b>Date</b>	<b>Check No.</b>	<b>Payee</b>	<b>Particulars</b>	<b>Amount</b>
01/28/19	1754956	Kahuna Hotel Cafe & Restaurant Inc.	Accommodation for the OSG Lawyers	<b>P</b> 22,990.31
03/25/19	1755139	Hotel Ariana	Hotel accommodation for the BCDA and OSG legal team	16,276.87
06/11/19	1755467	Kahuna Hotel Cafe & Restaurant Inc.	Room accommodation for the BCDA&OSG Lawyers who attended hearing	27,239.63
06/11/19	1755481	Ferenzo Holdings & Development	Room accommodation for the BCDA&OSG Lawyers who attended hearing	11,025.00
7/29/19	1755607	La Union Oasis Hotel, Inc.	Hotel accommodation incurred by BCDA and OSG Team	6,245.00
8/08/19	1755679	Thunderbird Pilipinas Hotels and Resorts, Inc.	Room accommodation for BCDA officers and staff	67,000.00
<b>Total</b>				<b>P 83,776.81</b>

It is to be emphasized that BCDA and OSG personnel were not employees of PPMC, therefore, they should have claimed travelling expenses, as well as,

reimbursed their expenses for hotel accommodations at the BCDA and OSG, instead of the Corporation paying for their accommodations.

It is a rule that officials and employees on detail with other offices, including representatives assigned to serve other offices and agencies, shall be paid among others, their salaries, allowances and the foregoing fringe benefits and other personal services costs from appropriations of their parent agencies, and in no case shall such be charged against appropriations of the agencies where they are assigned or detailed, except when authorized by law.

In other words, personnel benefits costs of government officials and employees, including fringe benefits, training and seminar expenses, travelling expenses, all kinds of allowances, whether commutable or reimbursable, in cash or in kind, and other personnel benefits and privileges authorized by law, should be charged against the funds from which their compensations are paid.

The PPMC could not legally and validly grant BCDA and OSG personnel hotel accommodations since they were not organic personnel of PPMC and because they were already entitled or allowed to reimburse their per diems and travelling expenses from their parent agencies. The disbursements could be considered expenditures which fall within the ambit of COA Circular No. 2012-03, thus, the Corporation was deprived of the funds which could be used for operations.

**We recommended that Management refrain from paying for the accommodations of BCDA officials and employees as they are not organic personnel of Poro Point Management Corporation. Henceforth, the Accounting Personnel should strictly adhere to the provisions of COA Circular No. 2012-003 dated October 29, 2012.**

Management commented that the expense involved was considered as legal expense of the BCDA relative to its land disputes and issues. This was included by BCDA in PPMC's annual budget termed as "BCDA Land Related Cost" and the same shall be reimbursed by the former to PPMC in full as part of the signed Revised Performance Agreement between BCDA and PPMC.

Management commented that they will comply with the given recommendation. Management had already advised BCDA to shoulder its own expense pertaining to cases that involved BCDA properties and both parties agreed with the arrangement.

The Audit Team required that management request from BCDA a Certificate of Non-Payment of Travelling Expenses related to above-mentioned expenses. Meanwhile, a Notice of Suspension will be issued for this purpose.

## **B. GENDER AND DEVELOPMENT ACTIVITY**

### **Deficiencies on Gender and Development Activities**

5. Several deficiencies were noted in the Gender and Development (GAD) activities of the Agency contrary to pertinent provisions of Joint Circular No. 2012-01 of PCW, NEDA and DBM, hence mainstreaming on gender awareness, gender issues through programs, activities and projects were not achieved.

#### **a. 2019 GAD Budget is below the five percent of the 2019 Corporate Budget.**

Verification of the 2019 Corporate Budget disclosed that the Agency budgeted P51,833,188.00 for personal services, P69,477,634.00 for maintenance and other operating expenses, P22,784,000.00 for capital outlay or a total of P144,094,822.00 Corporate Budget.

Therefore, the 5% of the total budget is P7,204,741.10, which must be budgeted for 2019 GAD activities. However, only P440,000.00 was budgeted in the 2019 GPB which was only 0.31% of the total Corporate Budget.

Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM provides that:

*“At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency’s maintenance and other operating expenses (MOOE), capital outlay (CO) and personal services (PS).”*

It is worth noted that the Agency should have budgeted at least P7,204,741.10 for GAD activities. Consequently, the GPB is under budgeted by P6,764,741.10.

#### **b. Under-utilization of GAD Budget**

Verification of the Agency’s GAD Accomplishment Report (AR) revealed that the Agency spent only P 319,688.49 out of P440,000.00 budgeted as per GPB amount, thus, under-utilized by P120,311.51.

GAD AR showed that the Agency utilized their GAD Budget for the monitoring of locators, assistance to women and children’s desk, attendance to the investment promotion agency’s GAD advocacy forum, gender sensitivity seminar, and family day, among others. However, comparative verification to

the Agency's GPB disclosed that various activities were under-utilized such as GAD trainings, monitoring of locators, and awareness of gender and development. Also, livelihood training such as food processing was not implemented.

**c. Non-establishment and maintenance of GAD Database**

The Agency did not establish and maintain a GAD Database which includes sex disaggregated file such as demographic characteristics, marriage, fertility and family conditions, education and training, labour force, social welfare, medical and health, living arrangement and other similar indicators. Section 4.4 of Joint Circular No. 2012-01 of PCW, NEDA and DBM states that:

*"The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming and policy formulation."*

**Based on various deficiencies noted, we recommended that Management:**

- a. Prepare a GAD Plan and Budget equivalent to at least five percent of the Corporate Budget;**
- b. Implement GAD activities pursuant to the approved GAD Plan and Budget; and**
- c. Establish and maintain GAD Database which includes sex disaggregated file based on various GAD indicators.**

Management committed to comply with the given recommendation.

## **C. STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES FOR CY 2019**

Presented below is the summary of status of settlements of audit suspensions, disallowances and charges for CY 2019:

Particulars	Beginning Balance (January 1, 2019)	This Period January 1, 2019 to December 31, 2019		Ending Balance (December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	P 0.00	P0.00	P0.00	P 0.00
Notice of Disallowance	1,234,904.05	0.00	0.00	1,234,904.05
Notice of Charge	0.00	0.00	0.00	
<b>Total</b>	<b>P1,234,904.05</b>	<b>P0.00</b>	<b>P0.00</b>	<b>P1,234,904.05</b>

Disallowances totaling P1,234,904.05 represents disallowed benefits for CY 2014 that lack legal basis and are under appeal.

**PART III**

**STATUS OF PRIOR YEAR'S AUDIT  
RECOMMENDATIONS**



### PART III-STATUS OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Hereunder is the status of implementation of recommendations made in relation to the audit of the accounts and transactions of the CY 2018.

Audit Observations and Recommendations	Reference	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>1. Disbursements for accommodations to hotels and resorts during Board of Directors' meetings and conferences totaling to P6,977,154.99 for the period 2016-2018 could have been used to construct a Directors' Lounge which is more economical and efficient since it could be used for a longer period of time.</p> <p>We recommended that Management utilize its financial resources in accordance with existing laws, rules and regulations mandating the judicious and prudent use of government funds and consider incorporating in their annual budget the construction of a Director' Lounge for BODs and submit the same to Bases and Conversion Development Authority (BCDA) for their approval.</p>	<p>2018 AAR</p>	<p>Management commented that they will comply with the given recommendation.</p>	<p>FI</p>	
<p>2. Disaster Risk Reduction Management (DRRM) Plan of the Agency was not prepared in compliance with</p>	<p>2018 AAR</p>	<p>Management took cognizance of the audit recommendation. The office of the</p>	<p>FI</p>	

<p>Section 35 of the General Provisions of the General Appropriations Act (GAA) of FY 2018, which aims to establish responsiveness of the agency in times of disaster or calamities, thus, the Agency may not be able to respond in times of calamities relative to their operation.</p> <p>We recommended that Management develop DRRM Plan to ensure the responsiveness of the Agency in times of calamities/disaster especially in ensuring the safety within its jurisdiction.</p>		<p>Regulatory Services had already revised the Disaster Risk Reduction Management (DRRM) Plan.</p>		
--	--	--	--	--