

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUES

1. The faithful representation of the balances of Accrued Expenses and Accounts Payable amounting to P174.106 million and P41.983 million, respectively, as at December 31, 2020 were not established due to the inclusion of payables to its parent bank, the LBP of P193.172 million which did not reconcile with the corresponding amount of receivables recognized in LBP's books showing a total variance of P121.284 million. Out of the total recognized payables to LBP, the amount of P121.314 million were also not supported with complete documents.

1.1 Paragraphs 4.26 and 4.27 of the 2018 Conceptual Framework for Financial Reporting define liability as:

4.26 A liability is a present obligation of the entity to transfer an economic resource as a result of past events.

4.27 For a liability to exist, three criteria must be satisfied:

(a) the entity has an obligation

(b) the obligation is to transfer an economic resource

(c) the obligation is a present obligation that exists as a result of past events

1.2 Whilst, Application Guidance of the Philippine Financial Reporting Standard 10 provides among others that:

B86. Consolidated financial statements:

(a) X x x

(b) X x x

(c) Eliminate in full intragroup assets and liabilities, equity, income expenses and cash flows relating to transactions between entities of the group (profit or losses resulting from intragroup transaction that are recognized in assets, such as inventory and fixed assets, are eliminated in full). X x x

1.3 The financial statements of OFB, as a subsidiary of LBP, are being consolidated with LBP. The balance of each account of LBP and its subsidiaries are added together and thereafter the account balances and transactions between LBP and its subsidiaries or the intragroup balances and transactions are eliminated to come up with the consolidated financial statement of the LBP Group.

1.4 The reconciliation of the intragroup account balances of the OFB and LBP books is necessary to ensure that transactions are properly recorded and account balances are faithfully represented in the separate financial statements of OFB and LBP and the consolidated financial statements of the LBP Group.

1.5 Review of the balances of Accrued Expense Payable (AEP) amounting to P174,106,380.13 and Accounts Payable (AP) amounting to P41,982,793.40, or an aggregate of P216,089,173.53, as at December 31, 2020, disclosed that P193,172,198.23 were payables to its parent bank, LBP. However, the amount recognized as payables to the parent bank showed a variance of P121,284,396.43 with the corresponding receivables recognized in LBP's books based on schedules submitted by the LBP Administrative Accounting Department (AAD), Loan Implementations Department (LID), Treasury Operations Department (TOD) and ATM Operations Support Department (AOSD). The total variance of P121,284,396.43 yet to be reconciled with LBP is composed of the following:

Particulars	OFBI Books		Booking Unit	LBP Books		Variance
	Account	Amount		Account	Amount	
Salaries of detailed/seconded personnel (CYs 2017-2020)	AEP	94,291,155.23	AAD	Accounts Receivable	67,163,674.71	27,127,480.52
IT Systems	AEP	59,001,737.82			0	59,001,737.82
IT Equipment	AP	1,205,231.90			0	1,205,231.90
Cost of initial ATM cards issued in LBP branches	AEP	1,491,702.00			0	1,491,702.00
Overpayment of ROPA	AP	31,563,144.90			0	31,563,144.90
OFBank Main Bldg. repainting and minor repairs	AP	391,442.72			0	391,442.72
OFBank Main Bldg. Repairs	AEP	344,056.57			0	344,056.57
Maintenance of OFBank MBA	AP	159,600.00			0	159,600.00
Provision of OFBank PDOS		324,127.09		Accounts Receivable	324,127.09	0
Interest on deposit of LBP to OFBank	AEP	4,400,000.00		Accrued Interest Receivable	4,400,000	0
Total		193,172,198.23			71,887,801.80	121,284,396.43

1.6 Further, out of the recognized payables to LBP totaling P193,172,198.23, the amount of P121,313,970.04 were also not supported with complete documents to establish the accuracy and validity of obligations of OFB to LBP.

1.7 For the above variance, Management explained that OFB has been in continuous coordination with LBP-counterparts and made reconciliation of the intragroup accounts. They averred that the discrepancies noted between the two books represent the outsourced IT systems and support services rendered under the approved Memorandum of Agreement (MOA). Since services had already been rendered,

manpower costs for LBP detailed/seconded employees were accrued at year-end based on the billing statements of LBP in the previous period.

1.8 However, perusal of the executed Memorandum of Agreement revealed that there are no provisions for the contract price of every specific service to be rendered by LBP to OFB and there were no documents presented in audit showing the specific projects delivered or services rendered by LBP and the corresponding amount due. Hence, the payables due to LBP which allegedly caused the variance was not supported.

1.9 In view of the noted deficiencies, the faithful representation of the balances of the AEP and AP amounting to P174,106,380.13 and P41,982,793.40, respectively, in the financial statements as at December 31, 2020, were not established.

1.10 We recommended that Management:

a. Identify the nature of transactions composing the variance in the payable accounts in order to reconcile the discrepancy of P121.284 million between OFB and LBP books as at December 31, 2020;

b. Support the recognized liabilities to LBP amounting to P121.314 million with complete documents to establish the validity of the recognized obligation; and

c. Accordingly, prepare the necessary adjusting entries to faithfully represent balances of the AEP and AP accounts as at December 31, 2020.

1.11 Management commented that:

a. The accrual of liability for the cost of IT systems outsourced from LBP such as deposit system, information switching technology, internet banking, Symbols, remittance systems, etc. and its maintenance, is consistent with the definition of a "liability" and the three criteria provided in Paragraph 4.26 and 4.27 of the 2018 Conceptual Framework for Financial Reporting as documented thru the executed MOA in July 2018 as amended by an Expanded MOA in July 2020. The best estimate of which was based on the approved budget. Also, this is under the realm of matching of costs against revenue, accrual and conservatism principles of the Generally Accepted Accounting Principles;

b. With the material amount involved, non-accrual of subject expenses/ recording of liability will misrepresent the operating results and financial condition of the Bank as of year-end; and

c. The overpayment of ROPA transferred to LBP was reported as a Related Party Transaction to LBP-Financial Accounting Department on April 22, 2021.

1.12 While we agree that the accrual of liability and matching of expenses against revenue are in accordance with accounting standards, sufficient and appropriate support documents to prove the occurrence of the transactions are basic requirements, among others. The approved budget cannot be considered as a reliable basis for the recognition

of a liability but rather recognition is based on the actual service rendered or projects delivered and the price agreed upon by OFB and LBP. Further, although the overpayment of ROPA transferred to LBP was reported to LBP-Financial Accounting Department as a Related Party Transaction, it was not coordinated with the accounting unit of LBP responsible for the recording of ROPA account. Hence, we maintain our recommendations.

2. The faithful representation of Furniture, Fixture and Equipment account totaling P141.968 million with Accumulated Depreciation of P135.461 million as at December 31, 2020 was not ascertained due to: a) physical count or an alternative procedure to establish the existence of assets was not conducted; b) the impairment of properties was not supported by a formal estimate of recoverable amount; and c) incomplete supporting documents and erroneous accounting entries on derecognition of properties, contrary to the Bank's accounting policy, COA Circular No. 2020-06 dated January 31, 2020 and COA Circular No. 80-124 dated January 18, 1980.

2.1 COA Circular No. 2020-06 dated January 31, 2020, Guidelines and procedures in the conduct of physical count of Property, Plant and Equipment (PPE), Recognition of PPE Items Found at Station, and Disposition for Non-exiting/Missing PPE Items for the One-Time Cleansing of PPE Account Balances of Government Agencies, provides among others that:

5.0 GENERAL GUIDELINES

5.1 Each government agency shall conduct physical count of all its PPE, whether acquired through purchase or donation, including those constructed by administration and found at station.

2.2 Note 2.6 to the FS for CY 2020 states among others that:

Investment Property, Property and Equipment and Other Assets

When an indicator of impairment exists, the Bank makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of its fair market value less cost to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. The impairment loss on non-revalued asset is recognized in the profit or loss and allowance account is set up to reduce the carrying amount of the asset.

2.3 Also, paragraphs V.4 and V.5 of COA Circular No. 89-296 dated January 27, 1989 on the divestment or disposal of properties and other assets state:

V. MODE OF DISPOSAL/DIVESTMENT: - This Commission recognizes the following modes of disposal/divestment of assets and property of national government agencies, local government units and government-owned or

controlled corporations and their subsidiaries, aside from other such modes as may be provided for by law.

4. Transfer to Other Government Agencies - Where the property or assets involved are no longer serviceable or needed by the department, agency, corporation or local government unit concerned, they may be transferred to other government entities/agencies without cost or at an appraised value upon authority of the head or governing body of the said agency or corporation, and upon due accomplishment of an Invoice and Receipt of Property (Cf., Sec. 76, PD 1445).

5. Destruction or Condemnation - This mode shall be resorted to only when the unserviceable property has no commercial value, or is beyond economic repair, or there is no willing receiver, and/or the appraised value is less than the administrative cost of sale, subject to prior inspection by the Auditor concerned. Valueless property shall be condemned either by burning, pounding, throwing beyond recovery, and the like. The head of the department, agency and corporation and the local chief executive shall approve the disposition.

2.4 Section 79 of PD 1445 requires:

79. When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable thereof, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable it may be destroyed in their presence. If found valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in presence of the auditor concerned or other duly authorized representative of the Commission. Xxxx

2.5 As at December 31, 2020, the Bank's furniture, fixtures and equipment (FFE) consisted of the following:

Furniture, Fixtures and Equipment	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture and Fixtures	5,556,889.44	4,942,596.06	614,293.38
Information and Technology Equipment	123,034,374.30	118,058,159.53	4,976,214.77
Other Office Equipment	7,090,602.57	6,362,257.51	728,345.06
Transportation Equipment	6,286,057.03	6,098,074.05	187,982.98
Total	141,967,923.34	135,461,087.15	6,506,836.19

2.6 All OFB branches ceased operations in calendar year 2019 and all account balances were transferred to the Main Office including the FFE account. Prior to the closure and cease of operations, a physical count/inventory of all fixed assets was conducted in the OFB branches to facilitate their disposal either through sale, donation or transfer to the Main Office. In March 2020, the Department Head and other personnel of the General Services Department responsible for the property management of the Bank availed of the Early Retirement Incentive Plan (ERIP). In line with the new

business model of a Digital Bank, only the departments and their functions were reorganized and the manpower was downsized to only ten personnel.

2.7 Review of the FFE account disclosed that the Bank did not conduct physical count nor performed alternative procedures to establish the existence of FFEs in 2020. The reason given by management is the limited manpower and the challenging worldwide situation caused by the COVID-19 pandemic. Thus, the existence and full accountability of the recorded properties were not established as required under paragraph 5.1 of COA Circular No. 2020-06.

2.8 In CY 2020, verification of records and documents disclosed that FFP totaling P21,550,846.92 were derecognized either due to impairment, sale or transfer to LBP, the Parent, or to Local Government Units (LGUs), as summarized in the table below:

Furniture, Fixtures and Equipment	Impairment	Transfer/Sold	Total
Furniture and Fixtures	729,319.48	3,710,134.55	4,439,454.03
Information and Technology Equipment	4,850,030.73	0	4,850,030.73
Other Office Equipment	3,722,625.32	5,617,846.34	9,340,471.66
Transportation Equipment	0	2,920,890.50	2,920,890.50
Total	9,301,975.53	12,248,871.39	21,550,846.92

2.9 Scrutiny of the journal tickets and its supporting documents covering the derecognition of the above properties revealed that the impairment of properties was not supported by a formal estimate of the recoverable amount contrary to the bank's accounting policy.

2.10 Also, only the List of Transferred or Sold Properties was attached to the journal tickets. Other documents required under COA Circular No. 89-296 such as Invoice and Receipt of Property, Deed of Sale or Transfer or other negotiation agreements were not presented. In addition, the impairment at the time of derecognition was recorded by a debit to Impairment Loss and Accumulated Depreciation accounts and credit to Fixed Asset instead of Allowance for Impairment.

2.11 Moreover, in the physical inspection of motor vehicles conducted on September 14, 2020 it was found that two motor vehicles with total acquisition cost of P1,182,074.00 were no longer in running condition or are already unserviceable. Further, there are several properties of OFB that are no longer in use due to the downsizing of personnel. The two unserviceable motor vehicles and several properties no longer in use were not yet tagged as unserviceable or serviceable but no longer in use and were not yet disposed as required under Section 79 of PD No.1445.

2.12 In view of the foregoing, the faithful representation of the balance of the Bank's Furniture, Fixture and Equipment account totaling P141,967,923.34 as at December 31, 2020 was not established.

2.13 **We recommended and Management agreed to:**

- a. Conduct physical count or perform an alternative procedure to establish the existence and full accountability of all FFE;**

- b. Support the computed impairment of FFE with a formal estimate of their recoverable amounts;**
- c. Support the derecognition of FFE totaling P12.249 million with complete documents to establish the propriety of recorded amounts;**
- d. Identify FFEs that are already unserviceable or serviceable but no longer in use and accordingly dispose pursuant to Section 79 of PD 1445 and COA Circular No. 89-296; and**
- e. Prepare the necessary adjusting entries to correct the balance of the FFE account in the financial statements as at December 31, 2020.**

3. Balances of Deposit Liabilities and Other Credits-Unclaimed Balances accounts amounting to P2.557 billion and P3.369 million, respectively, as at December 31, 2020 were not established due to: (a) incomplete/incorrect information classifying dormant deposit accounts transferred to LBP deposit system; and (b) dormant deposits for the preceding 10 years which were not reclassified to Other Credits-Unclaimed Balances account, contrary to BSP Financial Reporting Package and paragraph 2.13 of the Conceptual Framework for Financial Reporting.

3.1 The Financial Reporting Package of the Bangko Sentral ng Pilipinas which was updated as of May 31, 2019 defines unclaimed balances:

31 (d)Unclaimed Balances –This refers to the other credits held by the bank in favor of persons known to be dead or unheard from during the preceding ten (10) years or more which have not been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act (Act No. 3936, as amended).

3.2 Paragraph 1 of Section 805 of the PPSBI (now OFB Manual on Cash and Deposit Operations provides that “A Current Account or Savings Account which has no activity initiated by the depositor for a period of one (1) year and two (2) years, respectively, shall be classified as dormant account”.

3.3 Paragraph 2.13 of PFRS Conceptual Framework for Financial Reporting provides:

2.13 To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board’s objective is to maximize those qualities to the extent possible.

3.4 As at December 31, 2020, the Deposit Liabilities and Other Credits-Unclaimed Balances account amounted to P2,556,674,267.30 and P3,368,860.99, respectively. In CY 2019, OFBI branches ceased operations and closed. Consequently, the LBP deposit system was utilized and all deposit accounts were transferred to the new deposit system. The transferred deposit accounts consisted of dormant accounts totaling to

P74,761,984.43 based on the Schedule of Dormant Accounts of OFBI branches, summarized as follows:

Branch	Date of Transfer	Dormant Accounts/Amounts
Tarlac	13-Sep-19	2,220,396.01
Himamaylan	13-Sep-19	546,190.79
Tagbilaran	13-Sep-19	203,050.26
Tigaon	13-Sep-19	329,144.82
Dipolog	20-Sep-19	283,861.49
Legazpi	20-Sep-19	1,878,847.29
Manolo Fortich	20-Sep-19	250,630.06
Mabalacat	20-Sep-19	1,528,121.89
Lipa	20-Sep-19	1,499,829.27
San Pablo	27-Sep-19	2,792,646.12
Dagupan	27-Sep-19	6,488,965.79
Asingan	27-Sep-19	317,810.26
San Fernando, La Union	27-Sep-19	477,349.33
Naga	04-Oct-19	6,414,549.57
Baguio	04-Oct-19	836,649.49
Tuguegarao	04-Oct-19	4,993,751.40
Sorsogon	04-Oct-19	3,222,153.60
Bacolod	11-Oct-19	281,814.77
Cebu	11-Oct-19	2,496,730.48
Iloilo	11-Oct-19	947,124.64
Malolos	11-Oct-19	2,549,088.94
Cagayan de Oro	18-Oct-19	2,405,163.81
Tacloban	18-Oct-19	21,930,739.93
Davao	18-Oct-19	914,583.11
Main Branch	18-Oct-19	8952791.31
Total		74,761,984.43

Incomplete/incorrect information classifying dormant deposit accounts transferred to LBP deposit system

3.5 Verification of selected dormant accounts, however, disclosed that the last movement or activity of the deposit accounts were the dates of transfer to the new deposit system. This is due to system limitation wherein the activity date of an account transaction is automatically being generated by the system and cannot be manually encoded. As confirmed by Management, all the deposit accounts transferred to the new deposit systems, regardless of the actual status at the date of transfer, are in active status.

3.6 Further, the Schedules of Dormant Accounts of 13 OFB branches and the Head Office with balance totaling P48,092,143.20 did not have complete information on the last activity dates. Thus, we were not able to determine whether there were dormant accounts without activities for the preceding ten years for reclassification to Other Credits-Unclaimed Balances account.

Dormant deposits for the preceding ten years not reclassified to Other Credits-Unclaimed Balances account

3.7 As at December 31, 2020, the deposit accounts totaling P193,288.53 from 11 branches were dormant and without movement/activities for the preceding ten years. However, these accounts are in active status in the new deposit system, hence, were not reclassified to Other Credits-Unclaimed Balances account, contrary to BSP Financial Reporting Package.

3.8 In view of the foregoing, the faithful representation of the balances of Deposit Liabilities and Other Credits-Unclaimed Balances accounts amounting to P2.557 billion and P3.369 million, respectively, in the financial statements as at December 31, 2020 were not established.

3.9 We recommended and Management agreed to:

- a. **Determine the correct last activity dates of all deposit accounts transferred from OFB deposit system to LBP deposit system; and**
- b. **Reclassify all dormant deposit accounts, without activities for the preceding 10 years, to Other Credits-Unclaimed Balances.**

B. OTHER ISSUES

4. Inadequate internal controls on the migration of OFBI accounts into the LBP Systematics CA/SA Deposit System resulted in unresolved withdrawals in excess of the deposit account balances of clients amounting to P0.195 million, contrary to Sections 2, 123 and 124 of the PD 1445.

4.1 Sections 2, 123 and 124 of the PD 1445 state that:

2. It is the declared policy of the State that all resources of the government shall managed, expended or utilized in accordance with law and regulations, and safeguard against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

123. Definition of Internal Control. Internal control is the plan of organization and all the coordinate methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.

124. Installation. It shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control.

4.2 Records show that various withdrawals in excess of the deposit balance totaling P194,677.80 were made by depositors/clients in 2019. These were recognized as Accounts Receivable (A/R)-Others in the books of the Bank but remained outstanding as to date, details are follows:

Date of Withdrawal	Old/New Account Nos.	Account Name	OFBI Branch	Available Deposit Balance	Amount Withdrawn	Excess Withdrawal	Date Booked as A/R
09/23/19	Account 1	Depositor A	TARLAC	41,924.79	95,928.54	54,003.75	01/28/20
09/24/19	Account 2	Depositor B	TARLAC	-	2,043.50	2,043.50	10/04/19
09/18/19	Account 3	Depositor C	TARLAC	11,960.00	14,360.00	2,400.00	10/07/19
10/01/19	Account 4	Depositor D	TARLAC	616.46	2,261.46	1,645.00	10/09/19
10/10/19	Account 5	Depositor E	NAGA	696,439.99	810,315.05	113,875.06	01/28/20
10/22/19	Account 6	Depositor F	NAGA	2,688,503.43	2,689,189.80	686.37	11/04/19
10/22/19	Account 7	Depositor G	HIMAMAYLAN	5,223.62	5,273.62	50.00	01/27/20
11/07/19	Account 8	Depositor H	TARLAC	-	1,876.00	1,876.00	12/06/19
11/08/19	Account 9	Depositor I	TUGUEGARAO	190,228.81	193,428.81	3,200.00	11/28/19
11/25/19	Account 10	Depositor J	TIGAON	2,606,050.57	2,608,370.53	2,319.96	11/26/19
11/25/19	Account 11	Depositor K	TIGAON	58,676.32	63,899.50	5,223.18	11/26/19
12/05/19	Account 12	Depositor L	TIGAON	-	4,555.34	4,555.34	12/05/19
12/23/19	Account 13	Depositor M	TIGAON	8,899.74	11,699.38	2,799.64	12/26/19
TOTAL				6,308,523.73	6,503,201.53	194,677.80	

4.3 Verification of documents showed that these withdrawal transactions were processed through the LBP Branches during the migration of OFBI into the LBP Systematics CA/SA Deposit System in CY 2019. We were not able to obtain other relevant information on whether the withdrawals were made over the counter or transferred to other bank accounts. There were no guidelines on the procedures and controls in the migration of accounts and in handling excess withdrawal over the deposit balances of clients.

4.4 The inadequate internal controls in the system migration resulted in withdrawals in excess of the deposit account balances of clients, which remained unresolved as at year end.

4.5 We recommended and Management agreed to:

- a. **Conduct investigation and collect the excess withdrawals totaling P0.195 million from the depositors or from responsible employees of OFBI and/or LBP; and**
- b. **Install adequate internal controls to minimize risk and to prevent recurrence of withdrawals in excess of the available deposit balance of clients.**

Corona Virus Disease 2019 (COVID-19) Related Programs/Projects/Activities

Grant of mandatory grace period for payment of loans

5. OFB did not make adjustment on the loan amortizations and maturity dates of borrower's loans in its loan system, however, the Bank did not demand from four (4) borrowers the payment of their amortizations falling due on March 16 to May 31, 2020 and September 15 to December 31, 2020, nor imposed or accrued penalties, interest on interests and other charges for non-payment of amortizations on the same periods, consistent with Section 4(aa) of RA No. 11469 and Section 4(uu) of RA No. 11494.

5.1 On March 16, 2020, President Duterte issued Proclamation No. 929, series of 2020, declaring the entire Luzon under Enhance Community Quarantine (ECQ) from March 16, 2020 to April 12, 2020. On April 7, 2020, President Duterte accepted the recommendation of the Inter-Agency Task Force (IATF) through its Joint Resolution No. 20 dated April 6, 2020, extending the entire Luzon under ECQ up to April 30, 2020. In the public address of President Duterte on April 24, 2020, he declared that ECQ is prolonged for Metro Manila, Calabarzon, Central Luzon (except Aurora) up to May 15, 2020. On May 12, 2020, President Duterte, declared Metro Manila and Laguna under modified ECQ (MECQ) from May 16 to 31, 2020

5.2 RA No. 11469, the *Bayanihan to Heal as One Act*, was enacted on March 24, 2020, and RA No. 11494, the *Bayanihan to Recover as One Act*, was enacted on September 11, 2020. RA Nos. 11469 and 11494 and their IRR provide among others that:

a. RA No. 11469

Section 4(aa) - Direct all banks, quasi-banks, financing companies, lending companies, and other financial institutions, public and private, including the Government Service Insurance System, Social Security System and Pag-ibig Fund, to implement a minimum of a thirty (30)-day grace period for the payment of all loans, including but not limited to salary, personal, housing, and motor vehicle loans, as well as credit card payments, falling due within the period of the enhanced Community Quarantine without incurring interests, penalties, fees, or other charges. Persons with multiple loans shall likewise be given the minimum thirty (30)-day grace period for every loan.

b. Implementing Rules and Regulations (IRR) of Section 4(aa) of RA No. 11469 dated April 01, 2020

Section 5.01. Relief for loans. Borrowers whose loan/s with principal and/or interest falling due within the ECQ Period shall be entitled to avail of the 30-day grace period without incurring interest on interest, penalties, fees and other charges. X x x

Section 5.02. Treatment of accrued interest. The accrued interest for the 30-day grace period may be paid by the borrower on staggered basis over the remaining life of the loan. Nonetheless, this shall not preclude the borrower

from paying the accrued interest in full on the new date following the application of the 30-day grace period or extended grace period, as the case may be.

c. RA No. 11494

Section 4(uu) - Directing all banks, quasi-banks, financing companies, lending companies, real estate developers, insurance companies providing life insurance policies, pre-need companies, entities providing in-house financing for goods and properties purchased, asset and liabilities management companies and other financial institutions, public and private, including the Government Service Insurance System (GSIS), the SSS, and Home Development Mutual Fund (Pag-IBIG Fund), to implement a one-time sixty (60)-day grace period to be granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, including , but not limited to salary, personal, housing, commercial, and motor vehicle loans, amortization, financial lease payments, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans: *Provided*, That all loans may be settled on staggered basis without interest on interests, penalties and other charges until December 31, 2020 or as may be agreed upon by the parties: X x x

5.3 On the other hand, the Department of Finance issued Department Circular No. 005-2020 on the implementation of the one-time sixty (60) day grace period for all existing, current and outstanding loans falling due, or any part thereof, from the effectivity of the Bayanihan to Recover as One Act on September 15, 2020 until December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans.

5.4 In response to RA No. 11469 and its IRR, the OFBI's Board of Directors (BOD) approved the extension of salary loan payments requested in the memorandum dated May 26, 2020 of the E-Business Unit as cited below:

- *Extension of sixty (60) days for payment due dates falling within the period of MECQ and ECQ.*
- *Corresponding interest shall still be collected during the extension period.*
- *Amortization and maturity dates per Cyberloan System will be adjusted in accordance with the Bank's policy. Likewise the Central Liability System will effect the extension.*
- *The loan portfolio as of May 22, 2020 amounted to P8.020M.*

5.5 Verification of the Schedule of Loans generated from the Central Liability System with outstanding principal balance of P3,510,403.27 for 184 borrowers as at December 31, 2020 disclosed that the amortizations and maturity dates of loan payments were not extended after the application of the grace period and remained the same with the terms in the promissory note. Inquiry with Management also confirmed that the amortizations and maturity dates in the Cyberloan System were not adjusted to conform with the grace period, hence, the new amortization schedules were not generated which is contrary to the BOD approved guidelines for the 60-days extension of loan payment due dates.

5.6 The OFB utilizes two systems, the Cyberloan System and Central Liability System, for loan accounts and transactions. The Cyberloan System generates the amortization schedule and payment report of loans. While the Central Liability System is an excel file that generates the schedule of outstanding loans as of a given a date together with the corresponding accrued interest and the status of loans.

5.7 Also, Management confirmed that no guidelines were issued and approved by the OFB's BOD for the implementation of the one-time 60-day grace period of salary loan payments falling due on September 15 to December 31, 2020 pursuant to Section 4(uu) RA No. 11494.

5.8 Notwithstanding these deficiencies, OFB did not demand from the 184 borrowers the payment of their amortizations falling due on grace periods of March 16 to May 31, 2020 and September 15 to December 31, 2020 nor imposed or accrued penalties, interest on interests and other charges for non-payment of amortizations on the same periods. Also, there were no outstanding loans having past due status because of non-payment of amortizations on the cited grace periods. Thus, the requirement of providing grace periods on loan payments by OFBI for CY 2020 is considered substantially complied with in accordance with RA No. 11469 and RA No. 11494.

5.9 For the deficiencies noted, Management explained as follows:

a. AMMU Computer Systems, the Cyberloan System provider, has shutdown already and has ceased its operations. Thus, the CyberLoan facility cannot be provided with technical support for enhancement to enable the inclusion of the grace periods. The Bank's old Cyberloan System and Central Liability System shall be replaced by the electronic Salary Loan (eSL) system to be outsourced from LBP. The remaining loan portfolio of OFBank is presently being converted for onboarding to the eSL via a customized conversion template designed by LBP.

b. The eSL schedules of existing loan accounts will be generated on or before April 15, 2021 with the revised maturity dates as a result of the grace period provided under the BOD approved in line with RA No. 11469 and another 60-day grace period for current and outstanding loans in line with RA No. 11494.

5.10 We recommended and Management agreed to include the new maturity dates and amortization of loans in the eSL system and generate new amortization schedules as provided for in the BOD approved guidelines for the 60-days extension of loan payment due dates and the one-time 60-day grace period on payments of loans with current status and falling due on September 15 to December 31, 2020 pursuant to the provisions of Section 4(uu) of the RA No. 11494.

Gender and Development (GAD)

6. The implementation of Gender and Development (GAD) by OFBank was not fully compliant with PCW-NEDA-DBM Joint Circular No. 2012-01 and PCW Memorandum Circular No. 2017-03 by OFBank due to the absence of GAD Database/sex-disaggregated data for its clientele and one major program was attributed to GAD budget without conducting gender analysis using the Harmonized Gender and Development Guideline (HGDG) tool.

6.1 The PCW-NEDA-DBM Joint Circular No. 2012-01 provides the Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budget and Accomplishment Reports to Implement the Magna Carta of Women and requires among others that:

4.4 Institutionalizing GAD Database/Sex-disaggregated Data: 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.

6.4 Attributing agency major programs to the GAD Budget.

Attribution to the GAD budget of a portion or the whole of the budget of an agency's major programs is a means toward gradually increasing the gender responsiveness of government programs and budgets.

6.4.1 If an agency intends to attribute a portion or the whole budget of major programs during the GAD planning and budgeting phase, it may subject the program to gender analysis using HGDG tool. If the agency is not yet trained on the use of the tool, it may include said training in its GPB and may seek assistance of an expert on gender analysis using the HGDG.

6.2 PCW Memorandum Circular No. 2017-03 dated September 29, 2017 also provides:

1.2.3.2.2. Major program/s or project/s that the agency would attribute to the GAD budget shall be assessed using the HGDG tool with the appropriate design checklist. This is to determine the level of gender-responsiveness of the program/project and the corresponding percentage of its annual budget that may be attributed to the GAD budget (See Table 1). The administration of the HGDG tool and the attribution to the GAD budget shall be done by the agency or office responsible for reporting the utilization of the program's or project's fund.

1.2.3.2.3. PDF copies of the results of HGDG checklist and other supporting documents (e.g., project design, concept note, or attendance sheets of stakeholder consultations) shall be attached to the agency's GPB submission. Agencies are advised to refer to Section 6.4 of Joint Circular 2012-01 for more details on the process of attribution.

6.3 Verification of records disclosed that the GAD database/Sex-disaggregated data of the Bank remains manually maintained and contains information on its employees only but no information on its current or prospective clientele.

6.4 Moreover, the GPB and GAD AR for CY 2020 were submitted to the audit team on March 2, 2021 and April 21, 2021, respectively. Verification of the GPB disclosed that one major program which is "*Gender shall not be a required information on account opening*" with allocated budget of P15 million which comprised 85.62% of the Bank's total GAD Budget of P17.52 million was attributed to the GAD budget for 2020. However, there was no gender analysis conducted using the HGDG tool for the program, inconsistent with the above provisions.

6.5 In view of the foregoing, the implementation of GAD pursuant to PCW-NEDA-DBM Joint Circular No. 2012-01 and PCW Memorandum Circular No. 2017-03 by OFB was not fully complied with.

6.6 We recommended and Management agreed to:

a. Develop and maintain a GAD Database/ Sex-disaggregated data for both the employees and current and prospective clientele for gender-responsive planning, programming and policy formulation; and

b. Assess major program/s using the Harmonized Gender and Development Guideline Tool to determine the level of gender-responsiveness and the corresponding percentage to be attributed to GAD budget.

Compliance with Tax Laws

7. Taxes withheld for the month were remitted on or before the tenth day of the following month, except those withheld for the month of December which were remitted on or before the 15th day of January of the following year.

7.1 Information on taxes and licenses paid or accrued during the taxable year 2020 were disclosed in Note 25 to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P3.057 million were remitted to the Bureau of Internal Revenue in accordance with the deadlines on payment/remittance of taxes prescribed under the National Internal Revenue Code.

SSS Contributions and Remittances

8. In 2020, the Bank complied with Republic Act No. 8282 on the collection and remittance of contributions to SSS as follows:

a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and

- b. Remittance of employee's and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

Philhealth and Pag-IBIG Premiums

9. In 2020, the Bank complied with Section 18, Rule III, Title III, of the implementing Rules and Regulations of RA No. 7875, as amended, in the payment of national health insurance premium contributions to the Philhealth.

9.1 The Bank also complied with Sections 2 and 3, Rule VII, of the Implementing Rules and Regulations of RA No. 9679 in the collection and remittance of contributions to the Pag-IBIG Fund.

Disallowances and Charges

10. The total disallowances as of December 31, 2020 amounted to P30.807 million, details as follows:

Particulars	Amount	Status
a. Payment of per diems to former board members of the Bank for FY 2010 in violation of Memorandum Order No. 20 dated June 25, 2001 and Administrative Order No. 103 dated August 31, 2004	3,770,587.83	COA Order of Execution was issued to principal persons liable on June 17, 2014. A supplemental Notice of Disallowance was issued on March 11, 2016 to former members of the Board of Directors pursuant to COA Decision No. 2016-01 dated January 22, 2016. A Notice of Finality of Decision No. 2019-190 dated May 21, 2019 was issued approving the Decision No. 2018-417 dated December 21, 2018 and COA CGS Cluster 1 Decision No. 2015-02 dated March 25, 2015 excluding Mr. Victor A. Tantoco as person liable under ND. Nos. 13-01(2010) to 13-05(2010). Also, Notice of Finality of Decision No. 2019-021 dated January 18, 2019 approving Decision No. 2017-314 dated September 22, 2017 and COA CGS Cluster 1 Decision No. 2014-07 dated October 13, 2014 excluding Ms. Alda R. Bañez

Particulars	Amount	Status
		as person liable under ND. Nos. 13-01(2010) to 13-05(2010), was issued.
		No collection received as at year end.
b. Payment of compensation to the Corporate Treasurer apart from per diems and reimbursable expenses without authority and prior approval from the Office of the President contrary to Section 8 of Executive Order No. 24.	4,017,142.85	With CGS C-1 Decision No. 2015-13 dated December 18, 2015 and pending Petition for Review.
c. Payment of basic pay/salary, RATA and other benefits to paid to Officers who are 65 years of age or above under Officers' Employment Contract exercising direct supervision and control over regular employees contrary to Bank's policy and existing laws, rules and regulations, particularly to Memorandum Circular No. 134 dated October 31, 1995 issued by the Office of the President and COA Circular No. 2012-003 on Irregular Expenditures.	13,608,309.47	With CGS Cluster 1 decision for automatic review by the Commission Proper.
d. Payment of Health Maintenance Program contrary to COA Circular No. 2012-003 dated October 29, 2012 and COA Resolution No. 2005-001 which prohibits the grant of health care allowance and securing of health care insurance from private insurance agencies, respectively.	8,150,784.50	With CGS Cluster 1 decision for automatic review by the Commission Proper.
e. Payment of Representation Allowance for the period covered January 2016 to February 2017	1,260,000.00	CGS Cluster 1 issued Decision No. 2018-16 denying the appeal of Mr. Cesar N. Sarino. For issuance of Notice of Finality of Decision.
Total	30,806,824.65	

There are no balances of suspensions and charges as at December 31, 2020.