

**STATUS OF IMPLEMENTATION OF PRIOR YEARS'
AUDIT RECOMMENDATIONS**

Out of the 139 audit recommendations embodied in the prior years' Annual Audit Reports, 72 were implemented, 24 were partially implemented and 43 were not implemented, 39 of which are reiterated in Part II of this report. The other unimplemented and partially implemented audit recommendations are presented below.

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
2015	
<p>1. The adequacy and reasonableness of the impairment loss on loans and receivables amounting to P3,648.126 million for CY2015 were doubtful due to deficiencies noted in the computation, which if not addressed may accumulate in significant amount that may affect the fair presentation of the loans and receivables account in the financial statements.</p> <p>Require Credit Policy and Risk Management Department (CPRMD) to review the computation of impairment loss and cause the preparation of the necessary adjustments so as to fairly present the balance of the Loans and Receivables in the financial statements.</p>	<p>Partially implemented.</p> <p>The discrepancy of loan amount subjected to impairment has narrowed down to P104.17 million as compared with previous year's balance of P1,789.72 million.</p>
<p>2. Contributions to various Credit Surety Funds amounting to P3.0 million for CY2015 and P68.310 million for CY2010-2014 were recorded as an expense under Donations and Charitable Contributions account instead of an asset account pursuant to paragraphs 35 and 89 of the Framework for the Preparation and Presentation of Financial Statements, thus, both the asset and net income/retained earnings accounts were understated by P71.810 million as of December 31, 2015.</p> <p>We reiterated our recommendation that Management require the Administrative Accounting Department (AAD) to record the</p>	<p>Not implemented.</p> <p>Management maintained its stand in treating the Bank's contribution as grant</p>

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<p>contributions to various CSFs as an asset account and make necessary adjustments to correct the balances of the affected accounts in the financial statements.</p>	<p>as allowed under R.A. 10744.</p>
<p>3. Parcels of land where the office buildings and warehouses were erected were not yet transferred/registered in the name of the Bank, thus, no conveyance of ownership, which puts the interest of LBP at risk.</p>	
<p>We recommended that Management exert effort to secure titles for the above-mentioned parcels of land in the name of LBP to acquire legal ownership.</p>	<p>Partially implemented.</p>
	<p>The Concerned Group Head has already discussed the issue with San Isidro Mayor last September 5, 2016, however, the Branch has not yet received a formal communication letter or resolution of the San Isidro Sangguniang Bayan on the said issue.</p> <p>Continues effort is being exerted by the Guimba branch to facilitate the transfer and registration of the lot in the name of the Bank from the Deed of Conditional Donation and Acceptance executed by LGU. The branch had already submitted the required documents for the petition of the reconstitution of the original title and the issuance of the second Owner's duplicate copy of the original title. The last court hearing was on February 21, 2017.</p>
<p>4. The deferment of negotiation of Post Dated Checks (PDCs) for payment of loan amortization and the accumulation of consolidated unfunded checks in the custody of the Bank amounting to P3.003 billion or 86.22 per cent of the total consolidated outstanding ACEF loan balance of P3.482 billion as of December 31, 2015 had contributed to the significant amount of Non-Performing Loans (NPLs) which undermined the</p>	

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
<p>objectives of the program. The interest and collateral free loans of ACEF also provided the borrowers the leniency in the payment of loan amortization that caused low rate of repayment of only 21.01 per cent.</p>	
<p>a. For the agency's appropriate action as provided in the Implementing Rules and Regulations of the ACEF, and the MOA between the DA and LANDBANK on the following:</p> <ul style="list-style-type: none"> • Requests of the borrowers for loan restructuring in connection with the deferred negotiation of the PDCs; • The replacement of unfunded/stale checks to be delivered/returned by the Bank; and • The monitoring/ conduct of inspection of ACEF-funded projects to assess the status of implementation and perform remedial measures for the collection of past due accounts, and determine the appropriate disposition of the unavailed balance of approved loans. 	<p>Partially implemented.</p> <p>LBP has transmitted the audited financial report to DA-ACEF on 05 September 2016. As of 31 December 2016, LBP has yet to receive instructions to return the unutilized amount from DA-ACEF.</p> <p>LBP returned unfunded/stale checks amounting to P2.59 million to DA-ACEF upon receipt of the instruments from the LBP branches.</p> <p>DA regularly informs LBP on the status of the loans for restructuring which are still under evaluation as of 31 December 2016.</p>
<p>b. For the Executive Committee of the ACEF to reconsider the interest and collateral free loan package of program with its adverse implication in the repayment of loans; and revisit the MOA between the DA and LANDBANK and the IRR of ACEF particularly on the limited role of the Bank regarding the review of loan restructuring, credit monitoring and collection, despite its mandate and functions as a universal and government</p>	<p>Partially implemented.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
banking institution.	
<p>5. The P2.0 million fund received from the Department of Agriculture (DA) for Integrated Cooperative Farming System (ICFS) was not fully utilized with unavailed amount of P506,004 or 25 per cent of the total program fund that remained idle for over nine years. The fund could have been utilized for other programs that would increase farmers' income and promote rural development.</p> <p>We recommended that LANDBANK closely coordinate with the DA for the proper disposition of the unavailed/unutilized DA-ICFS Project Fund of P506,004 in accordance with the provisions of Article J of the MOA between DA and LANDBANK, and the provisions of COA Circular No. 94-013 dated December 13, 1994, and so that the fund can be used to finance other program/projects that will result in increasing farmers income and promoting rural development.</p>	<p>Partially implemented.</p> <p>The Bank sent a follow-up letter dated 27 September 2016 to USec. Ariel Cayan of DA requesting for response on the recommendation to terminate the ICFS and return to DA the unused portion of the fund amounting to P506,004.</p> <p>The DA advised that on December 21, 2016, the request of LANDBANK was endorsed to DA-Finance Department. However, no feedback has yet been received.</p>
<p>6. The implementation of building construction and renovation projects of the Bank were not closely monitored since 16 projects with aggregate cost of P52.285 million were executed without building permits and seven offices with cumulative cost of P66.096 million were occupied without certificates of occupancy as required in Sections 301 and 309 of PD 1096, respectively.</p> <p>Ensure that building permits and certificates of occupancy are secured prior to the execution of building constructions/renovations and use/occupation of any buildings/offices, respectively, to avoid administrative and penal</p>	<p>Partially implemented.</p> <p>The building permits for the 13 projects were obtained, while no building permit yet was secured for the renovation of LBP Cauayan Lending Center, LBP Makati City Hall. On the other hand, the</p>

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sanctions provided under PD 1096.	certificates of occupancy for all of the seven offices were already secured.
<p>7. Contrary to the lease-purchase agreement, the 304 units of vehicle subject of lease have not been turned over and ownership thereto has not been ceded to the Bank despite expiration of the contract.</p>	
<p>Closely coordinate with LLFC to facilitate the submission of the necessary documents for the transfer of the ownership of the subject vehicles to LBP.</p>	<p>Partially implemented.</p> <p>As of June 15, 2017, the executory cost was submitted by the LBP Leasing and Finance Corporation (LLFC) to the LBP Administrative Accounting Department (AAD). Also, the Deed of Transfer is being finalized.</p>

2014

8. The validity of the obligation of LBP on the balances of Accounts Payable and Accrued Other Expense Payable amounting to P7,419.248 million and P2,748.668 million, respectively, were doubtful due to: a) Accumulation of long outstanding balances amounting to P397.722 million ranging from over one year to fourteen years, and b) temporary booking of loan payments of clients totaling P289.092 million, of which P32.171 million were outstanding for more than one to six years already.

a. Require the departments/ accounting centers concerned to evaluate the nature of long outstanding accounts and take the necessary actions pursuant to LBP Executive Order No. 15, Series of 1991. Accordingly, prepare the necessary adjustments in the books to reflect the correct balances of the affected accounts in accordance with paragraph 69 of PAS 1, and to fairly present the account in the financial statements;

Partially implemented.

LBP-Head Office

About 422 notices to payees/suppliers with long outstanding accounts were sent on January to September 2016. Also, out of the P214.90 million outstanding balance as of 31 December 2014, only P94.3 million remained outstanding as of 31 December 2016 or 56.13 per cent decrease from the year 2014 balance.

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	<p><u>Branches</u> The recommendations representing long outstanding AP in CY 2014 were acted upon by the branches. However, in CY 2016, the same observations were issued in 67 LBP branches.</p>
	<p><u>ADLS</u> Accounts Payable related to loans decreased from December 2014 balance of P32.171 million to P10.970 million as of December 31, 2016.</p>
<p>b. Revisit the guidelines on the handling of outstanding accounts payable and policies on loan transactions to include guidelines on loan collections pending proper disposition and handling of other deposits or excess payments from clients and to address the proper classification and treatment of accounts by the nature of transactions;</p>	<p>Partially implemented. The Revised Guidelines on AP is still for signature.</p>
<p>9. The accuracy, completeness and existence of the carrying value of Property and Equipment accounts of P5,478.999 million could not be ascertained due to the: (a) absence of physical inventory report and the results of reconciliation with the accounting records or inability of some LBP branches/offices to conduct actual physical count for CY 2014, and (b) inclusion of missing/unlocated items of P60.236 million.</p>	
<p>Non-submission of inventory report and the results of reconciliation with the accounting records or inability of some LBP branches/offices to conduct actual physical count for CY 2014 were not in accordance with COA Circular No. 80-124. Thus the existence and actual conditions of the Bank's property and equipment could</p>	

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not be determined.	
<p>a. Require those responsible officer/s or employee/s in the LBP Head Office to submit the inventory report and its reconciliation with accounting records and the concerned LBP branches to conduct physical inventory of fixed assets as required under Section 122 of PD 1445 and COA Circular No. 80-124.</p>	<p>Partially implemented.</p> <p>The annual inventory report for CY 2015 was submitted to COA on June 23, 2016. However, the inventory report for CY 2016 was not submitted. Also, some of the LBP branches had not conducted inventory taking at least once a year as required under Section 122 of PD 1445 and COA Circular No. 80-124.</p>
<p>b. Identify the persons accountable for the missing/unlocated properties and require them to settle their accountabilities.</p>	<p>Partially implemented.</p> <p>Some of the persons accountable for the missing/unlocated properties had been identified. In addition, in some LBP branches the Property Acknowledgement Receipt (PAR) required under COA Government Accounting Manual, Volume II, as well as Invoice Receipt for Property and Memorandum Receipt for Property required under LBP Executive Order No. 42, series of 1997, were not issued to the accountable officers/end-users.</p>
<p>10. The results of the monitoring and assessment of the ATMs performance reported in the Monthly G4S ATM Servicing Availability Report during the pilot implementation in 2013 when G4S was unable to maintain the overall average availability of the ATMs and allow it to fall below 90 per cent for four consecutive months were not considered by LBP in the implementation of the termination clause of the contract. Furthermore, the Bank did not impose the service penalty when the ATMs did not reach the minimum required ATM availability/uptime and out of cash rate of 96 per cent and 0.25 per cent, respectively.</p>	

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<p>Consider setting up cash threshold in the ATMs outsourced to G4S, similar to the one applied to the ATMs being handled by the LBP branches to minimize the downtime due to out of cash or cash dry situation.</p>	<p>Not implemented.</p> <p>Instead of setting up specific cash threshold for ATM similar to the ATMs being handled by branches, impossible penalties were charged to the Service Provider starting from the implementation of the new contract. As of December 2016, a total of P619,969.97 was imposed to the Service Provider for not meeting the SLA.</p>
<p>11. The P1 billion fund for the implementation of the Agrarian Production Credit Program was sourced from the Disbursement Acceleration Program of the National Government (NG), which was declared by the Supreme Court as unconstitutional, thus, it should be returned to the NG through remittance to the Bureau of Treasury.</p>	<p>Partially implemented.</p> <p>Following the 2nd SC decision on the DAP Fund which was promulgated in Feb. 2015, the DA advised LBP, in its letter dated April 18, 2016, that the P1.0 billion need not be returned as it had been fully utilized to cover APCP releases, as early as February 2016. The LBP further clarified that unless otherwise called by the DA, the DAP Fund is considered as fully utilized.</p>
<p>Coordinate with the DA regarding the return/remittance of P1 billion to the National Government through the BTR as it was sourced from the DAP which was declared unconstitutional by the Supreme Court.</p>	
<p>12. Loans granted to 29 ARB Cooperatives under the Credit Assistance Program for Program Beneficiaries Development (CAP-PBD) in the amount of P14.889 million representing 33 per cent of the total releases of P44.465 million or, remained uncollected and were already classified as past due loans as of June 30, 2014, thereby depriving other eligible ARB Cooperatives of the opportunity to avail credit support since some of the</p>	

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funds were tied up.	
<p>Exert extra effort in undertaking loan collection procedures on defaulting borrowers.</p>	<p>Partially implemented.</p> <p>Lending Center 1 continuously coordinates and seeks the assistance of DA to identify and locate the coop officers and delinquent members for possible collection.</p> <p>Lending Center 2 received no firm action from the coop on the settlement of the loan. The LC will prepare the transfer of the account to PMD for turn-over to DAR on or before March 31, 2017.</p> <p>Lending Center 3 transferred the documents on 25 July 2016 to PMD.</p> <p>Lending Center 4 in coordination with PMD 1, will send a clearance memo by March 2017 in order for the LC to reverse the recorded contingent account.</p> <p>Lending Center 5 received a request from the cooperative for the restructuring of their past due account with refinancing.</p>
<p>13. The delayed/incomplete and partial implementation of the interface of Real and Other Properties Acquired Manager System (ROPA MS) and Financial Management System (FMS) resulted in the discrepancy in the balances of Real and Other Properties Acquired (ROPA) between ROPA MS and FMS for Head Office and Regional Offices totaling P530.357 million, thus, defeating the purpose for which it was created to handle the administration, monitoring, accounting and disposal of ROPAs.</p>	<p>Partially implemented.</p> <p>As of December 2016, 239 out of 251 booking units implemented the ROPA MS interface with FMS.</p>

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<p>and to facilitate the reconciliation of the ROPA account balances in the ROPA MS with the corresponding balances reflected in the FMS General Ledger, to ensure that updated and reliable balances of the ROPAs are generated from both systems.</p>	<p>As of December 2016 the discrepancy of ROPA MS versus FMS has decreased to -P781,313.53, from -P21.160M as of December 2015.</p> <p>On August 2016 per ManCom Resolution No. 2016-(08)-13, SPAD/FAD/LID was instructed to transfer/centralize the booking of all ROPA to Head Office. Thus, SPAD in coordination with LID/FAD prepared the procedure for the implementation of the centralization of booking of ROPA. The transfer started in September 2016, the mandated target date of completion is in June 2017.</p>
<p>14. Titles to foreclosed properties in the amount of P653.178 million were not consolidated in the name of LBP despite the lapse/expiration of the redemption period; thus, depriving the Bank of the opportunity to sell and recover the Bank exposure from the acquired assets.</p>	<p>Partially implemented</p> <p>The Bank is already disposing unconsolidated ROPAs subject to full disclosure in order to immediately recover the Bank exposure from said ROPAs.</p>
<p>Expedite the consolidation of titles of acquired properties with expired redemption period in accordance with LBP EO No. 19 to facilitate prompt disposal of ROPA.</p>	
<p>15. Mutilated/Unfit Notes amounting to P11.914 million remained idle for several months or year/s and continued to be unused; thus, depriving such funds to earn income had it been replaced with adequate notes and coins, and used in the bank cash requirements for banking operations.</p>	<p>Partially Implemented.</p> <p>Although the said recommendation was already implemented by the branch concerned, the Audit Teams of LBP Pinamalyan and Roxas EO issued the same observation regarding</p>
<p>Require the Branch Heads to regularly monitor the Mutilated/Unfit Notes and schedule the transfer to the nearest Sub-COU/COU for exchange with BSP to avoid excessive accumulation of these notes in the Vault that would result in</p>	

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loss of opportunity income for the Bank.	mutilated/unfit notes amounting to P1,934,000 (P1.514,300 and P419,700) not transferred to Calapan Sub-Cash Operations Unit in CY 2016.
<p>16. Specimen Signature Cards (SSCs) of clients with dormant accounts status that were not on file in selected LBP Branches aggregated to 1,599 accounts as of December 31, 2015, contrary to LBP Branch Manual of Operations and the Banking.</p> <p>We reiterated our previous year recommendation that Management require the Branch Heads to:</p>	<p>Partially implemented.</p> <p>Out of the 1,599 missing dormant CISSCs, a total of 1,137 were already located, while 462 were still missing as at December 31, 2016.</p>
<p>a. Exert extra efforts to locate/recover the missing specimen signature cards;</p>	<p>For CY 2016, additional 2,365 CISSCs are missing in nine branches.</p>
<p>b. Conduct proper inventory of all specimen signature cards to pinpoint responsibility for missing specimen signature cards; and</p>	<p>Partially implemented.</p>
<p>c. Ensure that the Guidelines on Handling the Dormant Accounts as specified in LBP Branch Operations Manual are strictly observed.</p>	<p>Partially implemented.</p>
<p>17. Delayed disposal of unserviceable properties with aggregate acquisition cost of and carrying value of P121.046 million and P7.292 million, respectively, were still carried in the books and causes further deterioration and diminution of their salvage value.</p>	

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Facilitate the immediate disposal of the unserviceable properties pursuant to Section 79 of PD 1445 to minimize the wear and tear of the said properties and to generate income.	Not implemented. The Facilities Management Department in a memorandum dated February 3, 2017 to the Head Office Bids and Awards Committee requested for the immediate disposal of the remaining one batch sorter machine. Nine failed biddings were undertaken as of May 4, 2017.
2010	
18. Laxity in the observance of guidelines prescribed under existing LBP Executive Orders on ATM operations enabled the operations supervisor to skim the cash in the ATM by loading the cash cassettes with lesser amount, resulting in a cash-in-ATM shortage of P2.1 million.	Partially implemented. Judgment was rendered in favor of LBP ordering the accountable officer to pay P1.6 million with interest. To date, the Accountable Officer restituted P500,000.
Withhold and apply any money due the accountable officer in satisfaction of the shortage pursuant to Section 37 of PD 1445;	
2007	
19. Overdue accounts recorded as miscellaneous assets amounting to P34.389 million remained uncollected.	Partially implemented. For the account of United Phils. Realty Corp. with a balance of P19.233 million, a case was filed and already submitted for decision on October 25, 2016.
Reconcile the balance with the Reliable Electric Company, effect the collection thereof and make necessary adjusting entry, if any.	
2006	
20. The additional Board compensation is contrary to RA 7907 – P5.378 million.	Partially implemented. On May 16, 2016, LBP filed a Petition for Certiorari before the Supreme Court under G.R. No. 224288 praying that the
Observe strictly Section 5 of RA 7907. This is without prejudice to the results of post audit of disbursement orders of the Bank.	

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
	petition be given due course and the COA Decision dated December 29, 2015 be reversed and set aside for lack of sufficient legal basis and having been issued with grave abuse of discretion amounting to lack and excess of jurisdiction.
<p>21. Fringe benefits were granted despite lack of proper approval from the Office of the President – P797.36 million.</p> <p>Comply strictly with Section 6 of PD 1597, Section 3 of MO No. 20 dated June 25, 2001 and Section 3(b) of Malacañang AO No. 103 dated August 31, 2004. This is without prejudice to the results of post audit of disbursement orders of the Bank.</p>	<p>Not implemented.</p> <p>With pending consideration from the Governance Commission for Government Owned and Controlled Corporations (GCG).</p> <p>Management is awaiting response for the Motion for Reconsideration filed on April 30, 2012 pursuant to Section 20.3, Chapter IV of the 2009 RRSA.</p>