



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

ANNUAL AUDIT REPORT

on the

NATIONAL FOOD AUTHORITY

For the Year Ended December 31, 2012

EXECUTIVE SUMMARY

INTRODUCTION

The National Grains Authority was created under Presidential Decree (PD) No. 4 dated September 26, 1972 and became the National Food Authority (NFA) through PD No. 1770 dated January 14, 1981 with the original mandate to promote the integrated growth and development of the grains industry, to provide food security in the staple cereals in times and places of calamity or emergency, both natural or man-made and to promote the stabilization of supply and prices of staple cereals both at the farm gate and consumer levels. Pursuant to Executive Order (EO) No. 398 dated January 31, 1997, NFA undertakes the procurement of sugar when necessary. Furthermore, EO No. 22 issued in September 1998, authorized NFA to include in its scope the marketing operation of other basic food items.

The NFA is an attached agency of the Department of Agriculture (DA) and is governed by the Board of Directors known as NFA Council, chaired by the Secretary of DA.

It has 15 regional and 88 provincial offices.

The NFA has plantilla positions of 4,437 with 4,162 filled positions as of December 31, 2012. Only 562 personnel are assigned at the NFA Central Office and 3,600 personnel are assigned at the field offices. It also has 476 co-terminus/job order employees; 104 assigned at the central office and 372 assigned at the field offices.

FINANCIAL HIGHLIGHTS

I. Comparative Financial Position (In million pesos)

	2012	2011	Increase (Decrease)
Assets	25,337.353	39,438.738	(14,101.385)
Liabilities	162,793.041	171,499.237	(8,706.196)
Equity	(137,455.688)	(132,060.499)	(5,395.189)

II. Comparative Results of Operation (In million pesos)

	2012	2011	Increase (Decrease)
Income	21,627.740	28,470.354	(6,842.614)
Expenses	35,130.617	46,637.164	(11,506.547)
Loss from Operations	13,502.877	18,166.810	(4,663.933)
Subsidy from National Government	8,029.829	2,500.000	5,529.829
Loss after Subsidy from National Government	5,473.048	15,666.810	(10,193.762)

III. Budget and Actual Expenditures (In million pesos)

	Budget	Utilization	Variance
Personal Services	1,951.876	2,046.149	(94.273)
Maintenance and Other			
Operating Expenses	4,224.353	2,738.283	1,486.070
Capital Outlay	615.000	124.513	490.487
Total	6,791.229	4,908.945	1,882.284

SCOPE OF AUDIT

Our audit covered, on a test basis, the accounts and operations of NFA for calendar year 2012. The audit was conducted to obtain reasonable assurance on whether the financial statements are free from material misstatements. Our audit was also made to assess the propriety of financial transactions in compliance with laws, rules and regulations, and to identify improvement opportunities.

AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of presentation of the financial statements because of the following:

1. The balances of Assets, Liabilities, and Capital Deficiency in the balance sheet differed from the totals of the regional balances by P15.381 million, P250.550 million, and P265.931 million, respectively, which affected the accuracy and completeness of the balances presented in the financial statements; and affected the fair view of the financial condition of NFA as a whole;
2. The Accounts Receivable was valued in the financial statements at P987.237 million, but it included the total amount of P125.486 million or 13 per cent, which the debtors and the nature of the transactions could not be determined, thus, rendering the accuracy and completeness of the balances unreliable, and the existence of the substantial portion of receivables uncertain;
3. The final stock shortages amounting to P365.136 million recorded as Due from Officers were presented as correction of prior years' earnings that added up to the capital deficiency of NFA, and undermined the stock accountabilities of Stock Accountable Officers;
4. The Property and Equipment account is stated in the financial statements at P5,034.296 million, but there were variances between the book balances and physical inventory of P125.554 million, while the account also included the unserviceable equipment of P17.956 million and unaccounted property valued at P5.048 million. Moreover, the ownership of NFA over nine parcels of land recorded in the books at total value of P15.126 million and 14 parcels of land not recorded in the books cannot be fully

established because these were not registered yet in the name of NFA, and the status of the registration was not adequately disclosed in the notes to financial statements;

5. The Deferred Credits account consisted of the advance payments of P520.518 million made by various government agencies and organizations, retailers and millers for stocks of rice, which most of the balances had been long outstanding in the books. The status of issuance of stocks chargeable to the advance payments was not accounted for; thus, the existence and accuracy of the balances cannot be ascertained; and

6. Other Current Liabilities of P2,963.918 million included: (a) various trust accounts for different projects amounting to P236.030 million that remained dormant for more than five years now and (b) undocumented payables of P50.232 million, casting doubt on the existence and accuracy of reported NFA's obligations.

We were unable to obtain sufficient appropriate audit evidence about the carrying values of the above accounts with variances and undetermined amounts because of the absence of related documents and records. Consequently, we were unable to determine the necessary adjustments to these accounts.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above-mentioned audit observations which caused the issuance of a qualified opinion, we recommended that Management:

1. On the Consolidated Trial Balance

1.1 Verify and account for the noted differences and adjust accordingly to come up with reliable financial statements of NFA.

2. On the Accounts Receivable-Trade

2.1 Require the Accounting Services Department to fast track the reconciliation of the Receivables from NGAs with the collections received at the Head Office. Accordingly, advise the regional and provincial offices on the results thereof for updating the recorded receivables in the respective regional and provincial books of accounts where receivables were recorded;

2.2 Continue to vigorously pursue the collection efforts through sending of demand letters and collaboration meetings and strictly enforce the provisions of the Memoranda of Agreements(MOAs) with the national government agencies(NGAs) and local government units (LGUs) particularly the payment terms;

2.3 Conduct in-depth analysis and verification of the receivables and determine those deemed uncollectible after all the efforts have been exerted, for possible write-off in accordance with COA Circular No. 97-001; and

2.4 Include the collection targets in the Annual Plans and Targets as means of gauging the efficiency of collection of accounts receivable.

3. *On the Due from Officers and Employees*

3.1 Conduct further analysis and evaluation of the final stock shortages to determine the amounts due from accountable officers, which the probability of collection and or the outcome of legal processes are uncertain and not wholly within the control of NFA, that may be considered as Contingent Asset.

4. *On the Property, Plant and Equipment (PPE)*

4.1. Enjoin strict compliance with the required conduct of the reconciliation of the book balances of PPE with the physical inventory and property records to ascertain the existence of the assets and ensure the accuracy and completeness of the balances;

4.2 Require the:

a. Accounting and Property Offices to maintain updated Equipment Ledger cards/subsidiary records for each class of property to facilitate the reconciliation of the balances; and

b. Accountants to effect the necessary reclassification of unserviceable properties to other Assets account;

4.3 Undertake the disposal of unserviceable assets in accordance with Section 79 of Presidential Decree (PD)No. 1445 and the guidelines in NFA Standard Operating Procedure (SOP) No. GS-PD14 dated June 1, 1997;

4.4 Enjoin the NFA Department of Legal Affairs to exert utmost efforts in rendering assistance to the regional and provincial/districts offices in accomplishing the requirements for the transfer and registration of the land titles in the name of NFA and expedite the legal process for the issuance of Transfer Certificates of Title (TCTs) to establish the ownership over the parcels of land; and

4.5 Require the NFA Accountants to disclose in the Notes to Financial Statements the status of registration of the booked lands, as well as the donated parcels of land which could not be booked under the Land account while waiting for the transfer/registration of TCTs under the name of NFA.

5. *On the Deferred Credits*

5.1 Require the verification of the status of withdrawals of stocks to determine whether the book balances of unwithdrawn stocks are still existing, and effect the necessary adjustment in the books to arrive at correct balances;

5.2 Coordinate with the client agencies and organizations for more frequent and immediate withdrawals of stocks from NFA warehouses to provide space for NFA-owned stocks; prevent decline in quality of rice and their possible spoilage and wastage due to long period of storage; and minimize warehousing and storage expenses. See that the arrangement and schedules of stock withdrawals/distribution in MOAs are being complied with; and

5.3 Consider collecting storage fees for unwithdrawn stocks to encourage immediate withdrawals of stock and to reduce the warehousing rentals and maintenance costs.

6. *On Trust Liabilities*

6.1 Exert best efforts to obtain all the Memoranda of Agreements/Contracts, disbursement reports and other relevant documents pertaining to these projects;

6.2 Conduct thorough verification of the nature or purposes of these projects and determine the status whether already completed, discontinued or abandoned;

6.3 Make the necessary adjustments in the books to determine actual balances, and cause remittance of the same to the National Government thru the Bureau of Treasury (BTr); and

6.4 Review the accomplishment of the project Irradiation as Phytosanitary Measures for Food and Agriculture, a contract by NFA with a foreign entity, and the actual expenses incurred and remit the remaining balance to the concerned party as stated in the contract.

7. *On Accounts Payable and Other Liabilities*

7.1 Enjoin the Accounting Section to continuously exert efforts to conduct thorough analysis and reconciliation of the transactions pertaining to the accounts payable based on the available documents; and

7.2 Consider the applicability of the guidelines and procedures prescribed under the Department of Budget and Management (DBM) and COA Joint Circular No. 99-6 dated November 13, 1999 on the reversion of accounts payable, while strengthening the accounting and monitoring controls and coordination with concerned offices to ensure that capture, recording and reporting of transactions are accurate, complete and duly supported with proper documents.

The other significant audit observations and recommendations pertained to operations, compliance, and financial controls, as follows:

8. Importation by 14 Private Importers exceeded the total import allocation under Private Sector Financed (PSF)-Importation Program by the total volume of 5,976.75 metric tons (MT), which was also granted Tax Subsidy, resulting in forgone revenues of P43.512 million for the government.

8.1 We recommended that a monitoring procedure be put in place to check the actual importation and the tax subsidy availed of by the private importers against the approved volume allocation granted by NFA to ensure that only the authorized allocated volume is given the equivalent tax subsidy in order to prevent unauthorized importation, and contribute in the collection of tax revenues. Moreover, for policy direction and input in the improvement of the implementation of PSF program thru Tax Expenditure

Subsidy(TES), we also recommended that NFA look into the excess shipments of 5,976.75 MT of some importers that were also granted subsidy.

9. Ten Private Importers failed to bring in the allocated volume of importation equivalent to 17,220 MT, while 44 importers were short in their shipments by 25,789.30 MT, which could affect the food security stock.

9.1 We recommended that the guidelines on PSF-TES be reviewed together with the contract with private importers and determine the need to provide terms and conditions or sanction in case of the inability of the latter to import the allocated volume for buffer stocking. We also recommended that Management consider this inability of the private importers to deliver the allocated volume as an important concern in assessing the effectiveness of the evaluation of the financial capability of the winning bidders/importers.

10. While the NFA earned revenue in the form of service fee in private sector importation amounting to P1,981.265million, the National Government incurred expense in the total tax subsidy of P2,409.976million.

10.1 We recommended an assessment of the benefits from the PSF program not only in terms of revenue from service fees but also the impact of this program on the stabilization function of NFA, as compared to the expense of the government in the form of tax subsidy to the private sectors.

11. Slow turn-over of stocks resulted in long storage of NFA grains with total estimated cost of P2,261.251million for more than 24 months in the NFA warehouses that could further deteriorate in quality if not sold or distributed immediately and would increase the warehousing, storage and maintenance costs.

11.1 We recommended that Management:

a. Revisit the policies on Sale of NFA Commodities Through Market Determined Pricing (SMDP) particularly on the determination of prices, volume of stocks and timing of sale, among others, and determine the needed changes that would improve the turn-over of stocks;

b. Devise other marketing strategies on distribution to address the long storage of stocks to prevent further deterioration in stock quality and increasing warehousing costs that might eventually lead to losses;

c. Conduct market assessment of Iron Fortified Rice (I-Rice/IFR) in relation to the expiring stocks at NFA warehouses in coordination with the Department of Health (DOH) as part of the monitoring and review of the Rice Fortification Program under Republic Act (RA) No. 8976, and make representation for possible amendment of the law in view of the low acceptance of the public of IFR. Also submit the expired Iron Pre-mix (IRP) stocks to the Food and Drugs Administration (FDA), the government agency mandated to evaluate all food and drugs sold in the market, to ensure that these are still fit for use in the production of IFR;

d. Strengthen the quality controls on the procurement of palay that will meet the Guaranteed Milling Recovery (GMR) and yield better quality of rice recoveries which could eventually increase sales and avoid overstocking; and

e. Adopt balancing measures between the need to increase distribution of stocks to prevent overstocking, and the NFA's mandate of providing assistance to farmers through intensified procurement of palay and the maintenance of readily available stocks for buffer during lean months period and in times of emergencies and calamities.

12. The initially-determined shortages on the stock accountabilities amounting to P2,618.001million had been lodged in the Other Assets account for more than ten years because of incomplete or absence of stock examination and Tolerable Allowance (TOLA) computation, which are requisites in the determination of the final shortages; hence, collection/settlement of the amounts could not be pursued. With significant amount involved, NFA might have incurred substantial losses in stocks and government resources that could be utilized to augment the funds for food security program of NFA.

12.1 There were also stock overages amounting to P197.003 million of Stock Accountable Officers, which had been awaiting stock examination and TOLA computation for more than 10 years; thereby affecting the timely recognition of income.

12.2 We recommended that Management:

a. Require the Stock Examination Group to expedite the stock examination and apply the provisions of the NFA SOP No. GM-WH13 on the use of secondary documents when warranted to facilitate the examination. Submit the Stock Examination Report (SER) to the Regional Tolerable Allowance Committee (RTAC) for TOLA computation;

b. Require the RTAC to speed up the TOLA computation to establish the final shortages of the Stock Accountable Officers (SAOs) so that the settlement/collection of the amounts could be pursued and minimize the balance of the accountabilities that could not be ascertained;

c. Require the Legal Affairs Department to look into the status of the filing of cases against the accountable officers submitted by the regional and provincial officers;

d. Revisit NFA SOP No. GM-WH13 where no timeline was set for stock examination and TOLA computation and prescribe appropriate timeframe so that the final shortages could be established within reasonable period and immediate collection of shortages could be facilitated; and

e. Enforce the sanctions provided in the Special Provisions of NFA SOP No. GM-WH13 to oblige the persons responsible to strictly implement the SOPs on the stock examination and TOLA computation.

13. Shortages of SAOs had accumulated to P365.136 million, most of which remained uncollected for more than 10 years even with the existing NFA SOPs on settlement of stock shortages.

13.1 We recommended that Management:

a. Establish Agency's level of monitoring and evaluation system on the implementation of the NFA SOPs on the settlement of shortages particularly the following:

a.1. The issuance of demand letters to SAOs with established shortages within the prescribed period; and

a.2. Filing of the appropriate administrative and criminal cases;

b. Conduct an evaluation of the existing warehousing policies and procedures to identify the causes of the incurrence of shortages and strengthen the measures that will prevent and/or address the same;

c. Relieve the SAOs from their posts while undergoing stock examination and liquidation as internal control measure; and

d. Enforce the sanctions provided in the Special Provisions of SOP Nos. FS-GP15 and GP20A so that persons responsible for the implementation of the said SOPs will be obliged to strictly implement the settlement of shortages.

14. The total obligation incurred by NFA for Personal Services amounted to P2,046.149million while the total approved budget was only P1,951.876 million. This resulted in budget overdraft of P94.273million.

14.1 We recommended that in the utilization of the budget, the amounts as well as the conditions provided in the Corporate Operating Budget (COB) approved by the DBM be strictly observed to avoid the incurrence of overdraft and unauthorized expenditures.

15. Food and Grocery Incentive (FGI) was granted to NFA employees at P20,000 each totalling P84.868 million, without the authorization from the Office of the President.

15.1 To substantiate the probity of expenses, we recommended that the payment of FGI be supported with Administrative Order or any issuance from the Office of the President authorizing the grant of the incentive, otherwise the transaction would be disallowed in audit.

SUMMARY OF TOTAL AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The NFA had total consolidated unsettled audit disallowances of P27.344 million, suspensions of P6.985 million, and charges of P1.743 million.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 59 recommendations embodied in the previous years' Annual Audit Reports, 14 were fully implemented; 38 were partially implemented; and seven were not implemented. Details are presented in Part II-B of this Report.

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PART I - AUDITED FINANCIAL STATEMENTS

**PART II – A. OBSERVATIONS AND
RECOMMENDATIONS**

**B. STATUS OF IMPLEMENTATION
OF PRIOR YEAR'S AUDIT
RECOMMENDATIONS**



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

INDEPENDENT AUDITOR'S REPORT

THE NFA COUNCIL

National Food Authority
Quezon City

We have audited the accompanying financial statements of the **National Food Authority**, which comprise the balance sheet as of December 31, 2012, and the statement of income and expenses, statement of changes in capital deficiency and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the generally accepted State accounting principles, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The following exceptions contained in the Observations and Recommendations, Part II-A.1 of this Report were considered in forming our opinion:

1. The balances of Assets, Liabilities, and Capital Deficiency in the balance sheet differed from the totals of the regional balances by P15.381 million, P250.550 million, and P265.931 million, respectively, which affected the accuracy and completeness of the balances presented in the financial statements; and affected the fair view of the financial condition of NFA as a whole;
2. The Accounts Receivable was valued in the financial statements at P987.237 million, but it included the total amount of P125.486 million or 13 per cent, which the debtors and the nature of the transactions could not be determined, thus, rendering the accuracy and completeness of the balances unreliable, and the existence of the substantial portion of receivables uncertain;
3. The final stock shortages amounting to P365.136 million recorded as Due from Officers were presented as correction of prior years' earnings that added up to the capital deficiency of NFA, and undermined the stock accountabilities of Stock Accountable Officers;
4. The Property and Equipment account is stated in the financial statements at P5,034.296 million, but there were variances between the book balances and physical inventory of P125.554 million, while the account also included the unserviceable equipment of P17.956 million and unaccounted property valued at P5.048 million. Moreover, the ownership of NFA over nine parcels of land recorded in the books at total value of P15.126 million and 14 parcels of land not recorded in the books cannot be fully established because these were not registered yet in the name of NFA, and the status of the registration was not adequately disclosed in the notes to financial statements;
5. The Deferred Credits account consisted of the advance payments of P520.518 million made by various government agencies and organizations, retailers and millers for stocks of rice, which most of the balances had been long outstanding in the books. The status of issuance of stocks chargeable to the advance payments was not accounted for; thus, the existence and accuracy of the balances cannot be ascertained; and
6. Other Current Liabilities of P2,963.918 million included: (a) various trust accounts for different projects amounting to P236.030 million that remained dormant for more than five years now and (b) undocumented payables of P50.232 million, casting doubt on the existence and accuracy of reported NFA's obligations.

We were unable to obtain sufficient appropriate audit evidence about the carrying values of the above accounts with variances and undetermined amounts because of the absence of related documents and records. Consequently, we were unable to determine the necessary adjustments to these accounts.


Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the **National Food Authority** as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with the generally accepted State accounting principles.

Other Matter

As discussed in Part II-A.2 of this Report, we also identified areas for improvement in the attainment of NFA's operational, compliance, and financial reporting objectives; which include, among others, the institutionalization of a monitoring mechanism together with sanctions for infractions committed by concerned parties involved in rice importation. This is to ensure the veracity of actual importation by accredited private entities and the tax subsidies they availed of vis-à-vis the approved volume allocations granted by NFA, and the imposition and collection of taxes in case of excess rice importation by these entities.

COMMISSION ON AUDIT


CORA D. MARQUEZ
Supervising Auditor
Audit Group A –National Food Authority
Cluster 5- Agricultural and Natural Resources
Corporate Government Sector

June 28, 2013

NATIONAL FOOD AUTHORITY
B A L A N C E S H E E T
December 31, 2012
(In Philippine Peso)

	Note	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	3	1,781,661,615	2,374,517,901
Accounts receivable - net	2.3, 4	310,238,205	765,474,019
Inventories - net	2.2, 5	17,781,713,460	31,109,151,710
Other current assets	6	889,141,778	971,489,097
Total Current Assets		20,762,755,058	35,220,632,727
Non-Current Assets			
Property and equipment - net	2.4, 7	2,388,909,943	2,488,063,848
Other assets	8	2,185,687,919	1,730,041,711
Total Non-Current Assets		4,574,597,862	4,218,105,559
TOTAL ASSETS		25,337,352,920	39,438,738,286
LIABILITIES AND CAPITAL DEFICIENCY			
Current Liabilities			
Accounts payable	9	677,420,476	6,407,583,080
Notes payable	10	28,709,900,275	34,559,406,610
Due to Bureau of the Treasury	11	20,411,460,859	14,712,825,575
Deferred credits to income	12	561,589,885	663,674,109
Other current liabilities	13	2,963,917,817	4,103,193,021
Total Current Liabilities		53,324,289,312	60,446,682,395
Non-Current Liabilities			
Loans payable - domestic	14	109,132,119,395	110,619,119,395
Loans payable - foreign	15	336,632,702	433,435,412
Total Non-Current Liabilities		109,468,752,097	111,052,554,807
TOTAL LIABILITIES		162,793,041,409	171,499,237,202
CAPITAL DEFICIENCY		(137,455,688,489)	(132,060,498,916)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY		25,337,352,920	39,438,738,286

The Notes on pages 8 to 16 form part of these financial statements.

NATIONAL FOOD AUTHORITY
STATEMENT OF INCOME AND EXPENSES
For the Year Ended December 31, 2012
(In Philippine Peso)

	Note	2012	2011
Sales	2.1	17,687,884,417	25,929,863,859
Cost of Sales		22,322,948,787	33,177,172,418
Gross Loss from Sales		4,635,064,370	7,247,308,559
Operating Expenses	18	4,784,431,760	4,615,428,761
Financial Expenses	19	8,023,236,207	8,844,562,720
Loss from Operations		17,442,732,337	20,707,300,040
Other Income	2.1	3,939,857,084	2,540,490,438
Net Loss before Gov't. Subsidy		13,502,875,253	18,166,809,602
Subsidy Income from Nat'l Gov't.	20	8,029,829,188	2,500,000,000
Net Loss		5,473,046,065	15,666,809,602

The Notes on pages 8 to 16 form part of these financial statements.

NATIONAL FOOD AUTHORITY
STATEMENT OF CHANGES IN CAPITAL DEFICIENCY
For the Year Ended December 31, 2012
(In Philippine Peso)

	Note	2012	2011
EQUITY CONTRIBUTION FROM NAT'L. GOV'T.	16	5,000,000,329	5,000,000,329
DEFICIT	17		
Balance at the beginning of the year		(137,060,499,245)	(121,310,818,889)
Correction of prior period errors		77,856,492	(82,870,754)
As restated		(136,982,642,753)	(121,393,689,643)
Net loss for the year		(5,473,046,065)	(15,666,809,602)
Balance at the end of the year		(142,455,688,818)	(137,060,499,245)
CAPITAL DEFICIENCY		(137,455,688,489)	(132,060,498,916)

The Notes on pages 8 to 16 form part of these financial statements.

NATIONAL FOOD AUTHORITY
CASH FLOW STATEMENT
For the Year Ended December 31, 2012
(In Philippine Peso)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection from customers		21,603,966,782	28,077,898,046
Subsidy received from the National Government		8,029,829,188	2,500,000,000
Payment to suppliers of imported rice		(3,918,223,028)	(25,022,197,176)
Payment to suppliers and employees		(4,751,388,250)	(5,480,709,438)
Payment to suppliers of palay		(6,568,899,552)	(4,932,949,452)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		14,395,285,140	(4,857,958,020)
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement of investments/Proceeds from maturing investments		(199,995,800)	(399,912,120)
Proceeds from sale of property		1,875,487	724,381
Purchase/construction of property		(93,509,546)	(140,683,333)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		(291,629,859)	(539,871,072)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from borrowings/(Payment of loans)		(7,433,309,044)	12,425,072,629
Payment of financial charges		(7,256,818,183)	(7,201,547,316)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		(14,690,127,227)	5,223,525,313
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(586,471,946)	(174,303,779)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(6,384,340)	390,960
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3	2,374,517,901	2,548,430,720
CASH AND CASH EQUIVALENTS, END OF YEAR	3	1,781,661,615	2,374,517,901

The Notes on pages 8 to 16 form part of these financial statements.

NATIONAL FOOD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Pesos unless otherwise stated)

1. CORPORATE INFORMATION

The National Grains Authority was created under Presidential Decree (PD) No. 4 and became the National Food Authority (NFA) through PD No. 1770 with an original mandate to promote the integrated growth and development of the grains industry, to provide food security in the staple cereals in times and places of calamity or emergency, both natural or man-made and to promote the stabilization of supply and prices of staple cereals both at the farm-gate and consumer levels.

Pursuant to Executive Order (EO) No. 398 dated January 31, 1997, NFA undertakes the procurement of sugar when necessary. Furthermore, EO No. 22 issued in September 1998 authorized NFA to include in its scope the marketing operation of other basic food items.

The NFA is an attached agency of the Department of Agriculture (DA) and is governed by a Council, which is chaired by the Secretary of the DA.

It has 15 regional and 88 provincial offices. It has a plantilla positions of 4,437 with 4,162 filled positions as of December 31, 2012. Only 562 personnel are assigned at the NFA Central Office and 3,600 personnel are assigned at the field offices. It also has 476 co-terminus/job order employees; 104 assigned at the central office and 372 assigned at the field offices.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines and with the Chart of Accounts prescribed under the New Government Accounting System (NGAS).

2.1. Income and Expense Recognition

Income and expenses are accounted for on an accrual basis.

2.2. Inventories

Inventories are recognized at cost. This cost includes the basic procurement cost plus direct incidental expenses that are identified with each cereal type at the time they are incurred. However, the customs duties on imported rice/corn which are fully funded by the National Government are not included in the cost in accordance with Philippine Accounting Standard (PAS) No. 2 which provides that only import duties and other taxes which are not subsequently recoverable by the entity from taxing authorities are included in the cost of the item. Stock issuances are valued based on last month's average unit cost.

Volumetric physical count is conducted twice a year. Any variance between the books and the count is taken up as allowance for inventory variance.

2.3 Provision for Doubtful Accounts

Accounts receivable are provided with allowance as follows: 25 per cent for accounts aged one year to less than two years, 50 per cent for accounts aged two years to less than three years, 75 per cent for accounts aged three years to less than four years and 100 per cent for accounts aged four years and above.

2.4 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation using the straight-line method. Depreciation is based on cost net of 10 per cent salvage value using the estimated useful life of the asset. This is based on COA Circular No. 2003-007 dated December 11, 2003. Major repairs that prolong the life of the assets are capitalized while minor repairs and maintenance costs are expensed when incurred.

2.5. Foreign Currency Transactions

Foreign currency liabilities are booked up at peso equivalents at the time of availment. Payments are taken up at current foreign exchange rate. Gain or loss on foreign exchange is recognized and charged to current operations. Outstanding loan and dollar bank account balances at the end of the year are adjusted based on the closing rate and any gain/loss is recorded accordingly.

3. CASH AND CASH EQUIVALENTS

This account consists of cash deposits in bank of P1.742 billion out of which P1.375 billion are held in trust by NFA. Cash with accountable officers amounted to P39.641 million.

4. ACCOUNTS RECEIVABLE - NET

This account is composed of the following:

Particulars	2012	2011
Accounts receivable	987,237,429	1,402,754,388
Less: Allowance for doubtful accounts	676,999,224	637,280,369
Total Accounts receivable - net	310,238,205	765,474,019

This account is aged as follows:

	Amount	Percentage
Less than one year	62,398,080	6
One year but less than two years	127,799,559	13
Two years but less than three years	284,779,129	29
Three years but less than four years	90,624,152	9
Four years and above	421,636,509	43
Total	987,237,429	100

5. INVENTORIES - NET

This account consists of the following:

Particulars	2012	2011
Raw materials inventory	7,079,082,969	9,514,072,037
Work-in-process inventory	74,860,268	140,330,184
Merchandise inventory	10,258,874,354	20,785,662,418
	17,412,817,591	30,440,064,639
Less: Allowance for inventory variance	349,960,466	435,019,746
	17,062,857,125	30,005,044,893
Others	718,856,335	1,104,106,817
Total Inventories – net	17,781,713,460	31,109,151,710

Raw materials consist primarily of palay while Merchandise consists primarily of rice inventory.

Inventories-Others consist of office supplies, accountable forms, drugs and medicine, medical, dental and laboratory supplies, gasoline, oil and lubricants, agricultural supplies, other supplies, confiscated/abandoned/seized goods, spare parts and construction materials.

6. OTHER CURRENT ASSETS

This account consists of the following:

Particulars	2012	2011
Due from other government agencies	267,433,188	319,279,549
Other receivables	193,959,046	191,432,423
Other inventory	149,815,916	144,314,832
Inventory in transit	129,212,591	148,267,498
Due from officers and employees	81,891,341	93,037,629
Guaranty deposits	57,155,431	62,329,823
Prepayments	9,674,265	12,827,343
Total Other current assets	889,141,778	971,489,097

Other Inventory consists of items in transit-empty sacks (MTS), miscellaneous inventory, commodity held in trust, inventory miscellaneous (corn marketing assistance program, cereal sweepings, damaged grains, damaged non-grains, fertilizer and rice donation-Japan), inventory – Rapid Seed Supply Financing Project (RaSSFIP), stock held in trust and rice donation – East Asia Emergency Rice Reserve (EAERR).

Inventory in transit consists of imported rice purchased but not yet received.

Guaranty deposits include P6.077 million for three months security deposits with Amberland Corporation, P5.135 million for three months security deposit with Solid Triangle Sales Corporation, and P5.723 million for two months security deposit and two months advance rental with Sugar Regulatory Administration. The security deposits with Amberland Corporation and Solid Triangle Sales Corporation could not yet be refunded due to the pending case in court handled by the Office of the Government Corporate Counsel (OGCC).

7. PROPERTY AND EQUIPMENT - NET

This account consists of the following:

	Land and Land Improvements*	Buildings and Structures**	Furniture, Fixtures, Equipment, Books	Construction in Progress	Total
Cost, 01/01/12	763,646,488	2,089,261,464	2,068,096,170	81,382,211	5,002,386,333
Additions	5,112,038	269,873,977	267,468,583	68,187,132	610,641,730
Deductions	(5,350,416)	(146,256,295)	(325,284,041)	(101,841,262)	(578,732,014)
Cost, 12/31/12	763,408,110	2,212,879,146	2,010,280,712	47,728,081	5,034,296,049
Acc. Depr., 01/01/12	114,612,753	1,112,557,287	1,287,152,445	-	2,514,322,485
Depreciation - 2012	3,308,079	55,056,155	101,639,394	-	160,003,628
Adjustment - transfer	3,604,361	20,938,291	(53,482,659)	-	(28,940,007)
Acc. Depr., 12/31/12	121,525,193	1,188,551,733	1,335,309,180	-	2,645,386,106
Net book value, 12/31/12	641,882,917	1,024,327,413	674,971,532	47,728,081	2,388,909,943
Net book value, 12/31/11	649,033,735	976,704,177	780,943,725	81,382,211	2,488,063,848

*includes leasehold improvements-land amounting to P20,647,303.

**Includes leasehold improvements-building amounting to P12,807,186.

8. OTHER ASSETS

This includes the amount of P502 million recognized in the books of NFA pursuant to Section 8 of PD No. 1770 dated January 14, 1981, which provides that the investments and loans as well as related obligations incurred by Human Settlements Development Corporation (HSDC) in the Food Terminal, Inc. (FTI) shall be transferred to the NFA and P1.527 billion provision of Sinking fund for the long term bonds.

9. ACCOUNTS PAYABLE

This account consists mainly of payables to farmers and private contractors.

10. NOTES PAYABLE

This account includes short-term availments of credit lines from different banks to finance the rice importation activities of the agency.

11. DUE TO BUREAU OF THE TREASURY (BTr)

This account consists primarily of guarantee fees payable to the BTr of P3.693 billion and advances made by BTr for the settlement of NFA's short term loans through net lending program of P16 billion and proceeds of USPL 480 rice of P638 million.

12. DEFERRED CREDITS TO INCOME

This account consists primarily of payments made by retailers on rice stocks which have not yet been withdrawn by them from NFA warehouses.

13. OTHER CURRENT LIABILITIES

This account consists of the following:

Particulars	2012	2011
Due to government agencies	1,104,915,369	1,131,711,633
Accrued interest payable	1,191,159,686	1,646,094,816
Due to officers and employees	87,539,144	128,179,564
Performance and bidders bonds payable	101,804,685	685,493,766
Other payables	478,498,933	511,713,242
Total Other current liabilities	2,963,917,817	4,103,193,021

Due to government agencies include amount due to the BIR, GSIS, Pag-IBIG, Philhealth, other NGAs, other GOCCs and LGUs.

Accrued interest payable represents interest on notes payable from various banks.

Due to officers and employees consists of payables to employees on various programs such as bereavement assistance, hospitalization assistance, remunerations, executive health program, provident fund and calamity loan assistance program.

Other payables include guaranty deposit payable and miscellaneous payables deducted from employees, e.g. real estate loan, employees' character loan, NFAEA loans, for remittance to various creditors.

14. LOANS PAYABLE – DOMESTIC

This account consists of loans from different banks maturing from 2011 to 2021, to wit:

Particulars	2012	2011
1. Ten-year notes/loans from different banks syndicated by Development Bank of the Philippines and Land Bank of the Philippines dated: November 28, 2011 due date: November 28, 2021		
Banco de Oro Unibank, Inc.	28,540,000,000	28,540,000,000
Rizal Commercial Banking Corporation	15,000,000,000	15,000,000,000
Development Bank of the Philippines	10,000,000,000	10,000,000,000
China Banking Corporation	8,200,000,000	8,200,000,000
Land Bank of the Philippines	8,000,000,000	8,000,000,000
Philippine National Bank	3,000,000,000	3,000,000,000
Metropolitan Bank & Trust Company	1,830,000,000	1,830,000,000
Mizuho Corporate Bank Ltd.	430,000,000	430,000,000
Sub-total	75,000,000,000	75,000,000,000
2. Loans from ROP long-term notes – BTR		
ROP Long-Term Notes – BTR dated February 8, 2008 due date: October 29, 2018 (callable year 2013), interest 6.75% (fixed rate)	8,000,000,000	8,000,000,000
ROP Long-Term Notes – BTR dated October 29, 2009 due date: February 8, 2019 (callable year 2014), interest 6.375% (fixed rate)	9,000,000,000	9,000,000,000
Sub-total	17,000,000,000	17,000,000,000
3. Land Bank of the Philippines dated December 23, 2009 due date: December 23, 2021 (payable in 40 equal quarterly amortizations to start at the end of the 9 th quarter), interest: 3-months, Philippine Dealing System Treasury Fixing (PDSTF) + fixed spread of 1% with quarterly repricing, 5.1423% for the first quarter	4,860,000,000	5,400,000,000
dated January 7, 2010 due date: December 23, 2021 (payable in 40 equal quarterly amortizations to start at the end of the 9 th quarter), interest: 3-months, PDSTF + fixed spread of 1% with quarterly repricing, 5.1719% for the first quarter	3,792,500,000	4,100,000,000
dated January 14, 2010 due date: December 23, 2021 (payable in 40 equal quarterly amortizations to start at the end of the 9 th quarter), interest: 3-months, PDSTF + fixed spread of 1% with quarterly repricing, 5.1369% for the first quarter	4,162,500,000	4,500,000,000

Particulars	2012	2011
dated January 14, 2010 due date: December 23, 2021 (payable in 40 equal quarterly amortizations to start at the end of the 9 th quarter), interest: 3-months, PDSTF + fixed spread of 1% with quarterly repricing, 5.1435% for the first quarter	3,700,000,000	4,000,000,000
Sub-total	16,515,000,000	18,000,000,000
4. Corn Development Fund for the Dryermat and Corn Center Project	16,500,000	18,500,000
5. DBP – Minprocor acquired assets from Minprocor properties	91,200,000	91,200,000
6. Human Settlements Development Corporation – P 553.824 million, interest free, payable in 25 years (quarterly payment)	509,093,711	509,093,711
7. Agrarian Credit Line	205,000	205,000
8. Ministry of Agriculture & Food interest of 3% per annum payable every 6 months. Dept. of National Agricultural Productivity Program (NAPP) loan granted to NFA for procurement operations	120,684	120,684
Total Loans payable - domestic	109,132,119,395	110,619,119,395

15. LOANS PAYABLE - FOREIGN

This account consists of foreign loans, as follows:

Particulars	2012	2011
1. 1995 Japanese Rice Loan – Y541.355M 1995 at 2% on the 1 st to 10 th year and 3% per annum from 11 th to 30 th year (with 10 years grace period) annual installments of Y27,067.737 starting July 31, 2006 to July 31, 2025	169,312,143	213,823,496
2. 1996 USPL 480 at 3% per annum for the 1 st to 5 th year and 4% per annum for the 6 th to 20 th year (with a 4 year grace period) annual installments of \$312 million	167,320,559	219,611,916
Total Loans payable - foreign	336,632,702	433,435,412

16. EQUITY CONTRIBUTION FROM NATIONAL GOVERNMENT

Authorized capital stock is P5 billion divided into 50 million shares with par value of P100 per share. Capital stock rose by P1,100 million due to additional equity contribution given by the National Government in 2007 to complete the authorized capitalization of National Government. This account is already reconciled with the records of the BTr.

17. DEFICIT

The NFA has a record of contingent accounts in its books of accounts. In accordance with PAS No. 37 on Provisions, Contingent Liabilities and Contingent Assets and for the purpose of presenting fairly the financial condition of the NFA as of December 31, 2012, these accounts were no longer reflected in the balance sheet and were charged to capital deficiency. The contingent accounts are as follows:

Particulars	2012	2011
Stock shortages which may be subject of claims against warehouse supervisors	3,006,659,913	2,655,548,297
Claims filed against Government Service Insurance System for losses of stocks on board MV Haran	-	94,840,234
Claims against defaulting millers for undelivered sugar	616,202,028	616,202,028
Claims against defaulting millers for undelivered rice	436,255,180	432,694,290
Total Contingent accounts	4,059,117,121	3,799,284,849

18. OPERATING EXPENSES

This account consists of the following:

Particulars	2012	2011
Personal Services		
Salaries and wages	1,253,688,314	1,154,425,080
Other compensation	428,911,919	450,617,235
Personnel benefits contributions	175,534,567	163,591,222
Other personnel benefits	188,014,402	86,138,232
	2,046,149,202	1,854,771,769
Maintenance and Other Operating Expenses		
Inventory losses	799,314,115	584,088,536
Professional/contract services	450,000,473	456,682,396
Storage	214,731,011	374,140,539
Depreciation and depletion	160,003,628	148,828,935
Bad debts	103,523,366	138,367,469
Handling	130,937,281	131,793,839
Utilities	121,623,237	111,030,945
Supplies and materials	99,218,611	99,784,778
Rewards and other claims	137,594,315	90,138,056
Repairs and maintenance	90,274,266	85,319,692
Transportation and delivery	27,846,244	82,304,218
Gasoline, oil and lubricants	78,309,924	72,816,127
Traveling	66,640,607	59,491,567

Particulars	2012	2011
Taxes and other fees	44,862,088	47,359,226
Rent	37,780,441	35,553,346
Communication	30,230,708	29,935,087
Other expenses	145,392,243	213,022,236
	2,738,282,558	2,760,656,992
Total Operating expenses	4,784,431,760	4,615,428,761

19. FINANCIAL EXPENSES

This account consists of the following:

Particulars	2012	2011
Interest expense	6,466,940,638	6,570,122,171
Guaranty fees	1,419,575,161	1,424,783,303
Documentary stamps	135,104,705	731,548,850
Bank charges	1,615,703	118,108,396
Total Financial expenses	8,023,236,207	8,844,562,720

20. SUBSIDY INCOME FROM THE NATIONAL GOVERNMENT

This account consists of subsidy for food security and stabilization programs. A total amount of P8.029 billion was received from the Department of Budget and Management as subsidy allotment for the year, P4.030 billion of which represents the amount of conversion of NG Advances into subsidy as per approved Special Allotment Release Order BMM-F-12-0012892 dated July 04, 2012.

21. OTHER MATTERS

Tax Compliance

Taxes withheld and due to BIR for the CY 2012 were recorded and remitted to BIR.

A. OBSERVATIONS AND RECOMMENDATIONS

A.1 Financial Statements

1. Consolidated Trial Balance

1.1 The balances of Assets, Liabilities, and Capital Deficiency in the balance sheet differed from the totals of the regional balances by P15.381 million, P250.550 million, and P265.931 million, respectively, which affected the accuracy and completeness of the balances presented in the financial statements; and affected the fair view of the financial condition of NFA as a whole.

1.2 Below is the comparison of Total Branch Balances and Consolidated Regional Balances:

Table 1- Comparison of Total Branch Balances and Consolidated Regional Balances

Particulars	National Trial Balance Branch Balances	Consolidated Regional TB	Differences
Assets	P 25,846,288,772	P 25,830,908,036	P 15,380,736
Liabilities	2,185,898,687	2,436,448,563	(250,549,876)
Capital Deficiency	23,660,390,085	23,394,459,473	265,930,612

Comparison of total balances by account is presented as Annex A.

1.3 Furthermore, review by our Regional Auditors on the totals of non-consolidated trial balances of regional and provincial offices as compared with the consolidated regional trial balances disclosed material differences as reported in the following regions:

Table 2- Comparison of Total Non-Consolidated Balances with Consolidated Regional Balances

Region	Particulars	Totals of Non- Consolidated TB of ROs and POs	Consolidated Regional TB	Difference
NCR	Sales	P 4,927,017,968	P 4,927,017,968	-
	Cost of Sales	6,801,526,371	6,801,526,371	-
	Expenses	632,224,458	632,224,458	-
	Other Income/Expenses	891,383,560	891,383,560	-
	Assets	4,597,542,517	4,659,237,103	(61,694,586)
	Liabilities	372,682,315	396,216,078	(23,533,763)
	Equity	4,224,860,202	4,263,021,025	(38,160,823)

Region	Particulars	Totals of Non-Consolidated TB of ROs and POs	Consolidated Regional TB	Difference
V	Sales	1,297,235,226	1,297,235,226	-
	Cost of Sales	1,535,867,178	1,535,867,178	-
	Expenses	331,721,315	331,721,315	-
	Other Income/Expenses	21,345,510	20,991,035	354,475
	Assets	1,772,184,004	1,773,988,561	(1,804,557)
	Liabilities	106,957,286	106,957,286	-
	Equity	1,665,226,718	1,667,031,275	(1,804,557)
VIII	Sales	1,011,675,146	1,011,675,146	-
	Cost of Sales	1,271,221,650	1,271,221,650	-
	Expenses	169,732,204	169,982,299	(250,095)
	Other Income/Expenses	6,469,625	6,469,625	-
	Assets	1,091,675,682	1,093,233,556	(1,557,874)
	Liabilities	58,282,353	75,487,057	(17,204,704)
	Equity	1,033,393,329	1,017,746,499	15,646,830
IX	Sales	634,657,908	634,657,908	-
	Cost of Sales	778,957,618	778,957,618	-
	Expenses	160,366,909	161,782,340	(1,415,431)
	Other Income/Expenses	7,666,816	7,666,816	-
	Assets	509,270,659	509,270,659	-
	Liabilities	49,429,770	49,429,770	-
	Equity	459,840,889	459,840,889	-
XI	Sales	1,205,249,705	1,205,786,205	(536,500)
	Cost of Sales	1,210,304,137	1,210,304,137	-
	Expenses	198,072,690	198,186,008	(113,318)
	Other Income/Expenses	13,298,969	13,298,969	-
	Assets	760,111,621	765,532,620	(5,420,999)
	Liabilities	96,924,743	94,403,270	2,521,473
	Equity	663,186,878	671,129,350	(7,942,472)

1.4 In NFA- National Capital Region (NCR), the existence of the variances was attributed to the errors in the consolidation and the temporary entries made for unreconciled items during the consolidation in prior years. These temporary entries were not monitored and reversed in succeeding years. It was also the common observations in regional offices that the variances pertained to the prior years' unreconciled accounts.

1.5 The general principles on Consolidated Financial Statements dictate that the statements should provide true and fair view of financial condition and operating result of the agency as a whole, prepared in accordance with law and generally accepted accounting principles, and provide reliable financial information needed by fiscal or control agencies of the government and stakeholders.

1.6 The existence of substantial differences indicates inaccurate and incomplete capture of account balances from the regional and provincial/district offices, inaccuracy in recording, account classification and presentation, and inadequate disclosures

affecting the consolidation of the accounts and the fair presentation of the financial condition and operating results of NFA as a whole.

1.7 We recommended that Management verify and account for the noted differences, and adjust accordingly to come up with reliable financial statements of NFA.

1.8 Management submitted the following explanations:

a. The variance is attributable to the shifting from manual preparation of the financial reports to mechanization in the early part of 1980's.

As a backgrounder, during the early part of the NFA operations in 1970s, recording of financial transactions for Field Offices was merged with Central Office books. Adjustments, if any, regarding misclassification, miscoding, and erroneous charges by the field offices were effected at Central Office and wired to concerned field offices. When mechanization was implemented, both Central and Field Offices were instructed to use their existing balances and the difference between the National Trial Balance and Central Office books remained in the Branch Trial Balance (Consolidation of All Regional Trial Balances). However, reconciliation of part of these balances can no longer be made due to unavailability of documents.

b. For NFA-NCR, reconciliation is being undertaken on the variance between the provincial offices with the Regional Consolidated Trial Balance and temporary entries made at the Regional Office.

c. For Regions V, VIII, IX and XI, the variances were attributable to the temporary entries made at the NFA regional offices, which are being reversed in the following months. However, in Region VIII, there were temporary entries made in prior years that reconciliation can no longer be made because the records were damaged by fire last September 14, 2007.

1.9 **As a rejoinder, we further recommended that Management:**

a. **Continuously verify and monitor the reversal of the temporary entries in the books of the regional offices; and**

b. **Perform backward analysis to determine the variances before the mechanization of financial reports, as well as the variances in Region VIII where records were destroyed by fire to determine the amounts that can be considered for possible write-off in accordance with COA Circular No. 97-001 dated February 5, 1997 which states, viz.:**

“If the analysis/review of the accounts/funds is not possible due to absence of records and documents, the agency head concerned should request for write-off and/or adjustment of account balances from the COA, supported by:

1) List of available records and extent of validation made on the accounts, and/or

2) Certification and reasons why the books of accounts/ records, financial statements/ schedules and supporting vouchers/documents cannot be located.”

2. Accounts Receivable-Trade

2.1 The Accounts Receivable Trade of P987.237 million (gross) included the total amount of P125.486 million or 12.71 per cent, which the debtors and the nature of the transactions could not be determined, while the total balances of P797.039 million or 80.73 per cent had been outstanding in the books for two to four years and over, thus, rendering the accuracy and completeness of the balances unreliable, and the existence and collectibility of the accounts uncertain.

2.2 The Financial Statements as of December 31, 2012 showed that Accounts Receivable -Trade consisted of the following:

Table 3 - Accounts Receivable-Trade

Particulars	Amount	Percentage
National Government Agencies (NGAs)	P 828,323,834	83.9
Local Government Units (LGUs)	132,418,968	13.4
Government Owned and Controlled Corporations (GOCCs)	4,626,438	0.5
Private Entities	14,845,808	1.5
Retailer	647,496	0.1
ESSS Operators	31,962	0.0
ECLAP	13	0.0
Employees	1,103,511	0.1
Farmers	5,239,399	0.5
Total	987,237,429	100.0
Less: Allowance for Doubtful Accounts	676,999,224	68.6
Accounts Receivable – Net	P 310,238,205	31.4

2.3 The Aging Schedule showed that there were receivables in the total amount of P125.486 million from the Branch Transactions Accounting Section (BTAS) that had been in the books for many years but remained unverified as to the particulars of transactions. This amount consisted of the receivables from the following:

Table 4 - Unaccounted Receivables

Particulars	Amount
NGAs	P 55,946,241
LGUs	4,497,854
GOCCs	46,739,528
Private Entities	15,697,159
Retailers	83,824
Employees	335,443
Farmers	2,185,945
Total	P125,485,994

2.4 The aging of the accounts further showed that 80.7 per cent or P797.039 million aged two to four years and above.

Table 5 - Aging of Accounts Receivable – Trade

Age	Amount	Percentage
Less than one year	P 62,398,080	6.3
One year but less than two years	127,799,559	13.0
	190,197,639	
Two years but less than three years	284,779,129	28.8
Three years but less than four years	90,624,152	9.2
Four years and above	421,636,509	42.7
	797,039,790	
Total	P 987,237,429	100.0

2.5 As shown in Table 3, the allowance of P676.999 million was adequately provided for doubtful accounts in conformity with the NFA's accounting policy, but, the provision of allowance should not have precluded NFA from pursuing the collection of the accounts.

2.6 As also presented in Table 3, receivables from NGAs and LGUs of P828.324 million and P132.419 million, respectively, comprised 97.32 per cent of the total Accounts Receivable, and most of the long outstanding accounts are also the receivables from the NGAs and LGUs.

2.7 Receivables from NGAs and LGUs were sale on credit under Memoranda of Agreement (MOAs) entered into by NFA with various NGAs and LGUs for the distribution/issuance of rice to the beneficiaries of their relief operations in the areas affected by calamities.

2.8 As of December 31, 2012, significant balances of Accounts Receivable from NGAs of P828.324 million and from LGUs of P132.419 million consisted mostly of the following:

Table 6- Accounts Receivable from NGAs and LGUs

National Government Agencies	Amount
Department of Education	P 391,506,154
Department of National Defense	178,062,041
DSWD	80,740,531
Office of the President	58,278,820
DOF	11,897,557
DILG	5,477,463
Other Executives Offices	1,009,888
House of Representatives	40,926,203
Senate	3,139,423
Constitutional Offices	179,689

Local Government Units	Amount
Local Government Offices	P 26,324,365
Provincial Governors/Vice -Governors	31,071,899
City Mayors /Vice Mayors	10,454,493
Municipal Mayors / Vice Mayors	60,059,085

2.9 On the receivables from NGAs wherein the MOAs were entered into by the NFA-Central Office (CO), the withdrawals/issuances of rice by the regional/provincial offices to the beneficiaries were made upon the receipt of the wire message/advice from the NFA- CO. The receivables were recorded in the books of the regional/provincial offices, but the payments were made at the NFA-CO. The payments were recorded by the regional/provincial offices and Accounts Receivable account was credited upon the receipt of advice of payment from the NFA-CO.

2.10 In NFA-National Capital Region (NCR), the receivables from NGAs were mostly from government agencies and legislators amounting to P143.610 million that pertained to rice stocks issued from NFA-NCR, however, the payments through the Special Allotment Release Order (SARO) or Priority Development Assistance Fund (PDAF) were collected and recorded at NFA - CO. The receivables from Armed Forces of the Philippines (AFP) amounting to P13.690 million had been uncollected for over eight years despite the termination of the program covered under the Executive Order (EO) No. 88 in September 2004.

2.11 In NFA-Region VI, accounts receivable from NGAs such as Philippine Navy/Army and National Disaster Coordinating Council (NDCC) represents rice withdrawals per wired instructions from NFA-CO. These transactions covered by MOAs with NFA-CO were taken up in the books of NFA Aklan Provincial Office which the remaining balance of P3.017 million remained unsettled for more than three years now.

2.12 In NFA-Region XI, the accounts receivable from NDCC and AFP-Philippine Army in the amount of P1.010 million remained dormant for more than five years now. The receivables from AFP in the amount of P0.583 million were granted under the EO No. 88 program of the NFA, whereby the AFP was extended credit for rice distributed to their personnel. These accounts were coordinated through NFA-CO.

2.13 Since the MOAs with the NGAs were entered into by the NFA- CO, as well as payments are made thereat, the long outstanding receivables from NGAs in the books indicate the following:

- a. Inadequate monitoring and lack/absence of payment advice from NFA- CO as the basis of the regional/provincial offices in recording the payment and crediting the Accounts Receivable account;

b. Unrecorded payment advice from NFA- CO in the books of the regional and provincial offices, if any; and

c. Inadequate collection efforts and inability to strictly implement the payment terms on the part of NFA-CO since the MOAs were entered thereat.

2.14 The Managers of the regional and provincial offices had represented that they had sent communications to the NFA Central Office regarding the status of the receivables; however, they were advised that the reconciliation is still in process.

2.15 Likewise, the receivables from LGUs remained uncollected because of inadequate collection efforts and inability to strictly implement the payment terms agreed in the MOAs. In Region II, despite several letters of collection sent to LGUs, there still exists a balance of P4.521 million to date.

2.16 In Region IV, in a letter dated August 14, 2012 endorsed by NFA Regional Office to COA-NFA Batangas Provincial Office on August 23, 2012, Management had requested for write-off of the LGU and private accounts pertaining to rice loan during 1986 Snap Presidential Election with a total amount of P0.729 million which had been subject of previous request for write-off to COA in view of the denial of the liability of the concerned units, citing that the persons who accepted the stocks are no longer connected in their units or they accepted the stocks on the assumption that they were donation or aid to their constituents. Said accounts had been dormant for more than 26 years and several demand letters for settlement and confirmation of the accounts had been sent but to no avail.

2.17 In Region VI, a personal follow-up was made by the Assistant Manager, following instructions from NFA Head Office, to exhaust all possible remedies to enforce collection regarding the outstanding accounts receivables from LGUs, particularly the Municipalities of Isabela and Candoni, amounting to P493,135 and P210,000, respectively. However, the Municipal Mayors and City Mayors of the said LGUs were requesting condonation of the said accounts and such were endorsed by the Management to the Regional Director of the NFA for information and evaluation.

2.18 There were also recorded receivables which the related documents could no longer be located as reported in Region IV where various receivable accounts totalling P36.261 million cannot be ascertained due to insufficient documents, negative results of confirmation, and absence of updated information on collections made by NFA-CO. Also in Region VII - Accounts Receivable-Trade in the books of NFA Cebu and Negros Oriental Provincial Offices amounting to P3.598 million and P4.645 million, respectively, were doubtful due to lack of proper documentation, delayed reconciliation with concerned debtors, and absence of updated information/advice on collection from the Central Office.

2.19 Sound management practices dictate that it is important to have a system in place to manage accounts receivable to recover the costs of goods and services delivered. Accounts Receivable that remained dormant and outstanding in the books for many years cast doubt on the existence of the receivables, as well as the accuracy and completeness of the balances. Moreover, uncollected accounts had deprived NFA of the financial resources that could have been utilized for operations and could have minimized the borrowings for procurement of rice, palay and corn for food security program of the government.

2.20 We recommended that Management:

- a. Require the Accounting Services Department to fast track the reconciliation of the receivables from NGAS with the collections received at the Head Office. Accordingly, advise the regional and provincial offices on the results thereof for updating of the recorded receivables in the respective regional and provincial books of accounts where these receivables are recorded;**
- b. Continue to vigorously pursue the collection efforts through sending of demand letters and collaboration meetings and strictly enforce the provisions of the MOAs with the NGAs and LGUs particularly on the payment terms;**
- c. Conduct in-depth analysis and verification of the receivables and determine those deemed uncollectible after all the efforts have been exerted, for possible write-off in accordance with COA Circular No. 97-001; and**
- d. Include the collection targets in the Annual Plans and Targets as means of gauging the efficiency of collection of accounts receivable.**

2.21 Management explained that the NFA-Central Office is continuously pursuing the collection of Accounts Receivable with the coordination of the Grains Marketing Operations Department (GMOD) and Field Offices. Most of the problems on collection are those receivables pertaining to old accounts of which proof of issuances of stocks could no longer be retrieved due to various reasons. However, the Accounting Services Department (ASD) is closely coordinating with the GMOD to resolve the problem. Moreover, Management sees to it that as much as possible, the MOAs with various government agencies now incorporate the provision that funds shall be downloaded by the requesting government agency directly to the issuing regions.

2.22 Management also submitted the following updates on the Accounts Receivable in Central Office books resulting from the demand letters sent, and written and personal follow-ups:

a. NDCC

On January 2013, NFA followed up its request for the full payment of NDCC's outstanding balance amounting to P179.229 million representing rice releases for the period 2006 to 2010, on which the National Disaster Risk Reduction and Management Council (NDRRMC) requested NFA to submit Statement of Actual Releases made by NFA Provincial Offices to the authorized NDCC representatives for purposes of fund allocation by the DBM. Retrieval of document is being undertaken by ASD in coordination with the GMOD.

b. DepEd Food for School Program

NFA requested for the payment of excess rice deliveries to DepEd under the Food for School Program. Based on the evaluation of DBM, the P92.797 million being billed by NFA was considered prior years' unbooked obligation. The amount has to be validated by COA (of the DBM), after which same shall be submitted to DBM for funding.

c. Armed Forces of the Philippines (EO No. 88)

NFA was able to collect P6.571 million from the Philippine Army under Official Receipt No. 0404690 dated March 27, 2013. For the Accounts Receivable recorded in NFA-NCR, P6.60 million has been collected in April 2013, and the remaining balance is still being reconciled with the field offices.

d. Bureau of the Treasury (BTr), Department of National Defense and Office of the President

NFA sent confirmation letters to the BTr with outstanding balance of P11.885 million, Department of National Defense of P259,500, and Office of the President of P58.279 million. In its reply, the Office of the President requested copies of pertinent documents as basis for setting up the payable to NFA. Retrieval of such documents is being undertaken by NFA.

e. Philippine National Red Cross

NFA was able to collect the amount of P0.547 million out of the outstanding balance of P4.078 million. The NFA- CO is waiting for proof of rice deliveries from NFA field offices for billing purposes on remaining balance.

2.23 Management further informed that regular reconciliation of the Central Office and Field Offices receivables is being done. The ASD and NFA Regional Offices are scheduling a thorough reconciliation of the inter-branch accounts to be done at the Central Office, which is also in preparation for the implementation of the Electronic-Integrated Financial and Operations Management Information System (e-IFOMIS).

2.24 On the accounts of the LGUs, the ASD and the Legal Affairs Department (LAD) at the NFA-CO in coordination with the Regional Offices are now addressing the long-time collection problems. LAD will be preparing collection cases against these LGUs who failed to honor their obligations.

2.25 On the accounts which could not be collected anymore due to lost/damaged documents, Management expressed concern that the Central Office and Field Offices had submitted time and again requests for write-off; however, there had been no reply/action from COA. NFA-CO gathered all the requests of the Field Offices and submitted these to the Supervising Auditor on July 5, 2013.

2.26 On the recommended inclusion of the collection targets in the Annual Plans, Management advised that there is a quarterly monitoring report submitted by all Field Offices to Central Office which include their quarterly target of collection and their actual collection. If the actual collection is way below the targets, an explanation is required from the concerned Manager.

3. Due from Officers and Employees

3.1 Final Shortages of Stock Accountable Officers (SAOs) amounting to P365.136 million recorded as Due from Officers were presented as correction of prior years' earnings that added up to the capital deficiency of NFA, and undermined the stock accountabilities of SAOs.

3.2 Final stocks and empty sacks (MTS) shortages established after the stock examination and computation of the Tolerable Allowance (TOLA) were recorded as Due from Officers and Employees. As of December 31, 2012, the Due from Officers and Employees account consisted of the following:

Table 7- Due from Officers and Employees (O/E)

Particulars	Trial Balance		Balance Sheet	
		Due from O/E		Deficit
Cash Advances	P	332,370	P	332,370
EDL		20,287,056		20,287,056
SLA		8,784,712		8,784,712
PLDT		845,892		845,892
Grainscor		48,350		48,350
SVLF		17,579,479		17,579,479
MTS with Accountable Officer		20,451,109		20,451,109
Shortage of SAOs		365,135,947		P365,135,947
Loss of Fixed Asset		717,699		717,699
Total		P434,182,614		P69,046,667
				P365,135,947

3.3 The above table showed that the shortages of NFA SAOs comprised mainly the Due from Officers and Employees account but the amount was included in the correction of prior years' earnings presented in the Statement of Capital Deficiency.

3.4 As disclosed in Note 17 to financial statements, the stock shortages of P3,006.660 million which maybe subject of claims against warehouse supervisors were presented as Contingent Assets. The amount included the claims against warehouse supervisors for stock shortages subject of stock examination and TOLA computation amounting to P2,641.524 million (Other Assets), and final stock shortages of accountable officers of P365.136 million (Due from Officers and Employees), were presented as Contingent accounts. These accounts were no longer reflected in the Balance Sheet but charged to Capital Deficiency for fair presentation of financial statements in accordance with Philippine Accounting Standard (PAS) 37 on Provision, Contingent Liabilities and Contingent Assets.

3.5 PAS 37 stated in paragraph 33 that:

“Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the realized asset is not a contingent asset and its recognition is appropriate.”

The Standard defined Contingent Assets in paragraph 10 as:

“a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.”

Furthermore in paragraph 32,

“Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.”

3.6 With the above definitions of Contingent Asset, it is our view that since the final shortages of P365.136 million were already established through the implementation of the policies and procedures that NFA has formulated, in particular the conduct of stock examination and TOLA computation, the amount due from the accountable officers were appropriately recognized as Due from Officers and Employees and as such should be presented as Asset in the financial statements for proper disclosures and presentation.

3.7 Moreover, the realization or collection of receivables could be in the control of NFA through the implementation of the policies and guidelines provided in its Standard Operating Procedures (SOPs). We may only consider the stock shortages as Contingent

assets when the settlement would be dependent on uncertain future events not in the control of NFA, like the outcome of court cases which NFA has already filed in appropriate courts.

3.8 We recommended that Management conduct further analysis and evaluation of the final stock shortages to determine the amounts due from accountable officers, which the probability of collection and or the outcome of legal processes are uncertain and not wholly within the control of NFA, that may be considered as Contingent asset.

3.9 Management explained that the balance of Due from Officers and Employees – Shortages was being reclassified as Contingent Asset presented under Capital Deficiency as recommended in 2006 audit on the contention that the collection of receivables is still uncertain. However, Management agreed to conduct further analysis and evaluation of the shortages classified as Contingent assets to determine that only those shortages that the probability of collection is not wholly within the control of NFA are presented in the balance sheet under Capital Deficiency.

3.10 As a rejoinder, we believe that when applying PAS 37- Contingent Assets in the financial statements of government sector, the accountabilities over the assets, in this case over the stocks of rice and the recovery of the amounts involved should be the foremost consideration.

4. *Merchandise and Raw Materials Inventories*

4.1 The variances between the books and stock reports amounting to P48.393 million of Merchandise Inventory (Rice) and P2.207 million of Raw Materials (Palay) affected the accuracy and completeness of the balances of the accounts in the financial statements.

4.2 Receipts and issuances of rice stocks are recorded under Merchandise Inventory account, while stocks of Palay are recorded under Raw Materials Inventory. Rice recoveries from milled palay are then recorded as Merchandise Inventory.

4.3 The accuracy and completeness of the inventory balances are affected by the following:

a. Dispersal of rice stocks

a.1 Computation of Standard Cost Transfer (STC)

STC is the basis of recording the stocks issued/received of the issuing and receiving offices. If the STC is not accurately and completely computed, the

Merchandise Inventory and Due from/Due to accounts would be over or under stated.

a.2 Documentation of receipts and issuances of rice stocks

The movement of stocks is documented in the warehouse documents/ forms such as the Authority Issue (AI), Warehouse Stock Receipt (WSR) and Warehouse Stock Issue (WSI), among other stock reports. Inaccurate and incomplete warehouse documents would result in inaccurate and incomplete/delayed recording and reporting of receipts and issuances of stocks.

a.3 The differences in weight issued and weight received

The variance between the weight received by the receiving province/warehouse and the weight issued by the issuing province/warehouse due to spillages and or pilferages/theft also cause discrepancies in recorded Merchandise Inventory .

b. Short landed deliveries

The difference between the bill of lading weight, quantities and packing at the port of lading and actual stocks received usually results in losses of stocks. The loss is included in the cost of Merchandise Inventory account while the stock reports contained the actual stocks received.

c. Classification of Palay

Costing of palay depends on the quality, hence inaccurate classification of the quality of palay affects the accuracy of Raw Materials Inventory.

d. Short or non-delivery of rice recoveries

Short or non-delivery of milling recoveries when not discovered would affect the accuracy and completeness of Raw Materials Inventory.

4.4 The following deficiencies were reported:

a. Variances between the book balance of Merchandise Inventory and Raw Materials Inventory and stock records:

Table 8- Variances between the Books and Stock Records

Region	Merchandise Inventory (in peso)			Raw Materials Inventory (in peso)		
	Per Books	Stock records	Variance	Per Books	Stock Records	Variance
NCR-RO	47,686,181	-	47,686,181			
NCR-CDO	1,346,488	-	1,346,488			
IV-A	-	-	-	477,204,449	476,439,882	764,567
VI-NOPO	92,151,191	92,791,113	(639,922)	57,205,738	57,586,098	(380,360)
VIII	-	-	-	8,182,766	6,360,198	1,822,568
Total	141,183,860	92,791,113	48,392,747	542,592,953	540,386,178	2,206,775

RO-Regional Office

CDO- Central District Office

NOPO- Negros Occidental Provincial Office

b. In NFA NCR-RO, the balance of P47.686 million pertained to rice stocks which no longer existed, but remained in the books due to accounting errors attributed to weak accounting and monitoring controls.

c. NFA-NCR Management explained that transactions affecting inventory (issuance and receipt) for the period 2010 and 2011 were traced from the stock reports of the warehouses. These transactions were matched to the amounts recorded in the books. To date, inventory transactions in 2009 as recorded in the subsidiary ledger are being traced to the stock reports. The same will be done in 2002 to 2008, after which, application of unit cost in each period will be evaluated. Adjustments will be effected only after this activity is completed to ensure that adjustments that will be booked are correct to zero out the balances of the Merchandise Inventory accounts.

d. The Merchandise Inventory account of the NFA NCR-CDO as of December 31, 2012 included the imported Pakistan rice of P1.253 million and the imported USPL 480 rice of P93,530 or a total of P1.346 million.

e. Review of the pile layouts, which served as the stock records of the CDO warehouses as of December 31, 2012 disclosed that no inventories of the above imported rice existed in the warehouses. The Quality Assurance Section which prepared the pile layouts also confirmed that same stocks of rice were no longer at the warehouses as at year end. Ocular inspection of the warehouses made by the audit team also disclosed that the above varieties of imported rice did not anymore exist as of December 31, 2012.

f. NFA NCR-CDO Management informed that record on the imported Pakistan rice which no longer existed in their warehouses as of December 31, 2012 was already adjusted accordingly in their April 2013 Trial Balance in order to reflect the correct balance of Merchandise Inventory account. The inventory of USPL 480 rice (recorded as UJAW82 in pile layout) with a balance per stock report and per books of 1,990 net kilograms (nkgs.), equivalent to 40 bags or P93,530 are still existing in their Kingswood 8/9 warehouse. Hence, they will continue to retain the balance of said stock in their books. They have instructed

the Warehouse Supervisor to submit sample for laboratory analysis for this US rice so that proper disposition will be made based on the result of analyses/condition of stocks.

g. In Region IV-Palawan Provincial Office, there is a significant difference in quantities and amounts in all varieties of grains of 2,155.16 nkgs. and P61,817, as well as in palay of 39,264.98 nkgs. and P0.703 million as of December 31, 2012.

h. Inquiries from personnel assigned in the posting to Subsidiary Ledger of Merchandise Inventories and Stock Inventory Reports revealed that reconciliation of the two records had not been undertaken ever since; thus, the balances remained unreconciled. The frequency of its occurrence may pose the risk of losses in stocks. The Palawan PO assured that reconciliation of these variances will be prepared and the necessary adjustments will be effected.

i. In Region VI, the Warehouse Stock Report of NFA Negros Occidental (NOPO) showed stock of palay of 74,609 bags or 3,216,943.28 kilos equivalent to P57.586 million but in the trial balance, there was only 3,195,694.17 kilos or P57.206 million; hence, there was a variance of 21,249.11 kilos at P17.90 per kilo or P380,359. Likewise, the Merchandise Inventory account balances and year-end stock inventory reports revealed a variance of 24,259.04 nkgs. or P0.640 million.

j. NFA NOPO Management explained that variances on Merchandise Inventory were due to prior years' balances subject for reconciliation. Management is now working on the reconciliation and the reconstruction of the balances of the Napro Warehouse as they have already finished the Stock Examination Report for the period April 8, 2010 to October 30, 2012 and adjustments will be made in the books of the NOPO.

k. In Region VIII, the balance of palay stocks per books of NFA Biliran amounting to P8.183 million or 490,324.40 nkgs. remained unreconciled with the balance per stock inventory report of P6.360 million or 387,522.12 nkgs. as of December 31, 2012, resulting in stock variance of 102,802 nkgs. or P1.823 million due to poor monitoring of stock transactions, thus, affecting the accuracy and reliability of the stock records and precluding the determination of the accountability for stocks.

l. NFA Biliran PO explained that the Accounting Section is in the process of determining the causes of the variance between the stock report and books by tracing back the entries made in the books so that proper adjustment can be made for the discrepancy.

m. In Region VII, review of accounting records on the Dispersal of Grains stocks received from NFA-Cebu Provincial Office showed that losses from Dispersal of Grains Stocks (Spillages) exceeded the tolerable limit of 0.56 per cent set by the SOP on Dispersal Policies and Procedures dated January 9, 1991. The excess ranged from 71 to 205 per cent or a total of 29,235.96 nkgs. equivalent to P0.778 million for the year 2012.

4.5 We recommended that Management:

a. **Require the immediate reconciliation of the balance of Merchandise Inventory and Raw Materials Inventory with warehouse stock records, and effect the necessary adjustments where appropriate; and**

b. **Enjoin strict compliance with the monthly reconciliation of the stock reports with the trial balance as provided in Paragraph 7 of NFA SOP No. GM-WH12 so that variances could be immediately verified and corrected.**

4.6 Management explained that the Field Offices were reminded to comply strictly with SOP No. GM- WH12 dated March 7, 2002 re: Physical Inventory Counting of NFA Inventory Items for Sale, by products and empty sacks, and Memorandum No. 120 dated September 26, 1990. In addition, they were also obliged to prepare certification that the balances per Stock Reports tally with the book balance.

4.7 As a rejoinder, we further recommended that Management strictly monitor the compliance by the field offices with the existing policies and guidelines contained in the SOPs on stocks inventory and reporting.

5. *Intra-agency Receivables and Payables*

5.1 Intra-agency receivables of P462,302.427 million and Intra-agency payables of P462,301.219 million remained unreconciled with net variances amounting to P1.198 million and continued to undermine the accuracy, completeness and existence of the recorded inter-branch/office transactions.

5.2 These Intra-Agency receivables and payables pertained to the receipt of funds and other assets like supplies, inventories, equipment, etc. for use in NFA Regional and Provincial Offices. Transactions were recorded as receivable (Due from) in the issuing office and payable (Due to) by the receiving office.

5.3 NFA SOP No. FS-GP13 dated April 21, 1997, as amended on December 18, 2008 (Revised SOP on Inter-branch Accounting) provided guidelines to simplify the procedures on inter-branch accounting, define responsibility of the concerned

offices/employees in reporting/monitoring of inter-branch transactions, and to improve timeliness and accuracy of financial reporting. NFA uses the intra-agency accounts provided under the SOP, as follows:

For Central Office (CO)

- Field Office Account (FOA) – to record transaction with any regional or provincial office. The reciprocal account at the R.O. /P.O. is Head Office Account (HOA).

For Regional Office (RO)

- Head Office Account (HOA) – to record transactions with C.O. The reciprocal account at the C.O. is Field Office Account (FOA).
- Head Office Clearing Account (HOCA) – to record transactions with other regional/provincial office of other regions with Central Office as the clearing account.
- Branch Office Transaction Account (BOTA) – to record transactions with its provincial offices. The corresponding reciprocal account of its provincial office is Regional Office Transaction Account (ROTA).

For Provincial Office (PO)

- Head Office Account (HOA) – to record transaction with Central Office. The corresponding reciprocal account of Central Office is FOA.
- Head Office Clearing Account (HOCA) – to record transactions with other Regional/Provincial Office of other regions with Central Office as the clearing office.
- Regional Office Transaction Account (ROTA) - to record transactions with its Regional Office. The corresponding reciprocal account of its Regional Office is Branch Office Transaction Account (BOTA).
- Regional Office Clearing Account (ROCA) – to record transaction with other Provincial Office within its region with the Regional Office as the clearing office.

- The old accounts were no longer used effective March 1, 1995 based on NFA SOP FS-GP10 (Inter-branch Accounting System), but the balances were forwarded and still presented in the financial statements for reconciliation, adjustment, and correction purposes: These are Central Office Clearing accounts (COCA), Regional Office accounts (ROA), Provincial office Accounts (POA), and Branch Office Clearing accounts (BOCA)

5.4 Intra-agency receivables and payables are being reverted and closed to Equity account after the originating office, i.e. the Central Office, Provincial Offices and other NFA offices, acknowledges and confirms the reconciliation of accounts with NFA Regional Office as required under the said SOP.

5.5 The Philippine Accounting Standard (PAS) 27 requires that in the consolidation of the financial statements of a group of entities under the control of a parent, the Intra-group balances, transactions, income and expenses are eliminated in full. So it is expected that the balances of intra-agency accounts of NFA will be eliminated in full and will present zero balance in the consolidated financial statements.

5.6 However, the balances of intra-agency receivables and payables as of December 31, 2012 showed that there remained unreconciled balances that were not eliminated in full, as shown below:

Table 9- Intra-agency Receivables and Payables

Intra-agency Receivables/Due from		Intra-agency Payables/Due to		Variance (e=b-d)
Account Title (a)	Amount (b)	Account Title (c)	Amount (d)	
Central/Head Office (HO)		Any Regional or Provincial Office		
Due from Regional Office (FOA)	P 69,418,502,856			
Due from Operating Units (FOA)	140,153,247,349			
	P 209,571,750,205	Due to Central Office (HOA)	P 215,867,856,137	P (6,296,105,932)
Regional Office (RO) / Provincial Office (PO)		Central Office, Other RO/PO, and RO/PO within the region		
		Due to Regional Office (FOA)	10,429,092,335	
		Due to Operating Units (FOA)	137,556,111,343	
Due from Central Office (HOA)	153,651,565,317		147,985,203,678	5,666,361,639
Due from Regional Office (ROTA)	3,678,981,143	Due to Operating Units (BOTA)	5,061,846,014	(1,382,864,871)
Due from Operating Units (BOTA)	22,495,900,080	Due to Regional Office (ROTA)	20,918,378,402	1,577,521,678
Due from Operating Units (ROCA)	18,026,563,936	Due to Operating Units (ROCA)	17,827,371,816	199,192,120
Due from Operating Units (HOCA)	19,327,637,145	Due to Operating Units (HOCA)	19,179,161,315	148,475,830
	426,752,397,826		426,839,817,362	(87,419,536)

Intra-agency Receivables/Due from		Intra-agency Payables/Due to		Variance (e=b-d)
Account Title (a)	Amount (b)	Account Title (c)	Amount (d)	
Central/Head Office (HO)		Any Regional or Provincial Office		
Intra-agency accounts prior to March 1, 1995				
Due from Central Office (COCA)	20,992,375,243	Due to Central Office (COCA)	23,893,477,755	(2,901,102,512)
Due from Regional Office (BOCA)	2,847,049,332	Due to Regional Office (BOCA)	-	2,847,049,332
Due from Regional Office (ROA)	5,008,148,792	Due to Operating Units (POA)	5,563,148,316	(554,999,524)
Due from Operating Units (POA)	6,702,445,432	Due to Regional Office (ROA)	6,004,775,320	697,670,112
	35,550,018,799		35,461,401,391	88,617,408
Total	P462,302,416,625		P462,301,218,753	P 1,197,872

5.7 Variances between the intra-agency receivables and payables by regions are summarized as follows:

Table 10- Intra-agency Receivables and Payables by Region

Region	Receivables	Payables
I	P 17,857,274,152	P 21,036,150,185
II	9,195,906,528	11,580,891,434
III	42,781,592,198	64,102,871,119
IV	4,900,489,671	4,666,301,831
V	25,692,330,674	40,357,510,781
VI	7,469,808,646	10,943,615,290
VII	4,534,087,045	14,070,063,181
VIII	19,953,938,368	7,458,542,363
IX	9,590,787,249	16,886,512,298
X	6,052,290,031	8,294,952,154
XI	11,736,720,878	14,239,715,318
XII	5,316,148,749	6,767,674,576
NCR	76,513,738,176	84,778,892,573
Caraga	3,912,168,942	1,064,037,436
ARMM	5,302,658,440	8,344,949,534
Sub-total	250,809,939,747	314,592,680,073
CO	212,418,799,537	147,985,203,678
Total	P 463,228,739,284	P 462,577,883,751
Per National TB	462,302,416,625	462,301,218,753
Difference	P 926,322,659	P 276,664,998

5.8 As shown above, the total intra-agency receivables and intra-agency payables of the NFA regional offices differed from the consolidated amounts presented in the national trial balance by P926.323 million and P276.665 million, respectively, which further affected the accuracy and completeness of the consolidated balances presented in the financial statements, as discussed in Observation No. 1 on Financial Statements.

5.9 NFA SOP No. FS-GP13 required that as inter-branch transactions occurs, the issuing office shall immediately send wire messages to receiving office. It further provided in Item No. II (F) the following:

“A schedule on Inter-branch transactions” shall be prepared twice a month indicating the inter-branch transactions for the two (2) weeks period. Same shall be submitted every 16th day of the month and every 2nd day of the succeeding month to the originating and receiving office. These schedules shall serve as a basis for confirmation and reconciliation on floatation/variance that may arise within the reporting period.” (Underscoring supplied)

Item No. II (G) Paragraph 2, of the same SOP further required that:

“The Central Office and Regional Office shall prepare a Reconciliation statement to determine variance that may arise between the reciprocal accounts and inform the concerned offices of the variance(s) to effect the necessary adjustment.”

5.10 Replies to confirmation requests of the audit teams of NFA regional and provincial offices showed variances between the books and those recorded in the concerned offices that bolstered the existence of the net variance of P1.198 million in the national consolidated balances.

5.11 The existence of variances was a manifestation that the schedules of inter-branch transactions were not regularly prepared and of delayed responses to and advices from one unit to another or no advices/responses at all. The variances could also be attributed to the inability of the central and regional offices as clearing offices to prepare timely reconciliation of reciprocal accounts every month. The provincial offices likewise lacked in coordination with the concerned offices and timely reporting and reconciliation of their respective reciprocal accounts; thus, resulting in the unreconciled year-end balances that affected the accuracy, completeness, and existence of the balances of the intra-agency accounts in the financial statements.

5.12 In NFA NCR, the variances, which had been noted in prior audits, were due to recording and reporting errors and inadequate documentation, which could easily be detected had there been close monitoring, coordination and communication between concerned offices. Likewise in Lingayen, Pangasinan, Region I, the Due from Regional Office account included undocumented transactions of P200.273 million that had been outstanding for more than 15 years. Due to the absence of documents, verification of the nature and confirmation of the balances could not be made. Similar observations were noted in most of the regional and provincial offices.

5.13 **We recommended that Management-**

a. Require:

a.1 The regional and provincial Accountants to regularly prepare the schedule of inter-branch transactions as required in NFA SOP

No. FS-GP13 and send the same to originating and receiving operating units/offices for confirmation and reconciliation on any variance that may arise within the reporting period; and

a.2 The Accountants of the NFA Head Office and the Regional Offices as the clearing offices to strictly observe the preparation of Monthly Reconciliation Statement to identify the variances between the records of the receivables of issuing units and payables of the receiving units, and accordingly inform the concerned offices of those variances.

b. Enforce the sanctions provided in the last paragraph of the NFA SOP No. FS-GP13 that aimed to minimize and if possible extinguish the variance, which states that:

“failure on the part of responsible officials to act immediately or to send necessary information regarding inter-branch transactions to concerned offices shall be considered a violation of this SOP, and shall in accordance with PD 807 and RA 6713, subject them to the administrative offense of violation of Reasonable Office Rules and Regulations and shall upon conviction, suffer the penalty of Reprimand, Suspension or Dismissal, as the case maybe. “

c. Consider requesting for write-off of the undocumented transactions in accordance with COA Circular No. 97-001, to be supported by list of available records and extent of validation made on the accounts, and certification and reasons why the books of accounts/records, financial statements/schedules and supporting vouchers/documents cannot be located.

5.14 Management justified that intra-agency receivables and payables are moving accounts; hence, variance at the end of an accounting period cannot be avoided because of cut-off date of the financial reports. Temporary entries are prepared for those transactions that have complete data/information and monthly reconciliation and monitoring are being undertaken. For reconciled accounts, these are reclassified to Equity account so that only unresponded/unreconciled advices shall appear in the trial balance. A summary of transactions for each year would show that current transactions are closely monitored. It was pointed out that for 2012 inter-branch accounts amounting to P65 billion corresponding to 57,849 transactions, only 1,095 or 1.89 per cent remained unreconciled with a value of P1.06 billion.

5.15 Moreover, Management explained that accumulated inter-branch balances using the COCA-BOCA accounts in 1995 and previous years could no longer be verified and reconciled due to the absence of documents. Files stored at Agricultural Credit

Administration (ACA) warehouse in Valenzuela City were damaged by typhoons Rosing in 1995 and Milenyo in 2006 that hit the cities of Calocan, Malabon, Navotas and Valenzuela (CAMANAVA).

5.16 Management further explained that the Field Office Accountants are regularly being reminded to comply strictly with the SOP on inter-branch accounting and reporting, while the predicament of the Field Office Accounting units are being considered in terms of insufficient number of personnel, more so with the heavy workload of stock liquidation given to them which used to be done by COA.

5.17 On the undocumented transactions, Management reiterated that several requests for write-offs were already submitted directly by the Field Offices that until now have not received reply from COA.

6. Property, Plant and Equipment (PPE)

6.1 The existence, accuracy and completeness of the balances, and classification and presentation of Property, Plant and Equipment account costing P5,034.296 million (gross) in the financial statements could not be ascertained due to: a) variances between the book balances and physical inventory of P125.554 million; b) inclusion of the unserviceable equipment of P17.956 million; and c) unaccounted value of P5.048 million net of depreciation.

6.2 The financial statements showed the book value of PPE amounting to P2.389 billion comprising of the following:

Table 11- Property, Plant and Equipment

	Cost	Accumulated Depreciation	Net Book Value
Land and Land Improvements	P 742,760,797	P 105,375,120	P 637,385,677
Building and Structures	2,200,071,960	1,184,942,890	1,015,129,070
Leasehold Improvements	33,454,499	19,758,916	13,695,583
Furniture, Fixtures, Equipment and Books	2,010,280,712	1,335,309,180	674,971,532
Construction in Progress	47,728,081	-	47,728,081
Total	P 5,034,296,049	P 2,645,386,106	P 2,388,909,943

6.3 NFA-Central Office (CO) procures/purchases equipment for NFA regional/provincial and district offices. Payments are made sometimes by the CO and sometimes by the regional offices. It is also the practice of NFA to transfer equipment no longer needed in one office to another.

6.4 For inventory, monitoring and control of NFA properties and equipment, SOP No. GS-PD19 dated March 24, 2003 was issued. It aimed to monitor the movement and condition of the assets and update the documentation, reporting and accounting systems.

6.5 For disposal of unserviceable fixed assets, NFA issued SOP No. GS-PD14 dated June 1, 1997 to provide standard procedures in evaluating the conditions of fixed assets and the criteria for classifying them as unserviceable. The SOP also provided various schemes/modes that will facilitate disposal of unserviceable properties.

6.6 Despite the formulation and issuance of the SOPs on fixed assets/properties and equipment, the following observations were still noted in 2012 audit:

a. The total variances between the book balances and physical inventory reports in NFA HO and regional offices amounted to P125.554 million. These variances pointed out the deficiencies in documentation, reporting and recording of the properties and equipment in accounting and property records. The variances were reported in the following NFA offices:

Table 12- Variances between the Books and Physical Inventories in Regions

Office/Region	Variance (in million peso)
Head Office (HO)	65.608
Region I	6.940
Region II	0.966
Region IV	27.220
Region V	0.624
Region VI	12.632
Region VIII	10.189
Region IX	0.641
Region X	0.734
Total	125.554

a.1 The variances between the book balances and the physical inventory reports demonstrate that the reconciliation of the book balances with physical inventory and properties have not been completely performed or not performed at all. These variances made the existence of the properties and the accuracy and completeness of the PPE balances unreliable.

a.2 The above balances further affected the existence, accuracy and completeness of PPE account because the acquisition cost is not supported with PPE listings.

a.3 Sections 490 and 491 of the Government Accounting and Auditing Manual (GAAM), Volume I, require that the inventory report shall be reconciled with the Accounting Department's general ledger accounts and PPE ledger cards and the Property Office's records, and that any discrepancy must be investigated and cleared immediately.

a.4 Likewise, NFA SOP No. GS-PD19, the Revised SOP on Fixed Assets Inventory and Control System, provides, among others, that inventory count must be reconciled with the book balances.

a.5 Physical inventory taking is an indispensable procedure for checking the accountability of Property Custodian and ascertaining the existence and condition of items composing the PPE in the accounting records. As one of the basic controls over the properties, it is not complete without the reconciliation of the accounting records with the physical count, which should be done at least once a year to ascertain the existence of the properties and the accuracy and completeness of the inventory account balances as shown in the financial statement.

b. The Property and Equipment account also included unserviceable assets of P17.956 million that should already be classified as Other Assets and should be disposed of to earn revenues from unutilized assets.

b.1 Unserviceable properties were reported in the following regions:

Table 13- Unserviceable Properties

Office/Region	Amount (in million peso)
Head Office	0.516
Region I	1.025
Region II	0.111
Region V	1.600
Region VI	7.964
Region VII	1.466
Region VIII	3.804
Region IX	1.470
Total	17.956

b.2 NFA SOP No. GS-PD19 dated October 4, 2004 provided that once the service life of an asset expires, become unserviceable or no longer needed due to wear and tear through use and lapse of time, obsolescence, inadequacy, or other physical/functional cause, it should be dropped from PPE account and reclassified under the Other Asset account. Furthermore, unserviceable fixed assets shall be reclassified as

Miscellaneous or Junk Assets. Junk fixed assets shall be removed from the fixed assets account after the issuance of the Inventory and Inspection Report. A separate schedule of unserviceable fixed assets shall also be prepared.

b.3 The inclusion of the unserviceable properties overstated the PPE account by P17.956 million and understated the Other Assets account by the same amount since the items were supposed to be reclassified to Other Assets account.

c. Moreover, the negative balance of accumulated depreciation of P2.083 million was recorded in the listing of PPE with a net book value of P5.048 million, computed as follows:

Table 14- Negative Balance of Accumulated Depreciation

Acquisition Cost	P 2,964,690
Accumulated Depreciation	(2,083,002)
Net Book Value	P 5,047,692

c.1 The negative balance of accumulated depreciation could result in the misstatement of Accumulated Depreciation–Motor Vehicles that eventually would affect the net book value of the PPE–Motor Vehicle Account presented in the financial statements.

6.7 We recommended that Management:

a. Enjoin strict compliance with the required conduct of the reconciliation of the book balances of PPE with the physical inventory and property records to ascertain the existence of the assets and ensure the accuracy and completeness of the balances;

b. Require the:

b.1 Accounting and Property Offices to maintain updated Equipment Ledger cards/subsidiary records for each class of property to facilitate the reconciliation of the balances, and

b.2 Accountants to effect the necessary reclassification of unserviceable properties to other Assets account; and

c. Undertake the disposal of unserviceable assets in accordance with Section 79 of PD No. 1445 and the guidelines in NFA SOP No. GS-PD14 dated June 1, 1997.

6.8 Management assured that reconciliation of accounting books with property records is continuously being done. Likewise, after the completion of the yearly inventory count, reconciliation is immediately undertaken. Of the P65.608 million between the accounting books and General Services Department (GSD) physical count in the Central Office, the balance was reduced to P33.449 million after the reconciliation as of April 2013. For the items marked "For reconciliation" the amount of P1.952 million was already reconciled resulting in decrease in the unreconciled amount to P21.652 million as of April 2013. The negative balance of accumulated depreciation of the P5.048 million book value of PPE is still being verified.

6.9 Management clarified that the ASD is maintaining PPE subsidiary ledger card for each item, while the GSD has started to maintain a property history record for each PPE item. For major item like Motor Vehicles, GSD has complete history record. For unserviceable properties of P0.516 million at the Central Office, the Inventory and Inspection Report of Unserviceable Property (IIRUP) is being prepared for approval and, once approved, will be the basis of the ASD for the reclassification to Junk Assets. The disposal of these unserviceable properties is scheduled in August 2013.

6.10 The ownership over the nine parcels of land valued at P15.126 million and 14 parcels of land not recorded in the books could not be established because there were no transfers and registrations yet of the Transfer Certificates of Title (TCTs) in the name of NFA. Moreover, the status of registration of NFA lots was not adequately disclosed in the Notes to financial statements.

6.11 Among the properties of NFA are donated and purchased lands which were developed and utilized as sites for offices and warehouses. For documentation of land and buildings, NFA also issued SOP No. GS-PD19 dated March 24, 2003, Section 3.1.1 of which states, viz:

"Land and Buildings shall be documented by a Transfer Certificate of Title (TCT)/Original Certificate of Title (OCT)/building plans, and declaration of real property. The Original copies of the TCT/OCT shall be endorsed to the Cash Division, Department for Treasury Budget and Fund Management (DTBFM) for safekeeping and the Original copies of the building plans shall be kept by the Technical Services Department (TSD). The PMMS/Property Unit of the concerned Field Office shall be furnished copies of the aforementioned documents."

6.12 Likewise, Section 449 of the Government Accounting and Auditing Manual (GAAM), Volume I requires as follows:

"Sec. 449. Purchase of Land. – Land purchased by agencies of the Government shall be evidenced by a Torrens Title drawn in the name of the Republic of the Philippines, or such other document satisfactory to

the President of the Philippines that the title is vested in the Government. Xxx.”

6.13 Thus, to establish the ownership over the parcels of land acquired through purchase or donation, it is necessary that these properties be covered by an authentic Transfer of Certificates of Title (TCT) issued by the Land Registration Authority (LRA).

6.14 The PPE account included Land valued at P581.078 million in the balance sheet as of December 31, 2012. Verification of the ownership of NFA over these properties in selected locations disclosed the following:

Table 15- Sample NFA Lots Without Transfer Certificates of Title (TCTs)

Region	Location	Area (sq.m.)	Recorded Cost	Mode of Acquisition
I	Bantay, Ilocos Sur	-	P 92,965	Donation
	Tagudin, Ilocos Sur	-	450,000	Donation
	Loakan, Benguet	15,000	15,000	Donation
II	Dotal St., Poblacion South, Lagawe, Ifugao	1,325	64,070	Donation
	Patilong, Viewpoint, Banawe, Ifugao	241	4,340	Donation
	Namillangan, Alfonso Lista, Ifugao	3,000	112,500	Donation
	Sta Maria, Alfonso Lista, Ifugao	1,247	124,700	Repossessed
NCR	Manila	-	13,116,846	
	Visayas Ave, Quezon City	-	1,145,922	
VI	Mangoso, Sigma Capiz	20,000		Donation
VII	NRA, Cebu City	25,000		Purchase
	Banilad, Cebu City	5,000		Donation
	Sta Fe	5,319		Donation
	Bogo	8,027		Donation
	Tudela, Camotes	2,000		Donation
	Badian	5,000		Donation
	Guihulngan, Negros Oriental	3,000		Donation
	Mansasa, Tagbilaran, Bohol	66		Purchase
	Bay-ang, Ubay, Bohol	2,948		Donation
	Siquijor	3,000		Purchase
	XIII	Brgy Quezon, Surigao City	-	
Tontonay, Brgy Osmena, Dapa Surigao del Norte		-		Donation
Brgy Luna, San Jose Dinagat Island Province		-		Donation
Total value recorded w/o TCTs			P 15,126,343	
Number of land/lot not recorded, w/o TCTs		14		

6.15 In NFA- NCR, the ownership of land with historical cost of P13.117 million in the books of NFA regional office and P1.146 million in the books of NFA-Central District Office were not supported with TCT and Tax Declaration. The absence of such documents provides uncertainty on the ownership of NFA over the recorded properties.

6.16 In Region I, there were also donated three parcels of land located at Bantay, Ilocos Sur, Tagudin, Ilocos Sur, and Loakan, Benguet valued in the books at P92,965, P450,000, and P15,000, respectively, without TCTs.

6.17 In Region II, the four parcels of land in Ifugao recorded in the books at P305,610 were not covered by Transfer Certificates of Title (TCT). The lots at Poblacion South, Lagawe and Patilong View Point, Banawe, however, are covered by Declaration of Real Property with NFA as the owner. The sites of NFA office and warehouse in Namillangan Ifugao and Farm Level Grains Center and Rice Mill in Sta. Maria, Alfonso Lista are still in the names of the donors.

6.18 In Region VII, ten parcels of land which were developed and used as sites of warehouses were still not registered in the name of NFA and not recorded in the books.

6.19 Moreover, in Region XIII, three parcels of land situated in Barangay Quezon, Surigao City; Tontonay, Barangay Osmena, Dapa, Surigao del Norte; and Barangay Luna, San Jose, Dinagat Island province were acquired through donations. The donated property became the sites of the three warehouses of NFA but still not registered in the name of NFA and not recorded in the books.

6.20 The absence of the TCTs made the ownership over these parcels of land uncertain and exposes the properties and the NFA's investments on the land improvements to possible claims by original owners/donors and other interested parties (In Region VII). This may also complicate the claim to have the properties exempt from Real Property Tax as granted under PD No. 04, as amended.

6.21 The regional/provincial offices also informed that the lawyers at NFA central Office are the ones responsible for the legal process of registration and since proceedings related to the registration/transfer are within the jurisdiction where the properties are located, the distance or location from the central office was an impediment in providing prompt and timely actions and focus on the matter.

6.22 **We recommended that Management enjoin:**

a. The NFA Legal Affairs Department (LAD) to exert utmost efforts in rendering assistance to the regional and provincial/districts offices in accomplishing the requirements for the transfer and registration of the land titles in the name of NFA and expedite the legal process for the issuance of TCTs to establish the ownership over the parcels of land; and

b. The NFA Accountants to disclose in the Notes to Financial Statements the status of registration of the booked lands, as well as the donated parcels of land which could not be booked under the Land account while waiting for the transfer/registration of TCTs under the name of NFA.

6.23 Management informed that there are about 117 NFA lots forwarded to the Legal Department for land titling and registration which were distributed to LAD lawyers. The assigned lawyers are exerting all their efforts to have these lots titled in the name of NFA. The status of processing for registration of the sample properties noted in 2012 audit is presented in Annex B. Meanwhile, the LAD is regularly gathering information and other vital documents relative to the titling and registration of other NFA properties. Management further assured that the LAD shall continue to exert utmost efforts in having these lots successfully registered in the name of NFA.

7. Other Deferred Credits

7.1 The Deferred Credits account included the advance payments made by various government agencies, legislators and local government units amounting to P120.555 million and by non-government organizations of P17.939 million for stocks of rice intended for relief and social programs; and by retailers, millers, contractors and operators in the total amount of P382.024 million for unwithdrawn stocks for sale. Most of the balances had been long outstanding in the books and casting doubt on the existence and accuracy of the balances.

7.2 As of December 31, 2012, the Other Deferred Credits is presented in balance sheet at P561.590 million consisting of the following balances:

Table 16- Other Deferred Credits

Clients	Balances
Advance Payments	
Government Agencies	P103,461,991
Legislators and Party list Representatives	15,692,117
Local Government Units	1,400,505
Retailers	373,159,727
Millers, Contractors and Operators	8,864,416
Non-Government Organizations	17,939,125
Other Deferred Credits	43,083,004
Negative Balances	(2,011,000)
Total	P561,589,885

7.3 Advance payments made by various government agencies, non-government organizations, retailers, and miller contractors for stocks of rice and palay are recorded under Deferred Credits account. This account is debited/charged for issuances/withdrawal of stocks from NFA warehouses. The balance of the account would indicate the unwithdrawn/undelivered stocks to the client-agencies/organizations, retailers and millers.

7.4 However, the existence of unwithdrawn stocks in the NFA warehouses cannot be ascertained due to inadequate monitoring of the withdrawals/issuances made on the advance payments. Moreover, if the stocks still exist in the warehouses, the quality of

rice and palay could deteriorate due to long storage and would increase the warehousing and storage costs of NFA.

7.5 In NFA-NCR, P15.446 million were unwithdrawn since 2005 and Management concurred with the audit team's observations that the stocks could have been withdrawn but no reversal was made to close the set-up in the Deferred Credits account. The amount of P1.190 million was adjusted in the first quarter of 2013 and the remaining balance will still be analyzed and the necessary adjustments will be made.

7.6 In NFA-Region VIII, there were overpayments made by the then Department of Education, Culture and Sports (DECS), now Department of Education that still remained in the Deferred Credits account without supporting documents, thus, casting doubt on its existence and accuracy and affecting the fair presentation of the financial statement. Management commented that the amount of overpayment was due the prepayment made by DECS at NFA Central Office for the equivalent number of kilos under its feeding program for children in the grade school and the launching was late in implementation, resulting in lesser number of kilos served against the amount paid.

7.7 In NFA-Central District Office (CDO), the stocks located at various NFA warehouses was paid by the DSWD at the NFA-CDO. As of December 31, 2012, there were unwithdrawn stocks in the amount of P1.077 million allocated to NFA- North District Office (NDO). The unwithdrawn stocks paid by the DSWD consisted mainly of stocks of legislators who purchased rice for their constituents. These stocks remained unwithdrawn because of lack of storage spaces at the legislators' places of jurisdiction. The stocks paid by various retailers of iron fortified rice were also not withdrawn for lack of market. The retailers usually withdraw whenever there was market for these rice stocks.

7.8 The NFA-CDO incurred costly warehouse rentals and maintenance for the unwithdrawn stocks. The storage fees for unwithdrawn stocks were being collected from the private retailers only, as such, the huge volume of unwithdrawn stocks bought by the DSWD were not charged for storage fees.

7.9 **We recommended that Management-**

a. Require the verification of the status of withdrawals of stocks to determine whether the book balances of unwithdrawn stocks are still existing, and effect the necessary adjustment in the books to arrive at correct balances;

b. Coordinate with the client agencies and organizations for more frequent and immediate withdrawals of stocks from NFA warehouses to provide space for NFA-owned stocks; prevent decline in quality of rice and their possible spoilage and wastage due to long period of storage; and minimize warehousing and storage expenses. See to it that the

arrangement and schedules of stock withdrawals/distribution in MOAs are being complied with; and

c. Consider collecting storage fees for unwithdrawn stocks to encourage immediate withdrawals of stock and to reduce warehousing rentals and maintenance costs.

7.10 Management submitted the following information on the Other Deferred Credits account recorded in the books of NFA -Central Office, as follows:

a. Memorandum of Agreements (MOAs) for the following accounts are on file with NFA:

Advance payment - DECS Payment collected at Central Office but set up of Accounts Receivable are in the books of various provincial offices. Reconciliation ongoing.

Advance payment – Collections at Central Office which are being matched/reconciled with EO No. 88. Accounts Receivable set up in NFA field office books.
Philippine Army

Donated Assets Value of Laboratory Equipment transferred by National Meat Inspection Service to NFA-FDC as advance payment-in-kind for laboratory testing services being done by FDC for the former. This account is being debited and income is credited every time services are rendered.

b. MOAs for the following accounts cannot be located:

Advance payment – Official Receipt (OR) No. 14503812 was issued
Federation of Filipino on July 4, 2008 to Federation of Filipino Chinese
Chinese for advance payment for the purchase of rice to be donated to calamity stricken areas but no further instruction was given regarding distribution details.

Advance payment of For reconciliation and transfer to field/provincial
various Legislators, Party offices.
List Representatives, and
World Food Program

7.11 As a rejoinder, the above information would confirm the weak monitoring of the issuance of stocks chargeable to the advance payments that made the balances of deferred credits unreliable.

8. Trust Liabilities

8.1 The Other Payables and Due to Other NGAs accounts with balances of P478.499 million and P953.328 million, respectively, included various trust accounts for different projects amounting to P236.030 million that remained dormant for more than five years now as shown below:

Table 17- Dormant Accounts

Account	Project Duration	Balance	Years Dormant
Under 439 Account			
Presidential Commission on Good Government	No available documents	P 17,136,639	Prior to April 2007
Mindanao El Nino Victims Rice Subsidy Program – DSWD/NFA, DILG and NDCC	No available documents	15,835,341	Prior to April 2007
Accelerated Agricultural Production Project	No available documents	1,070,667	Prior to April 2007
Food and Agricultural Organization – Grains Post Harvest	No available documents	350,656	Prior to April 2007
Philippine Rice Maligaya – IRRI	No available documents	313,820	Prior to April 2007
Irradiation as Phytosanitary Measures for Food & Agriculture – IAE	1 year, which commenced on Jan. 15, 1999, and shall extend for a period of one year, and may be renewed for another year by mutual agreement of the parties	39,666	Prior to April 2007
Philippine Food and Feedstuff	Not stated, MOA was signed on Feb. 24, 1993	37,946	Prior to April 2007
Philippine Council for Industrial Energy Research and Development	13 months, July 1, 1994 – July 31, 1995	26,932	Prior to April 2007
Sub-total		34,823,198	
Under 416 Account			
Custom Duties-Sugar	No available documents	181,195,200	Prior to April 2007
Donated Chinese Yellow Corn	No available documents	11,076,610	Prior to April 2007
Confiscated Sugar	No available documents	5,626,742	Prior to April 2007
Agricultural Credit Policy Council	No available documents	1,251,020	Prior to April 2007
Australian Imported Rice	No available documents	1,150,886	Prior to April 2007
Corn Plus Program	No available documents	350,164	Prior to April 2007
Organic Base Balanced Fertilization Program	No available documents	200,000	Prior to April 2007
Special Vehicle Loan Fund	No available documents	184,135	Prior to April 2007
2001 Consultative Fund-Lifting of Rice Monopoly on Rice Importation	No available documents	171,876	Prior to April 2007
Sub-total		201,206,633	
Grand Total		P 236,029,831	

8.2 Memoranda of Agreements (MOA) for the above-cited accounts are not available except for the following projects:

- a. Contract between the National Food Authority – Food Development Center and International Atomic Energy Agency (IAEA), a foreign entity based in Vienna, Austria, for the research on Irradiation as Phytosanitary Measures for Food and Agriculture, with remaining balance of P37,946.
- b. Contract between National Agricultural and Fishery Council (NAFC) and National Food Authority, as the implementing Agency, to conduct The First National Seminar-Workshop on an Integrated Control Program for Fungi and Mycotoxins in Philippine Food and Feedstuffs, with remaining balance of P26,932; and
- c. Contract between Philippine Council for Industrial and Energy Research and Development Center (PCIERD), National Food Authority – Food Development Center (implementing agency), and Marsman Drysdale Food Corp., Hi-Las Marketing Corporation and DHM Philippine Produce as the cooperating agencies, with remaining balance of P11,531.

However, no other documents were submitted to indicate completion or closure of these three projects.

8.3 As to the Accelerated Agricultural Production Project (AAPP), we observed that the copies of schedule as of June 30, 1994 and Financial Reports as of June 30, 1992 and June 30, 1994, submitted on May 13, 2013, containing the total releases, total disbursements and unliquidated fund/balance of the project fund as of June 30, 1992 and June 30, 1994, were not duly authenticated and were not certified and verified by authorized officials. Also, the schedule/financial reports were not supported with required documents such as official receipts issued for fund releases to the project and vouchers/receipts to support disbursements of the project fund.

8.4 Department of Finance, Department of Budget and Management and the Commission on Audit Joint Circular No. 4-2012, dated September 11, 2012, implementing Paragraph 3 of Executive Order No. 431, dated May 30, 2005, re: Reverting All Dormant Accounts, Unnecessary Special and Trust Funds to the General Fund and for Other Purposes states that:

“WHEREAS, Section 29(3), Article VI of the Constitution provides that once the purpose for which a special fund was created has been fulfilled or abandoned, the balance, if any, shall be transferred to the general funds of the government.”

8.5 In order to facilitate the transfer of the remaining balances of the above-mentioned dormant accounts to the National Government, we recommended that Management:

- a. Exert best efforts to obtain all the Memoranda of Agreements/Contracts, disbursement reports and other relevant documents pertaining to these projects;
- b. Conduct thorough verification of the nature or purposes of these projects and determine the status whether already completed, discontinued or abandoned;
- c. Make the necessary adjustments in the books to determine actual balances, and cause remittance of the same to the National Government through the Bureau of Treasury (BTr); and
- d. Review the accomplishment of the project Irradiation as Phytosanitary Measures for Food and Agriculture, a contract by NFA with a foreign entity, and the actual expenses incurred and remit the remaining balance to the concerned party as stated in the contract.

8.6 The Accounting Services Department submitted the following:

- a. There were no documents/information from other departments based on recent inquiry regarding the following accounts:

Table 18- Other Payables without Supporting Documents

Account	Balance
Presidential Commission on Good Government	P17,136,639
Rice Subsidy Program – DSWD/NFA, DILG and NDCC	1,070,667
Accelerated Agricultural Production Project (AAPP)	350,656
Food and Agricultural Organization – Grains Post Harvest	313,820
Philippine Rice Maligaya - IRRI	39,666
Total	P18,911,448

- b. The following projects handled by Food Development Center were submitted for audit:

Table 19-Other Payables Submitted for Audit

Account	Balance
Irradiation as Phytosanitary Measures for Food & Agriculture - IAE	P 37,946
Philippine Food and Feedstuff	26,932
Philippine Council Industrial Research and Development	11,530
Total	P 76,408

c. Management is currently coordinating with the Department of Agriculture for possible liquidation/remittance of the following balances:

Table 20- Due to Department of Agriculture

Account	Balance
Custom Duties - Sugar	P 181,195,200
Donated Chinese Yellow Corn	11,076,611
Confiscated Sugar	5,626,742
Agricultural Credit Policy Council	1,251,020
Australian Imported Rice	1,150,886
Corn Plus Program	350,164
Organic base Balanced Fertilization Program	200,000
2001 Consultative Fund-Lifting of Rice Monopoly on Rice Importation	171,875
Total	P201,022,498

d. For the Mindanao El Nino Victims account with the balance of P15.835 million as of December 31, 2012, adjustments are on- going.

e. The balance in the amount of P184,135 as of December 31, 2012 of the Special Vehicle Loan Fund is still under reconciliation.

8.7 Management also requested for information/advise as to what further action they would take in order to finally close the accounts with no documents/information based on their recent inquiry from other departments, namely: Presidential Commission on Good Government; Rice Subsidy Program – DSWD/NFA, DILG and NDCC; Accelerated Agricultural Production Project (AAPP); Food and Agricultural Organization – Grains Post Harvest; and the Philippine Rice Maligaya – IRRI.

8.8 **As a rejoinder, in as much as the accounts have remained dormant for more than five years and that the relevant documents pertaining to the aforementioned projects are no longer available, thereby making the verification of the nature or purposes of the projects as well as the determination of the status of implementation whether completed, discontinued or abandoned impossible, we reiterate our recommendation that Management cause the remittance to the National Government through the BTr, of the remaining balance of said accounts.**

9 Accounts Payable and Other Liabilities

9.1 **Various payable accounts in the books of NFA-NCR aggregating P50.232 million comprised long outstanding balances with inadequate documentation, rendering uncertainty on the existence of obligations of NFA and the accuracy and completeness of the reported year-end balances of affected accounts.**

9.2 The Accounts Payable Aging Schedule for the quarter ended December 31, 2012 revealed that the year-end balances comprised long outstanding/dormant accounts. These various payable accounts, net of negative balances, amounted to P50.232 million. Management informed the audit team that most of the payables pertained to financial transactions way back in the 1990's and were still undergoing reconciliation to date. Some of the account balances have been noted in prior year audits.

9.3 Executive Order No. 109 dated June 10, 1999, implemented under the Department of Budget and Management (DBM) and Commission on Audit (COA) Joint Circular No. 99-6 dated November 13, 1999, prescribed the guidelines and procedures relative to the reversion of Accounts Payables (A/Ps). The Joint Circular prescribed, among others, that:

“3.1 All documented A/Ps of all funds which remained outstanding for two (2) years, shall be reverted to Cumulative Results of Operations – Unappropriated (CROU), except on-going capital outlays projects.

3.2 All undocumented A/Ps, regardless of the year they were incurred, shall immediately be reverted to the CROU.

3.3 Payables representing unliquidated advances, prepayments and deposits shall be reviewed and appropriate adjustments accordingly taken in the books of accounts in accordance with accounting and auditing rules and regulations.”

9.4 **We recommended that the NFA-NCR Management:**

a. Enjoin the Accounting Section to continuously exert efforts to conduct thorough analysis and reconciliation of the transactions pertaining to the accounts payable based on the available documents; and

b. Consider the applicability of the guidelines and procedures prescribed under DBM and COA Joint Circular No. 99-6 dated November 13, 1999 on the reversion of accounts payable, while strengthening the accounting and monitoring controls and coordination with concerned offices to ensure that capture, recording and reporting of transactions are accurate, complete and duly supported with proper documents.

9.5 The NFA-NCR Management emphasized that the payables and accrued expenses transactions are thoroughly analyzed and several adjustments have been made in 2012. They explained that some of the payables had been in the books of accounts since 1997. The earliest records available pertain to 1997; those records prior to 1997 can no longer be traced. They also admitted that they lack manpower that will look into and monitor the accounts.

A.2 Operations, Compliance, and Financial Controls

10. Private Sector Importation

10.1 One of the operational reforms being undertaken by NFA is to encourage more private sector participation in the importation of rice. Based on the recommended volume of importation by the Inter-Agency Committee (IAC), the NFA Council evaluates and determines the volume to be allocated to the private sector under the Private Sector Financed (PSF) Importation scheme. In 2012, the Private Importers-Farmers Organizations and Cooperatives were given authority to import rice using the NFA's Tax Expenditures Subsidy (TES). The Fiscal Incentives Review Board (FIRB) of the Department of Finance (DOF) issued the corresponding Certificates of Entitlement to Subsidy (CES) for this purpose, while the Department of Budget and Management (DBM) released the budget allotment for the tax subsidy. Private Importers were given import allocation through the rigorous bidding process. The NFA collected Service Fees (SF) for every metric ton (MT) based on the volume allocated and applied for by the importers.

10.2 In the audit of 2012 tax subsidy granted to and SF collected from the private importers on Import Allocation under the PSF Importation Scheme and NFA TES for Open Category and Farmers' Organizations (FO)/Cooperatives Category, we noted opportunities for improvement in the implementation of this program, as discussed in the following paragraphs.

10.3 Importation by 14 Private Importers exceeded the total import allocation under PSF program by the total volume of 5,796.75 MT, which was also granted Tax Subsidy, resulting in forgone revenues of P43.512 million for the government.

10.3.1 Examination of the Summary of Accounts per Disport showed that there were 14 importers whose volume of shipment exceeded the allocation for which they were given the right to import by the NFA in the total volume of 5,796.75 MT. The total tax subsidy availed of for these excess shipments amounted to P43.512 million. Summary is attached as Annex C.

10.3.2 Tracing the shipments of the 14 private importers to the allotment for tax subsidy in the Special Allotment Release Order (SARO) issued by the DBM showed that the total shipments of 47,996.75 MT were granted tax subsidy while the total allocated volume was only 42,200 MT, hence, the excess of 5,796.75 MT.

10.3.3 We recommended that a monitoring procedure be put in place to check the actual importation and the tax subsidy availed of by the private importers against the approved volume allocation granted by NFA to ensure that only the authorized allocated volume is given the equivalent tax subsidy in order to prevent unauthorized importation, and contribute in the collection of tax revenues. Moreover, for policy direction and input in the improvement of the implementation

of PSF program thru TES, we also recommended that NFA look into the excess shipments of 5,796.75 MT of 14 private importers that were also granted tax subsidy.

10.3.4 Management informed that they will be conducting an in-depth investigation into the excess shipments of some importers that were granted subsidy; and that they have instituted the following improvements into the procedures in private sector importation for the year 2013:

- a. Application for participation in rice importation is on a first-come-first-served basis;
- b. Thorough post-qualification process to ensure the identity and capacity of the importing entity;
- c. The import permit now contains security features to safeguard its sanctity;
- d. The import permit is issued directly to the Bureau of Customs (BOC), copy furnished the Land Bank of the Philippines as reference in the advance payment of import duties by the importers; and
- e. The import permit has a validity period of seven days only.

10.3.5 Management also informed that for the year 2013, NFA is not engaging in the PSF-TES program and importation is limited to government to government (G-to-G), and Country Specific Quota (CSQ) importation which is subject to payment of 40 per cent import duties.

10.4 Ten Private Importers failed to bring in the allocated volume of importation equivalent to 17,220 MT, while 44 importers were short in their shipments by 25,789.30 MT, which could affect the food security stock.

10.4.1 Review of the list of winning bidders against the actual shipments granted tax subsidy revealed that the following importers did not bring in the allocated volume:

Table 21- Undelivered Allocated Volume

Winning Bidder	Volume in MT
Green Valley United Coop	1,600
Limtrasco	2,000
PAKIKIBAGAI	1,720
San Ildefonso Kabalikat	2,000
San Ildefonso Vegetable Growers MPC	1,600
SILI MPC	2,000
Sitio Magaslong	1,600
Triple Ventures ARBS MPC	1,500
Samahan ng Magsasaka MPC	1,600
Samahan ng mga Kapampangan	1,600
Total	17,220

10.4.2 Verification also disclosed that 44 private importers were not able to deliver the full volume of importation allocated to them. Please refer to summary attached as Annex D.

10.4.3 Since the import allocation to private importers was determined based on the total volume of rice needed for buffer stocks, when importers fail to import the required volume as allocated to them, this could affect the food security program of NFA.

10.4.4 Further, the Contract for the Private Sector Financed Importation for the year 2012 between NFA and the private importer did not provide for sanctions against those private importers who were not able to import/deliver the full volume allocated to them, except for forfeiture of the Performance Bond and imposition of penalties for every day of delay.

10.4.5 We recommended that Management review the guidelines on PSF-together with the contract with private importers and determine the need to provide terms and conditions or sanction in case of the inability of the latter to import the allocated volume for buffer stocking.

10.4.6 We also recommended that Management consider this inability of the private importers to deliver the allocated volume as an important concern in assessing the effectiveness of the evaluation of the financial capability of the winning bidders/importers.

10.4.7 Management commented that they will be conducting an in-depth investigation into the matter. In case the investigation would yield a finding that the inability of the private importers to bring in the full volume of their allocation is for reason that impact on their capacity to comply with their obligations, then NFA will look into the legality and propriety of imposing the appropriate disciplinary action, including forfeiture of performance bond and blacklisting.

10.5 While the NFA earned revenue in the form of service fee in private sector importation amounting to P1,981.265 million, the National Government incurred expense in the total tax subsidy of P2,409.976 million.

10.5.1 Verification of the SARO from the DBM for 83 private importers showed that the total tax subsidy availed of by Private Importers, Farmers organizations and Cooperatives amounted to P2,409.976 million. Meanwhile, the total service fees collected by NFA amounted to P1,981.265 million, hence, the total tax subsidy exceeded the amount by P428.711 million. Summary is presented in Annex E.

10.5.2 It is understood that the objectives of the PSF importation scheme were to encourage farmers to be entrepreneurs, and to reduce the capital exposure of NFA in the importation of rice, which is also being sourced from the National Government in the

form of subsidy for NFA's procurement program. It is, however, worth mentioning that the tax subsidy in effect also added to the expense of the National Government that could outweigh the benefits derived from the importation by the private sector.

10.5.3 We recommended that Management assess the benefits derived from the PSF program not only in terms of revenue from service fees but also the impact of this program on the stabilization function of NFA, as compared to the expense of the government in the form of tax subsidy to the private sectors.

10.5.4 Management clarified that the total tax subsidy granted to private importers served as an economic incentive to allow the private sector to import rice at a competitive price for the benefit of the Filipino consumers. On the other hand, the amount paid by the winning bidders serves as "service fee" to NFA for being privileged to use the NFA's Tax Expenditure Subsidy (TES) instead of paying the full 40 per cent duty on their rice imports. It was not meant to offset the total tax expenditure.

11. Turn-over of Stocks

11.1 Slow turn-over of stocks resulted in long storage of NFA grains with total estimated cost of P2,261.251 million for more than 24 months in the NFA warehouses that could further deteriorate in quality if not sold or distributed immediately and would increase the warehousing, storage and maintenance costs.

11.2 NFA is mandated to ensure national food security and stabilize the supply and price of rice and corn, primarily through buffer stocking at certain levels and time frames. The buffer stock comes from local procurement of palay and/or rice importation.

11.3 In line with the function of ensuring adequate and continuous supply of rice, NFA buys palay from farmers/farmers' organizations at the government support price. The grains of palay are milled and the rice recoveries form part of the buffer stock of rice.

11.4 NFA also implements under a Memorandum of Agreement with the Department of Health (DOH) the Rice Fortification program under Republic Act (RA) No. 8976 (Philippine Food Fortification Act of 2000). Iron is mixed with either imported or local rice to produce the iron fortified rice or IFR/I-Rice.

11.5 It is noteworthy to mention that from 2010 to 2012, there was significant reduction in the volume of importation from 2,419,953 MT in 2010 to 889,434 MT in 2011 and down to 692,444 MT in 2012; while the Private Sector Financed (PSF) importation increased from 220,307 MT in 2010 to 689,434 MT in 2011 and down to 572,444 MT in 2012, as shown below:

Table 22- Reduction in the Volume of Importation

Year	Public Bidding	Government to Government	PSF	Total (in MT)
2010	2,199,646	-	220,307	2,419,953
2011	-	200,000	689,434	889,434
2012	-	120,000	572,444	692,444
Total	2,199,646	320,000	1,482,185	4,001,831

11.6 With the reduced volume of importation from 2010 to 2012, which the total of 1,482,185 MT or 37 per cent was imported under the PSF program, it was expected that lesser volume of NFA owned stocks would remain in warehouses. However, the Grains Stock Quality Reports as of December 31, 2012 showed that rice stocks imported in 2008 to 2011 and local rice procured more than two years ago were still stored in NFA warehouses. Likewise, there were palay stocks which were stored and unmilled for more than two years. Estimated cost of rice and palay inventories amounted to P2,261.251 million, as follows:

Table 23-Stock Inventory as of December 31, 2012

Grains	Qty in kgs	Estimated Cost
Imported Rice	67,777,717	P1,701,567,352
Local Rice	386,348	11,204,092
Palay	31,721,127	539,259,159
Iron Fortified Rice (IFR)	329,298	9,220,344
Total	100,214,490	P2,261,250,947

Above stocks were stored in NFA warehouses in the following regions:

**Table 24-Stock Inventory in Regions
(In kilograms)**

Region	Imported Rice	Local Rice	Palay	IFR	Total
I	3,547,667	-	2,203,275	-	5,750,942
II	-	-	68,250	-	68,250
III	3,325,460	14,598	788,031	88,533	4,216,622
IV	3,278	-	7,720,338	-	7,723,616
V	-	-	12,952,727	-	12,952,727
VI	1,715,232	-	2,493,120	-	4,208,352
VII	15,457,821	-	-	-	15,457,821
VIII	7,476,478	-	1,154,717	-	8,631,195
IX	1,525,799	-	183,080	6,800	1,715,679
X	2,155,558	-	1,822,074	-	3,977,632
XI	1,295,335	-	-	-	1,295,335
XII	-	1,915	-	-	1,915
XIII	23,908,530	-	-	134,896	24,043,426
ARMM	5,794,497	369,835	-	99,069	6,263,401
CARAGA	1,572,062	-	2,335,515	-	3,907,577
Total	67,777,717	386,348	31,721,127	329,298	100,214,490

11.7 Management submitted the following salient points for consideration:

a. The NFA's mandate is to ensure the nation of food security and stabilize the supply and price of rice and corn. For food security, NFA must maintain buffer stocks for 15 days at any given time, available for release in case of emergencies or calamity caused situations and for 30 days at the end of June in preparation for the lean- month period.

b. Stocks are locally procured or imported from foreign sources to create an appropriate level of inventory to meet the mandate. However, maintaining a certain level of inventory as buffer all year round takes a certain degree of risk to do so especially with the unpredictability of the market. There are instances of slow turn-over of stocks due to market considerations, first of which is supply and price. NFA sales take a downturn when there is an abundant supply of commercial rice in the market which may be from local and undetermined sources which is beyond the control of the Agency. The past recent years show a proliferation of low-priced commercial rice of better quality in the market affecting the Agency's sales performance.

c. To address the over-stocking, the 2008 to 2011 imported rice stocks and local rice are being disposed of through regular sales, special rice sales programs and Sale through Market Determined Pricing (SMDP).

11.8 The long storage of stocks could lead to additional losses due to further deterioration in quality resulting in damaged and sweepings, and expired Iron Fortified Rice (IFR). As of December 31, 2012, there were totally damaged stocks of 2,713,414 kgs, partially damaged stocks of 2,442,127 kgs, and sweepings of 121,241 kgs, at total estimated cost of P112.370 million at the following locations:

**Table 25- Damaged Stocks and Sweepings
(In kilograms)**

Region	Sweepings	Totally Damaged	Partially Damaged	Total
I	-	2,355	-	2,355
V	-	-	12,480	12,480
VII	-	50,278	23,148	73,426
VIII	-	2,013	22,734	24,747
IX	-	1,290	4,455	5,745
X	-	-	450	450
XI	-	-	346,785	346,785
NCR	119,628	2,657,478	2,022,565	4,799,671
ARMM	1,613	-	2,639	4,252
CARAGA	-	-	6,871	6,871
Total	121,241	2,713,414	2,442,127	5,276,782
% to Total Stocks	0.02	0.38	0.34	0.74

11.9 While the damaged stocks and sweepings represent minimal portion of the total stocks as of December 31, 2012, these could increase in quantity and costs when the stocks remained unsold/unwithdrawn. Also, even damaged stocks and sweepings could be disposed of through sale; these were usually sold at a loss.

11.10 As explained by Management, totally and partially damaged stocks and sweepings are regularly auctioned off by the field offices to avoid contamination of good stocks. Because these stocks are not fit for human consumption, the commanding price is usually lower as these will be consumed as feeds.

11.11 We also gathered from NFA- NCR that rice stocks in the warehouses, under ideal storage conditions, were at their best quality within six months from delivery. Onwards, quality gradually decline. The quality of rice depends on the temperature and humidity existing in the environment. It was also their observation that rice stocks are more susceptible to decline in quality in high temperature. As the rice age in NFA warehouses where the temperature and humidity are high, more expenses are incurred for pest controls such as rat baiting, fumigation, fogging, treatment, etc.

11.12 Moreover, NFA could no longer command a better price for old stocks which are normally bidded out through the SMDP. While all stocks regardless of age maybe recommended for SMDP, those which are two years old and above are normally given priority for bidding since NFA uses the first-in-first-out (FIFO) method of disposing inventory. However, the existence of stocks procured more than two years ago would suggest that the FIFO method is not strictly observed; hence, old stocks were still left out.

11.13 Management, however, clarified that FIFO method is strictly observed but flexibility is allowed due to some constraints in the applicability as follows:

- a. When a province or a region rationalizes its warehouse, especially leased warehouses, for termination. The NFA saves on administrative costs, power, security guards and other utilities and quality maintenance costs in terminating leased warehouses that are no longer needed;
- b. The NFA prioritizes the distribution/disposition of stocks under the supervision of a stock accountable officer due for stock liquidation;
- c. The policy of the Management to utilize good quality stocks as raw-milled rice in the production of I-Rice;
- d. When there is a need to issue new stocks for government feeding programs of the Department of Social Welfare and Development (DSWD);
- e. When there is a need to create warehouses space for incoming stocks and/or rice recoveries and leasing of additional warehouse is not possible; and
- f. When cross infestation can no longer be controlled despite application of all the necessary pest control measures. The later batch of stocks will, therefore, have to be disposed.

11.14 In Region VI, significant losses amounting to P25.905 million were incurred by NFA Iloilo Provincial Office (IPO) in the sale of 3,230,100 kilograms of imported rice stocks, aging 29 months and up, thus, decreasing the benefits in disposing the same at a better selling price at an earlier time.

11.15 On September 30, 2012, NFA launched the Special Rice Sale program to farmers. Imported rice was sold at P22.00 per kilo, which was P8.02 lower than the unit cost of P30.02 per kilo. NFA IPO was able to sell a total of 3,230,100 kilos of Vietnam Rice amounting to P71.062 million, total cost of which was P96.968 million, thereby incurring losses of P25.905 million, as shown below:

Table 26- Loss in Special Rice Sale

Date	Weight in kgs	No. of Bags	Approved Selling Price/Kg	Amount	Unit Cost/Kg.	Amount	Losses
9.25.12	25,000	500	P22.00	P 550,000	P30.02	P 750,500	P 200,500
9.27.12	2,308,500	46,170	22.00	50,787,000	30.02	69,301,170	18,514,170
9.28.12	896,600	17,932	22.00	19,725,200	30.02	26,915,932	7,190,732
TOTAL	3,230,100	64,602		P71,062,200		P96,967,602	P25,905,402

11.16 Management justified that Region VI, specifically Iloilo, is designated as depot for the imported rice requirements of Regions VI and VIII because of its adequate warehouse facilities and logistical support. The imported rice allocation of Region VII was not dispersed as scheduled due to the low demand for NFA Rice. Likewise, Region VI was not able to dispose a considerable volume of imported and local rice due to bumper harvest in Iloilo and other neighboring provinces and regions. Management exerted best efforts to dispose of these rice inventories like sale through the Special Rice Sales Program for Farmers.

11.17 The NFA NCR Management also represented that :

a. The observed slow turnover of rice may not be financially healthy on the part of the NFA but it is a manifestation of stability of prices in the market where the consumers are the beneficiaries. Management is exerting all efforts to monetize the stocks before they deteriorate. The observed volumes are part of the NFA's Food Security Stocks (FSS);

b. Old stocks of imported rice still existed because their sale could have been affected by the import allocation given by the government to private sector importers. These private sector importers and the many other grains businessmen in turn became the NFA's competitors in the latter's efforts to sell its long existing varieties of imported rice;

c. NFA imported bigger volumes in 2010-2011 and had a hard time selling/distributing the numerous tons of rice imported in the past. In 2012, NFA imported less, which volume served as part of buffer stock for lean months from

July to September and as contingency stocks during natural or man-made calamities;

d. NCR Management also observed that there was low utilization of Iron Rice Pre-Mix (IRP) because there was low market and slow sales of IFR. Most of the consumers did not buy IFR because of its grayish and or yellowish color and its different taste from the white commercial rice;

e. Upon issuance of the Iron Fortification Law, NFA has incorporated salient features of the Law into its Standard Operating Procedures (SOPs). However, the private sector was able to get a moratorium on the implementation of the said Law exempting them from mandatory fortification of their rice sold in the market. The moratorium rendered the provisions of the SOPs unimplemented up to this time; and

f. NFA is doing its best effort to control losses while maintaining FSS for longer period of time. However, losses due to deterioration, accumulated sweepings and damaged stocks, and price reduction are part of the cost of maintaining stocks. Management will continue to monitor and minimize these observed losses.

11.18 We also gathered that the main cause of long storage of palay was the delayed milling due to the inability to meet the standard Guaranteed Milling Recovery (GMR). GMR is set at 65 per cent recoveries to ensure good quality of rice. This was observed in NFA Region X.

11.19 Management explained that NFA opts to keep part of its buffer stocks in palay since palay stocks have longer shelf life over milled rice. Losses from milled rice are also mitigated when storage of stocks is in palay form. This way, milling of palay is resorted to when the situation warrants it, depending on the rice requirements in a specific area.

11.20 Management also submitted the reports from NFA Regional Office in Region X:

a. Rice mills tested did not pass the minimum GMR of 65 per cent for Regular Milled Rice (RMR). Further, potential miller contractors were also apprehensive of the contracted guaranteed milling recovery of not less than 65 per cent for RMR output.

b. Millers have been invited to apply for accreditation as palay milling contractors. Based on the results of the accreditation and test milling of the rice mills, palay milling services shall be bid out.

c. The region proposes to relocate the five- tons per hour (5TPH) rice mills presently situated in Musuan, Bukidnon to Lanao Norte since these are not being

utilized in Bukidnon and will help address the rice milling deficiency in Lanao Norte.

11.21 We recommended that Management:

a. Revisit the policies on Sale of NFA Commodities Through Market Determined Pricing (SMDP) particularly on the determination of prices, volume of stocks and timing of sale, among others, and determine the needed changes that would improve the turn-over of stocks;

b. Devise, in addition to SMDP, other marketing strategies on distribution to address the long storage of stocks to prevent further deterioration in stock quality and increasing warehousing costs that might eventually lead to losses;

c. Conduct market assessment of the I-Rice in relation to the expiring stocks at NFA warehouses in coordination with the Department of Health (DOH) as part of the monitoring and review of the Rice Fortification Program under RA No. 8976, and make representation for possible amendment of the law in view of the low acceptance of the public of IFR. Also, submit the expired Iron Rice Pre-mix (IRP) stocks to the Food and Drugs Administration (FDA), the government agency mandated to evaluate all food and drugs sold in the market, to ensure that these are still fit for use in the production of IFR;

d. Strengthen the quality controls on the procurement of palay that will meet the GMR and yield better quality of rice recoveries which could eventually increase sales and avoid overstocking; and

e. Adopt balancing measures between the need to increase distribution of stocks to prevent overstocking, and the NFA's mandate of providing assistance to farmers through intensified procurement of palay and the maintenance of readily available stocks for buffer during lean months period and in times of emergencies and calamities.

11.22 Management responded to the above recommendations, as follows:

a. The SMDP was resorted to as one of the sales strategies. Nonetheless, it is acknowledged that certain policies found effective in the past may need revisiting due to evolving market situations and trends. Thus, a review of the SMDP guidelines is currently being done;

b. I-Mix quality assessment is constantly being evaluated and monitored by Food Development Center (FDC) and Technical Research and Services Department (TRSD). Moreover, regular meetings of the Mandatory Food Fortification Committee headed by the DOH-National Nutrition Council and

composed of different government agencies are being conducted for the review of the Food Fortification Law (RA No. 8976), where issues and concerns are being discussed and agreed upon;

c. Quality audit is regularly being conducted by the TRSD on palay stocks; and

d. The supply, demand, price and stock movements of rice and corn are regularly monitored to serve as basis in the determination of the rice requirements and positioning of the food security stocks in each province/region depending on the market situation for the period in review.

12. Determination of the Final Shortages/Overages on Stock Accountabilities

12.1 The initially determined shortages on the stock accountabilities amounting to P2,618.001 million had been lodged in the Other Assets account for more than ten years because of incomplete or absence of stock examination and Tolerable Allowance (TOLA) computation, which are requisites in the determination of the final shortages; hence, collection/settlement of the amounts could not be pursued. With significant amount involved, NFA might have incurred substantial losses in stocks and government resources that could be utilized to augment the funds for food security program of NFA.

12.2 Variances between the stocks reports and the volumetric or bag to bag count of stock accountabilities of Stock Accountable Officers (SAOs) or the Warehouse Supervisors (WSs) are recorded under the Other Assets-CULCA (Contingent Assets-Unrelieved Losses on Current Assets). These variances or the initially determined shortages are still subject to stock examination by the Provincial Office Management, and Tolerable Allowance (TOLA) computation by the Regional Tolerable Allowance Committee (RTAC) to determine the final shortages of the SAOs/WSs. Final Shortages are then reclassified to Due from Officers and Employees account for collection/settlement.

12.3 Stock shortages that are still lodged in Other Assets account due to incomplete cash examination and TOLA computation include the following:

Table 27- Stock Shortages in Other Assets Account

With examination, for TOLA computation	P 160,334,166
With examination without TOLA computation	254,584,029
Without examination	2,203,082,410
Total	P 2,618,000,605

12.4 The above shows that the initially determined shortages of P2,203.082 million or 84.15 per cent of the total amount of P2,618.001 million were still without stock examination; hence could not be submitted for TOLA computation. The remaining

amount of P254.584 million with stock examination was still with the regional and provincial offices and had not been submitted to the RTAC for TOLA computation, while the amount of P160.334 million with stock examination was already submitted to the RTAC for TOLA computation.

12.5 The significant amount of P2,618.001 million stock shortages that had been long outstanding for more than 10 years showed inadequate efforts in the conduct and completion of the stock examination and TOLA computation. Thus, the final shortages on these accountabilities could not be established and the collection/settlement from accountable officers concerned could not be pursued. Considering the huge amount involved, NFA could have incurred substantial losses in stocks and government resources that could be utilized to augment the funds for food security program of NFA.

12.6 The stock shortages for final examination and TOLA computation as reported in the trial balances of the regional offices are as follows:

Table 28-Stock Shortages for Examination and TOLA Computation

Regions	With Exam for TOLA (06A)	With Exam without TOLA (06B)	Without Examination (06C)	Total
I	P 7,612,495	P 2,847,636	P 193,976,804	P 204,436,935
II	12,120,052	11,782,112	55,785,498	79,687,662
III	31,714,644	21,414,218	101,776,236	154,905,098
IV	14,798,329	100,370,133	482,179,190	597,347,652
V	1,576,273	493,492	93,964,033	96,033,798
VI	8,672,138	29,717,252	122,019,139	160,408,529
VII	278,582	842,966	21,850,707	22,972,255
VIII	49,218	3,781,253	45,607,033	49,437,504
IX	-	9,857,584	25,284,067	35,141,651
X	13,869,256	13,094,322	140,968,027	167,931,605
XI	416,366	-	48,985,325	49,401,691
XII	15,306,424	223,885	116,429,108	131,959,417
NCR	24,918,961	-	24,469,840	49,388,801
XV (Caraga)	5,855,686	21,881,095	67,625,371	95,362,152
XIV (ARMM)	4,597,102	38,314,123	679,681,484	722,592,709
Total	P 141,785,526	P 254,620,071	P 2,220,601,862	P 2,617,007,459

12.7 To facilitate the stock examination and TOLA computation, NFA formulated and issued the Standard Operating Procedures (SOP) No. GM-WH13 dated April 22, 2003. This pertained to the New Computerized Stock Examination and TOLA Computation. This SOP was issued in order to accelerate or speed up the entire process of conducting stock examination and TOLA computation, which used to be done manually. SOP No. FS-GP 20 also contained revisions on the stock examination and TOLA computation.

12.8 As represented by the Internal Audit Services Department (IASD), Management explained that since TOLA computation is decentralized and computerized in the NFA Regional Offices, it is only a matter of time that the stock accountabilities with stock examination shall be computed with TOLA. Moreover, as regards the remaining P2,203.082 million stock shortages without examination, the NFA Provincial Offices (POs) and Regional Offices (ROs) are required to submit their yearly targets as to how

many cases of stock accountabilities they can conduct examination and TOLA computation; and based on available resources, a total of P327.244 million shall be the target for the year 2013.

12.9 Most of the NFA POs and ROs justified that they cannot conduct the stock examination because the documents required in the stock examination could no longer be located since the accountabilities were incurred as far back 1980s (even prior to 80s). Some POs/ROs also justified that they lacked personnel for the conduct of examination so they have resorted to the hiring of personnel on job orders, but they can only render limited assistance such as encoding the past stock accountabilities.

12.10 However, SOP No. GM-WH13 provides that:

“Further, if some or all of the above said primary documents are no longer available, the following secondary documents may also be used:

- 2.c.1 Accounting records such as disbursement vouchers, journal vouchers (JVs), general journals (GJs), stock ledger cards and any other accounting books of accounts or records which can extract the stock transactions and determine the stock accountability of the stock accountable officer on a per warehouse, per cereal/MTS type and particular period of accountability.
- 2.c.2 Stock book of the stock accountable officer (SAO) per warehouse showing the daily transaction per document indicating the MC, cereal type variety, activity and quantity (in bags and gross/net kilograms) and complete as to the period of accountability.”

Also, the said SOP No. GM-WH13, Item F.4.2 provides that:

“stock shortages of SAO shall also be considered final if recorded in the book of accounts (as CULCA) or in the COA records when documents pertaining to past accountabilities are no longer available and where records/ledgers can no longer be found/retrieved after exerting all efforts. No TOLA however, can be computed due to lack of data needed for TOLA computation. The valuation of shortage shall be based on book value and not on replacement/marketing cost.”

12.11 There were also stock overages amounting to P197.003 million of Stock Accountable Officers (SAOs), which had been awaiting stock examination and TOLA computation for more than 10 years; thereby affecting the timely recognition of income.

12.12 Variance between the stock reports and the stock count on the accountabilities of SAOs/WSs, which were initially determined as stock overages were recorded as Other Deferred Credits pending stock examination and Tolerable Allowance (TOLA) computation. Final overages established after the examination and TOLA computation would be reclassified to Other Income account.

12.13 In the same manner as the stock shortages in Other Assets account, final stock overages cannot be determined until the stock examination and the TOLA computation are completed. Hence, the amounts remained in the Other Deferred Credits account.

12.14 **We recommended that Management:**

- a. **Require the Stock Examination Group to expedite the stock examination and apply the provisions of the NFA SOP No. GM-WH 13 on the use of secondary documents when warranted to facilitate the examination and to submit the Stock Examination Report (SER) to the Regional Tolerable Allowance Committee (RTAC) for TOLA computation;**
- b. **Require the RTAC to speed up the TOLA computation to establish the final shortages of the SAOs/WSs so that the settlement/collection of the amounts could be pursued and minimize the balance of the accountabilities that could not be ascertained;**
- c. **Require the Legal Affairs Department to look into the status of the filing of cases against the accountable officers who incurred stock shortages as reported by the regional and provincial officers;**
- d. **Revisit SOP No. GM-WH13 where no timeline was set for stock examination and TOLA computation and prescribe appropriate timeframe so that the final shortages could be established within reasonable period and immediate collection of shortages could be facilitated; and**
- e. **Enforce the sanctions provided in the Special Provisions of SOP No. GM-WH13 which states that “*Violation of the provisions of this SOP shall subject the offender to penalties provided for under applicable and reasonable NFA and Civil Service Rules,*” to oblige the persons responsible to strictly implement the SOPs on the stock examination and TOLA computation.**

12.15 The above recommendations were well-taken by Management and advised that Memorandum Order (MO) Nos. 2013-04-13 and 14 both dated April 8, 2013 were issued to all Regional Managers/RTAC Chairmen and all Provincial Managers/OICs to prioritize/speed up the conduct of stock examination and TOLA computation of their pending stock accountabilities and resolve pending appeals following the provisions of SOP No.

GM-WH13 on the New Computerized Stock Examination and TOLA Computation. Each office was instructed to submit a timetable to the Administrator's Office. Compliance with this instruction is being monitored by the IASD.

13. Collection/settlement of Stock Shortages

13.1 Shortages of Stock Accountable Officers (SAOs) had accumulated to P365.136 million, most of which remained uncollected for more than 10 years even with the existing NFA Standard Operating Procedures (SOPs) on settlement of stock shortages.

13.2 Final stock shortages were established after the stock examination and computation of the Tolerable Allowance (TOLA) and were reclassified from Other Assets to Due from Officers and Employees for collection and settlement.

13.3 To ensure and facilitate the collection and settlement of the final shortages, NFA had formulated and issued the following policies and procedures:

- a. NFA SOP No. FS-GP15 dated October 23, 1997

Pertained to collection of payment after the Final Stock/ Empty Sacks (MTS) shortage have been established. It covered the flow of documents in the determination of the final stock shortage, issuance of demand letters to Accountable Officers, collection of payment and filing of Administrative Charges against them.

- b. SOP No. FS-GP20 dated January 27, 2006 as amended under SOP No. FS-GP20A dated May 17, 2012

Set up the schemes of payment on installment basis for Accountable Officers with stock and MTS shortages and facilitate collection.

- c. General Memorandum Order No. AO-2K10-01-003

Required full payment of Grains and MTS shortages within 15 days from receipt of Demand Letter subject to certain provisions related to the filing of administrative and/or criminal case against the Stock Accountable Officers.

- d. SOP No. AO-2K10-01-003 dated January 19, 2010

Pertained to the guidelines that should be followed when the shortages and stock accountabilities of Accountable Officers has been established after examination.

13.4 Despite the existing SOPs formulated and issued by NFA to facilitate the settlement and collection of the final shortages of Accountable Officers, there remained significant balance of Due from Officers and Employees for stock shortages amounting to P365.136 million as of December 31, 2012. The amount of shortages remained uncollected/unsettled and even increased as shown below:

Table 29-Increases in Due from Officers and Employees- Stock Shortages

Year	Amount	% Increase (Decrease)
2012	P 365,135,946	2.43
2011	356,458,233	7.87
2010	330,441,583	5.39
2009	313,529,009	36.97
2008	228,909,076	-

13.5 The increasing stock shortages demonstrates that while the SOPs are in place as control measures to facilitate the settlement of stock shortages; these had not been effective in achieving the control objectives of ensuring that shortages are immediately collected and settled.

13.6 The stock shortages amounting to P365.136 million as of December 31, 2012 were reported in the following NFA regional offices:

Table 30- Stock Shortages in Regions

Regions	Amount
I	P 26,523,565
II	8,485,767
III	49,417,997
IV	62,844,324
V	15,973,088
VI	9,956,279
VII	28,355,258
VIII	4,606,598
IX	7,693,615
X	13,009,826
XI	1,404,343
XII	4,008,067
NCR	122,892,547
XV (Caraga)	71,206
XIV (ARMM)	9,863,045
Sub-Total	P 365,105,525
CO	30,421
Total	P 365,135,946

13.7 The stock shortages amounting to P93.051 million of the total amount recorded in the books of NFA-NCR of P122.893 million were incurred in prior years, some in 2004 and beyond. Most of the accountable officers were already separated from the government service due to retirement, resignation, dismissal and death. There were only partial settlements from accountable officers still active in the government service.

Some of the causes of non-settlement and non-collection were due to pending and delayed resolution of appeals and cases and lax implementation of the policies on restitution/collection. Thus, there is high risk on the collectibility and opportunity loss to use the fund for operations.

13.8 We also noted that Warehouse Supervisors (WSs), as observed in NFA Cebu, with existing unliquidated stock accountability from previous warehouse assignments pending final settlement or disposition were still allowed to handle stock accountabilities, resulting in further accumulation of stock shortages.

13.9 Based on the observations of the regional and provincial audit teams the accumulated stock shortages can be attributed to the lapses in the following:

- a. The issuance of demand letters to the SAOs;
- b. The filing of administrative/criminal cases; and
- c. SAOs with stock shortages are not relieved from stock accountability, contrary to SOP No. GM- WH13 dated April 22, 2003.

13.10 Because of these accumulated stock shortages, most of which were uncollected/unsettled for many years, NFA had incurred losses in stocks and wastage of government resources.

13.11 **We recommended that Management:**

a. Establish Agency's level of monitoring and evaluation system on the implementation of the NFA SOPs on the settlement of shortages particularly the following:

a.1 The issuance of demand letters to SAOs with established shortages within the prescribed period; and

a.2 Filing of the appropriate administrative and criminal cases;

b. Conduct an evaluation of the existing warehousing policies and procedures to identify the causes of the incurrence of shortages and strengthen the measures that will prevent and/or address the same;

c. Relieve the SAOs from their posts while undergoing stock examination and liquidation as internal control measure; and

d. Enforce the sanctions provided in the Special Provisions of SOP Nos. FS-GP15 and GP20A which state that "*violations of these SOPs shall subject the violator to penalties provided under applicable Civil Service Rules and Regulations,*" so that persons responsible for the

implementation of the said SOPs will be obliged to strictly implement the settlement of shortages.

14. Budget Utilization

14.1 The total obligation incurred by NFA for Personal Services amounted to P2,046.149 million, while the total approved budget was only P1,951.876 million. This resulted in budget overdraft of P94.273 million.

14.2 Comparison of the actual expenses incurred with the approved budget of NFA showed that the excess obligation in the amount of P83.716 million for other compensation can be traced to the expense items such as Hazard Pay, Longevity Pay, Performance Bonus, Overtime and Night Pay for which the proposed budgets were required by the DBM to be charged against savings of NFA.

14.3 In Other Personal Benefits, the significant amounts of obligations incurred that exceeded the approved budget in the amount of P112.014 million pertained to payment of Terminal Leave Benefits, Leave Monetization, and Loyalty Cash Award, which were considered by the DBM as also chargeable against NFA's savings.

14.4 NFA can only incur obligations within the limits or in the amounts authorized in its approved Corporate Operating Budget (COB); otherwise, it could result in overdraft and unauthorized expenditures. We also noted that while there were savings in some expense items as the budget for said expense items were not fully utilized, these savings were not sufficient to cover the over utilization of budgets in the other expense items; thus, the total expenses exceeded the budget for Personal Services in the net amount of P94.273 million.

14.5 We recommended that Management in the utilization of the budget, strictly observe the amounts as well as the conditions provided in the COB approved by the DBM to avoid the incurrence of overdraft and unauthorized expenditures.

14.6 Management clarified that for those expense items which the DBM indicated in the COB as chargeable against savings, the NFA was guided by the consultation made with the DBM Bureau F Assistant Director, as follows:

- a. Since savings can only be ascertained after the closing of books at year-end, the previous year's savings of both the Personal Services (PS) and Maintenance and Other Operating Expenses (MOOE) were taken as the Budget Cover, particularly on the big-ticket items such as Overtime Pay and Leave Monetization. The use of MOOE savings for PS was allowed under the authority of flexibility granted unto Government-Owned and Controlled Corporations

(GOCCs), and that the payment of authorized personnel benefits took priority in the use of such savings.

b. Authorization for benefits granted to government employees by Presidential action, such as the Productivity Enhancement Benefit, always indicates that GOCCs shall grant the benefit out of corporate funds/savings. Such expense items were charged against the overall COB, though recorded under PS.

c. Prior year's savings were also the source of budget cover for benefits such as the Provident Fund and Collective Negotiation Agreement Incentive (CNAI), as authorized by DBM. These were the items which were appropriately charged against prior year's savings and were booked as prior year's adjustments.

14.7 Nevertheless, Management agreed that there are expense items that are chargeable against current year's savings in order to be in synch with the accounting principle of matching expense with revenue/budget cover. Thus, Management is amenable to reviewing their position as well as the accounting treatment of the expenses charged against prior year's savings; and shall coordinate with the DBM to clarify the indication of savings in the approved COB so that NFA will be guided appropriately in future budget execution.

15. *Grant of Food and Grocery Incentives (FGI)*

15.1 Food and Grocery Incentive (FGI) was granted to NFA employees at P20,000 each totaling P84.868 million, without the authorization from the Office of the President.

15.2 In the audit of the personnel benefits and allowances, we were guided by the following applicable laws, rules and regulations to determine the probity of the expenses:

a. Section 16(e) of the General Provisions of the CY 2012 General Appropriations Act that prohibits the grant of honoraria and other allowances, except those specifically authorized by law;

b. Section 12 of Republic Act (RA) No. 6758, otherwise known as "Salary Standardization Act of 1989," which included all allowances in the Standardized Salary rates, subject to certain exceptions and that the FGI granted by NFA was not among those exceptions;

c. Joint Resolution (JC) No. 4 of the Congress of the Philippines authorizing the President of the Philippines to modify the Compensation and Position Classification System of government personnel prescribed in RA No. 6758; and

d. Paragraph 4.5 of DBM Budget Circular No. 16 dated November 28, 1998 that prohibits the grant of food, rice, gift checks or any other form of incentives/allowances except those authorized via Administrative Order (A.O.) by the Office of the President.

15.3 JC No. 4 provided, among others, the Total Compensation Framework consisting of four categories, and the list of the allowances, benefits and incentives under the aforementioned categories that shall be granted to any and all government employees provided that said allowances, benefits and incentives shall be granted only upon compliance with all of the qualifications and conditions laid down by the President. The FGI granted by NFA, however, was not among those itemized under the said categories.

15.4 The documents submitted in support of the payment of the FGI did not include an A.O. or any issuance by the Office of the President as basis for the grant. Therefore, payment of FGI by NFA to its officers and employees without the authorization from the Office of the President may be construed as irregular disbursement of funds as provided in COA Circular No. 2012-003 dated October 29, 2012.

15.5 The Rewards and Other Claims account showed the following amounts for the payments of FGI:

Table 31-FGI in Regions

Region	Amount
Head Office	P 13,275,000
NCR	11,295,000
I	6,062,200
II	6,245,800
III	8,524,000
IV	7,875,000
V	2,610,000
VI	5,100,000
VII	3,730,000
VIII	4,485,000
IX	3,220,000
X	4,293,600
XI	1,861,600
XII	576,000
XIII	2,256,800
ARMM	3,457,700
Total	P 84,867,700

15.6 To substantiate the probity of expenses, we recommended that NFA support the payment of FGI with an Administrative Order or any issuance from the Office of the President authorizing the grant of the incentive, otherwise the transaction will be disallowed in audit.

15.7 Management justified that the benefit has been traditionally given by NFA to its officials and employees since 1995 in the form of food gift packages granted during Christmas season as yuletide incentive. The food gift packages annually given were approved by the incumbent Department of Agriculture Secretaries during those times.

15.8 They also stated that on December 8, 1998, the former NFA Administrator sought the approval from former President Estrada for the grant of Food Assistance and Emergency Allowance to all NFA officials and employees who unequivocally approved said request.

15.9 Management further stated that on November 4, 2003, former President Arroyo through Chief Presidential Management Staff Ricardo Saludo, issued a Memorandum regarding the grant of the Christmas/year-end bonuses by the Heads of Government Financial Institutions (GFIs) and Government-Owned and Controlled Corporations (GOCCs) to their employees in addition to the mandatory 13th month pay and P5,000 cash gift. The said Memorandum recognized and affirmed the authority of the Heads of GFIs and GOCCs to grant moderate Christmas/year-end bonuses to their officials and employees.

15.10 On November 24, 2003, upon the request of NFA, the Office of the Government Corporate Counsel (OGCC) issued its Opinion No. 219, affirming the propriety of granting food subsidy/grocery incentive every Christmas Season to NFA employees.

15.11 Thereafter, the NFA Council approved Resolution No. 226-2K5 dated May 18, 2005 granting Food and Grocery Incentive annually in the amount of P20,000 each employee as a yuletide incentive to all NFA officials and employees. Since then, NFA officials and employees have been receiving the amount of P20,000 as Food and Grocery Incentive.

15.12 It is considered view by Management that the Presidential imprimatur and the OGCC opinion affirming the propriety of the grant constitute sufficient legal basis for the NFA Council to approve and pass Resolution No. 226-2K5 granting Food and Grocery Incentive to NFA officials and employees and that the release of this traditional benefit was in order.

15.13 As a rejoinder, it is worthy to mention that the grant by NFA of FGI in previous years to the officials and employees of NFA Batangas Provincial Office and NFA Regional Office No. IV, Batangas City, had been disallowed in audit through the issuance by the concerned Audit Team Leader (ATL) and Supervising Auditor (SA), of Notice of Disallowance (ND) No. 2010-01 (2008) dated January 7, 2010 in the amount of P1.050 million for NFA Batangas Provincial Office, ND Nos. 2010-01 (2008) dated January 7, 2010 in the amount of P0.835 million and 2010-02 (2009) dated April 16, 2010 in the amount of P0.700 million for NFA Regional Office No. IV.

15.14 In the Appeal filed on the NDs mentioned above by the NFA Batangas Provincial Manager and NFA Region IV Director to the COA Regional Office (RO) No. IV, the above-mentioned justifications for the grant of FGI had already been submitted and considered in COA RO No. IV Decision Nos. 2010-09 and 2010-11 both rendered in December 2010 by the COA Regional Director No. IV, affirming the NDs.

15.15 The appeal by the Regional Manager of NFA Region IV, Batangas City to the then COA Adjudication and Settlement Board (ASB) on the decision of COA RO No. No. IV, seeking the reversal of COA RO No. IV Decision No. 2010-11 was denied by said Board and affirmed ND No. 2010-01 (2008) in the total amount of P0.835 million.

15.16 The recent decision by the Officer-in-Charge of the COA Corporate Government Sector (CGS), Cluster 5, in CGS-5 Decision No. 2013-007 dated June 11, 2013, on the Appeal Memorandum filed by the former Provincial Manager of NFA Laguna Provincial Office, regarding ND No. 2012-01-101 (2011) dated July 24, 2012 using the same justifications as those mentioned above for the grant of FGI for CY 2011 in the amount of P0.740 million, affirmed the ND issued by the concerned ATL and SA.

15.17 There being no other justifications for the grant of 2012 FGI other than those previously presented by Management and on the basis of said COA ASB Decision and of the CGS-Cluster 5 Decision on the matter, the 2012 FGI cannot be considered as allowable expense.

15.18 Management submitted a copy of the letter dated August 12, 2013 of the NFA Administrator to the President of the Philippines requesting for Presidential Imprimatur on the grant of annual Food and Grocery Incentive to NFA Officials and Employees. As of the date of writing this report, NFA has not yet receive the requested Presidential Imprimatur.

16. *Controls on Warehousing in NFA Region V*

16.1 The lack or absence of check and balance on the transactions made by the Warehouse Supervisors/Grains Classifiers of various NFA Provincial Offices on the classification, receipts and issuances of stocks (palay, rice and MTS), and the absence of physical/security facilities in warehouses could have contributed to the incurrence of stock shortages of Stock Accountable Officers.

16.2 Stock Accountable Officers in the following NFA Provincial Offices incurred stock shortages amounting to P56.588 million as follows:

Table 32-Stock Shortages in Region V

Province	Amount
Masbate	P 295,289
Camarines Sur	51,905,081
Camarines Norte	4,387,866
Total	P 56,588,236

16.3 One of the basic internal control measures on financial transactions is the presence of check and balance which provides that no person should have entire control over one transaction. The inspection and acceptance functions should be performed separately by two different individuals. Likewise, the custodial and recording should be handled independently by two separate individuals. Moreover, business practices give more emphasis on the adoption of modern technology for efficient and effective business operations and security of their assets. The use of computer assisted inventory system, close circuit television cameras (CCTV), scanners, internets, etc., are becoming more indispensable standard equipment of corporate businesses today.

16.4 In our observation and of test millings of 2012 palay stocks inventories in various rented warehouses, we noted that NFA has not yet adopted the use of security/surveillance system to control, monitor and safeguard its stock inventories against burglars. Modern security/surveillance system such as the CCTVs, telephone hotlines and burglar alarm system had become increasingly vital in preventing and/or resolving crimes against persons or property.

16.5 The absence of such security/surveillance systems in NFA warehouses could have contributed to the losses of undetermined quantity of palay stocks inventories due to alleged robberies at the NFA's rented warehouses located at Pawili, Pili, Camarines Sur (Apollo Warehouse) and at San Isidro, Bombon, Camarines Sur (Benmar Warehouse) sometime in December 2012. Likewise, NFA has incurred unnecessary expenses pertaining to handling and hauling in transferring the stocks inventories, salaries of personnel involved in conducting the inventory taking and investigations thereon.

16.6 We also observed that the procurement of palay involves the functions of a Warehouse Supervisor, Grains Classifier and Weigher/Checker, the three personnel needed in each warehouse for the processing of Warehouse Stock Receipt. However, during peak season and due to lack of personnel, only one or two personnel performed these three functions which are not consistent with sound internal control practice.

16.7 The noted deficiencies in the foregoing paragraphs, coupled with Management's reluctant efforts to enforce administrative and legal sanctions on erring stock accountable officers may have contributed greatly in the incurrence of stock shortages totaling P295,289, P51.905 million and P4.388 million at NFA Provincial Offices of Masbate, Camarines Sur and Camarines Norte, respectively, as of December 31, 2012.

16.8 We recommended that the Provincial Managers of NFA Masbate, Camarines Sur and Camarines Norte install check and balance controls over the warehouse transactions by assigning independent officials/employees who will separately perform the functions of warehouse supervisors, grains classifiers, and checker/weigher as designed in the Warehouse Stock Receipt and Warehouse Stock Issue forms.

16.9 We also recommended that Management consider the use of modern technology in the maintenance, monitoring and control of its stocks inventories, such as the use of tamper-proof electronic/computerized weighing scales in all of NFA warehouses, installation of CCTV cameras, the installation of electronic/computerized portable truck scale to be used in weighing delivery vehicles coming in and out of the warehouses and the use of bar coded sacks, scanners etc.

16.10 Management submitted the following comments and actions taken by NFA Region V:

- a. With the implementation requiring Dispersal Committee to witness in the weighing of the stocks, this becomes necessary, reliable and further strengthens the check and balance of the transaction. Region V is studying the possibility of replicating the system in the procurement and distribution of the stocks;
- b. Updating of the bin cards and personal logbook is already being done by the Stocks Accountable Officers;
- c. Security guards have their own recording;
- d. The NFA Provincial Office is requesting from the NFA CO for the two CCTV cameras in addition to the existing four cameras for the warehouses;
- e. On the physical and security facilities, CCTV cameras have been installed in the premises of the main office (NFA Compound) to observe day-to-day operations;
- f. Increased control measures can be expected with the Electronic-Integrated Financial and Operations Management System (e-IFOMIS) software program. This will cater to the information and internal control needs of the office;
- g. Prompt liquidation of accountabilities to pre-empt any attempt to make untoward moves; and
- h. As to classification, Management is implementing a monthly quality audit on all its warehouses to check the quality of the stocks procured and piled.

17. Registration and Licensing in NFA Region XII

17.1 Inadequate monitoring and controls weaken the registration and licensing function of NFA.

17.2 Registration and Licensing is part of NFA's mandate provided under Presidential Decree (PD) No. 4 dated September 26, 1972, otherwise known as the National Grains Authority Act, as amended. The National Grains Authority Act requires anyone who is engaged or is intending to engage in the rice and/or corn industry to be licensed by the NFA. Licensing is part of the framework for the application of said Act and, thus, contributes to the maintenance of quality standards for Philippine grain. The Rules and Regulations on Grains Business were promulgated last November 23, 2006 to implement the provisions of the said Act, such as the rates of license and registration fees, standards on how to operate the various grains business, and prohibitions, among others.

17.3 NFA Region XII collected around P0.953 million to P1.879 million each year from Registration and Licensing Fees in CYs 2011 and 2012. Records revealed that two Provincial Offices have decreased collections by 0.01 to 6 per cent while the other Provincial Office increased by 20.06 per cent, as presented in the table below:

Table 33- Increase/Decrease in Collections from registration and Licensing Fees

Provincial Office	CY 2011	CY 2012	Increase/(Decrease)	Percentage
Sultan Kudarat	P 1,378,552	P 1,295,861	P (82,691)	6.00
North Cotabato	1,879,360	1,879,209	(151)	0.01
South Cotabato	953,305	1,144,550	191,245	20.06

17.4 However, the list of registered grain business for CY 2012 showed that a significant number of grains business operators did not renew their licenses, as presented in the table below:

Table 34-Registered Grains Business

	Sultan Kudarat PO	North Cotabato PO	South Cotabato PO	Total
No. of Licensees as of Dec. 31, 2011	898	1,961	412	3,271
Less: No. of Renewed License as of Dec. 31, 2012	603	670	358	1,631
Less: No. of Closed grains business for CY 2012	no data	50	no data	50
Total no. of license not renewed as of CY 2012	295	1,241	54	1,590

17.5 Further review of records and evaluation of controls over the processing of license applications, collection of license fees, monitoring of licensee reporting requirements and processing of license renewals disclosed deficiencies discussed in the following paragraphs.

17.5.1 There is no formal documentation of criteria and guidelines in processing new and renewal of licenses.

17.5.2 The initial step for all potential licensees is to accomplish and file application form appropriate for the classification of the potential licensees. There are 14 licensing classes and three classes for registration of facilities/establishment – these are defined in the NFA’s Rules and Regulations on Grains Business. However, the actual classification of an applicant (initial or renewal) requires discretion in certain situations and consultation with investigator to ensure correct classification. For instance, a wholesaler may function as retailer but is also a miller of grains.

17.5.3 The Rules and Regulations on Grains Business provide guidance on several key processes. However, there is a lack of formal documentation on the criteria for making decisions directly related to issuance of licenses, such as classification as discussed above, or calculating required fees. These decisions largely rely on the experience and knowledge of the licensing officer, which may not be properly communicated and reported for appropriate actions.

17.5.4 The accuracy of the calculation of licensing and registration fee is uncertain due to the absence of validation by Licensing Officer of the capitalization of the applicants/licensees.

17.5.5 The NFA Rules and Regulations on Grains Business impose and prescribe the rates of licensing and registration fees and charges on the applicant based on their capitalization and also prescribe various options to validate their capitalization (Regulations IV, V, X and XI). For validation of the capitalization, the applicant has to submit additional requirements such as proof of ownership, Articles of Incorporation, certificate of registration with Securities and Exchange Commission (SEC)/ Cooperatives Development Authority (CDA), among others, in case of new application. For renewal, the additional requirements are Income/Corporate Income Tax Return with audited financial statements certified by the Bureau of Internal Revenue (BIR) for the preceding year if the capitalization exceeds P100,000, among others. In addition, licensees are required to maintain separate books and records exclusively for their grains business, which shall be registered with the nearest NFA office. Said books and records shall at all times be open for inspection by the Administrator or his duly authorized representative. Aside from these requirements, the NFA can also require all the licensees to submit grains stock inventory and such other reports for validation purposes.

17.5.6 However, we observed that for CY 2012, the licensing offices of all the three NFA Region XII Provincial Offices did not strictly require the applicants to submit additional requirements and there was no record showing the efforts to cross check or validate the capitalization of the licensees in their books or the grains stock inventory for the preceding year. This practice may result in significant under-declaration of capitalization. In the absence of these books and records of the applicant, there would be no concrete and accurate basis for the evaluation of the application as well as the computation of the correct fees.

17.5.7 Lack of a monitoring system to determine whether or not grains business establishments have applied for renewal of licenses resulted in uncollected fees from 1,590 grains business establishments as of December 31, 2012.

17.5.8 As presented in Table 34, out of the 3,271 licenses issued in CY 2011, only 1,631 and 50 have been renewed and closed, respectively, in CY 2012, leaving a total of 1,590 grains business establishments that did not renew their license.

17.5.9 Likewise, the team observed that the monitoring system is weak and cannot readily identify whether the grains business establishments still exist or not; whether they are still in operation but did not apply for renewal of licenses; or have already closed but did not notify the Authority of its discontinuance in business. There is also a risk that a licensee may file for a new license under a new business name and/or address, in order to evade payment of arrearages. These could deprive the NFA of collection of fees from delinquent licensees and the 25 to 100 per cent surcharge.

17.5.10 Mapping of grains business establishments was not thoroughly performed.

17.5.11 Grain business mapping is a very effective enhancement measure to accurately classify the grains businesses. This aims to identify new grains businesses that have been put up, know whether there has been a conversion or use of a residential area for grain business purposes, verify and update, if necessary, the true value of existing businesses, and validate the line of activity as licensed/registered. Interview with the licensing officers disclosed that a grains business tax mapping activity has not been conducted; hence, appropriate actions could not be implemented on deficiencies noted, if any.

17.6 We recommended that Management of the NFA Region XII:

- a. **Document formal criteria and procedures for making key decisions in the licensing process that would include license classification and fee calculation (initial and renewal) for guidance;**
- b. **Strictly implement submission of required documents for the licensing and registration as required under Regulation IV of the NFA's**

Rules and Regulations on Grains Business, especially if the capitalization exceeds P100,000;

c. Formulate a clear policy applicable to smaller firms and market with capitalization below P100,000;

d. Require the concerned officers to inspect, cross check and validate the capitalization of the licensees in their books or grains stock inventory for the preceding year;

e. Improve and strengthen the monitoring system of the License System to verify whether the grains business being applied for is new, existing and/or delinquent. In addition, adopt a plan of action for the collection of arrearages of delinquent licensees;

f. Conduct and intensify grains business mapping. If possible, make use of the technology of geographic information system (GIS) in order to identify new grains business;

g. Make a representation with local government executives and legislators for policy initiatives through a local ordinance requiring the grains business operator to secure first a license and registration with the NFA before issuing them a business permit; and

h. Further pursue compliance with the National Grains Authority Act particularly the Licensing and Registration of grains business by exercising the NFA's power granted by the said Act to investigate and/or sanction the non-compliant operators. This would strengthen the NFA's commitment to producer and consumer protection by demonstrating the consequences of the inability to obtain a license.

17.7 The Sultan Kudarat PO explained that: a) one of the major reasons for the decrease of collection in the licensing fees is the non-renewal of retailing license of Barangay Bagsakan Outlets, Tindahan Natin Outlets, Post Harvest facilities licensees and Cooperative/Farmer's Organizations located mostly in remote areas where the peace and order situation is not good and unstable; and b) some grains business establishments refused to submit the additional requirements in the application of license, especially those with capitalization of above P100,000.

17.8 Regarding the mapping of grains businesses, the PO created a mobile licensing team as their saturation drive to conduct inventory as to the correctness of the capitalization through licensees' stock inventory, while on the monitoring of grains businesses, PO is maintaining a file for each licensee, such as transaction books,

monthly master list with corresponding control number and official receipts with dates on the payment, hence they can monitor if such licensee did not renew its license.

17.9 The South Cotabato PO mentioned problems in the collection of licensing and registration fees, such as the lack of personnel, lack of service vehicles, and peace and order situations.

17.10 Management gave the following comments:

a. All Regional and Provincial Industry Officers (RISOs/PISOs) are guided with the provisions of the NFA SOP and the existing Rules and Regulations on Grains Business. Further instructions to improve, strengthen and intensify grains business licensing and registration are periodically issued to field offices. They are likewise reminded to constantly coordinate with their respective local government units to ensure that all applicants intending to engage in grains business have NFA license/registration before a mayor's permit is issued.

b. Issuance of license/registration metal plates is made only after the applicant has complied with the NFA requirements. The PISOs provide Provincial Security Enforcement and Investigation Officers (PSEIOs) with list of grains businessmen for the inspection of grains establishment and the facility requirements. In cases of inaccuracy in the computation of registration and licensing (R/L) fees and deficiency in the documentary facility requirements, PISOs are reminded to uphold the SOP and the existing Rules and Regulations.

c. Lastly, briefings were recently conducted in Regions I to XV where strategies to be taken to improve and maximize registration and licensing activities were presented and discussed.

17.11 Management also submitted the following actions taken by the RISO and PISOs from Region XII regarding the audit observations:

a. *On lack of formal documentation in the licensing process of new applicants and renewal of license*

As a rule, applicants for grains activities are required to submit two copies each of the documentary requirements which are forwarded to the Sr. Enforcement & Investigation Officer (SEIO) for inspection purposes and to confirm existence of the business. The SEIO's inspection report attached to the application is sent back to PISOs which shall serve as basis in determining the appropriate line of activity that the grains businessman has to apply for. The inspection report also establishes the basis for capitalization in case the business is retailing and/or wholesaling only. Milling fees for single and multi pass mills are computed per input capacity, while output capacity on the other hand is for the threshing and

shelling activities. Warehousing fees are based on the floor area of the warehouse.

b. On the accuracy of the calculation of licensing and registration fees

The SEIO's inspection Report with data on grains inventory was used to determine the capitalization of the applicant. For validation of capitalization, the PISO recommended the creation of Provincial Evaluation Team headed by the Provincial Manager/APM, Assistant Team Leader, PISO and SAS, SEIO and Engineer/Technical Personnel as members to review/validate and update business capitalization, milling output and warehouse capacity, among others.

c. On lack of monitoring system to determine whether or not grains business establishments have applied for renewal of license

There were no follow ups made with regard to the non-renewees considering the volume of work of Registration and Licensing Office (RLO) performing the duties in R/L Extension Services and the Ugnayan activities compounded by the absence of the R/L aide. North Cotabato covers 17 municipalities and one city. To travel and reach the place will take one to four hours and because of this situation and lack of personnel to massively saturate the areas, sending letters and e-mails were done to reach the renewees but only few responded. Peace and order, no police power, no permanent Collecting Officer, and no service vehicle are factors why saturation drive and mobile licensing are not conducted. Furthermore, grains business is not a permanent business. It depends on the viability of the business in the locality. Some stopped operation because of capitalization constraint, hectic competition, peace and order problem and diversion to other business, thus resulting in the decrease in the number of applicants and amount of collection.

d. On the conduct of a thorough mapping of grains business establishments

The mappings of the grains business establishment are conducted through mobile licensing but not in critical and remote areas due to unstable peace and order situation. During the mapping, license fees of new applicants are based on their declared capitalization only.

18. Prohibited Acts of Rice Retailers in NFA Region V

18.1 In NFA Catanduanes Provincial Office, several persons were caught selling NFA rice without licenses and at prices above the government retail price of P27 per kilo. These are among the prohibited acts enumerated in Regulation XV of Presidential Decree (PD) No. 4 dated September 26, 1972 that were observed in most of the Municipalities of Catanduanes.

18.2 The NFA Catanduanes Provincial Office paid for the services of personnel on job order basis who conducted monitoring, inspection and posting of Iron Fortified Rice (IFR) posters in grains business establishments in various municipalities of the province. Attached to the payments are the pro-forma monitoring reports signed by the operator/s subject of monitoring, their names, addresses, date of rice withdrawal, no. of bags withdrawn, the beginning balance of stocks, sales and ending balance as of a given date, NFA control number, status of facilities (rice boxes, signboard, price tags), plus other observations.

18.3 Recapitulation of the violations committed and found in the monitoring reports is shown below:

Table 35-Violations Committed by Rice Sellers

No. of sellers subject of report	Selling NFA rice without license	Selling at prices beyond the government set price	Operating rice mill without license	Without sign board and rice box
38	31	26	2	1
% to Total	81.6	68.4	5.3	2.6

18.4 In addition, three out of the 26 sellers selling at prices beyond the government set price, are licensed NFA retailers.

18.5 The above prohibited acts of several sellers are found in the Duties of Licensee and Prohibitions under Regulations XV of PD No. 4. Likewise, Section I (H) of Regulation No. XV provides that every licensed retailer who is authorized to sell NFA rice shall sell NFA rice to consumers at the price and volume prescribed or set by the Authority.

18.6 The Provincial Office Management stated that they hired the job order personnel to conduct inspection and monitoring of grains businessmen in the different municipalities in the province to assist the SEIO. Being a sole person in the section, the SEIO needed assistance of a job order personnel from time to time whose output from inspection and monitoring activities served as basis of the SEIO for conducting investigation for noted violations of NFA Rules and Regulations on Grains Business, and for the filing of administrative case against erring grains businessmen. These individuals were accorded due process as being summoned and given the chance to be heard their sides.

18.7 In addition, in order to curb selling of NFA rice by persons without the required NFA license, the Provincial Office has pegged to the minimum the weekly allocation of all "Bigasan sa Palengke" outlets while those of retailers in the barangays were already increased to serve the consumers' demand in the area.

18.8 The Provincial Office (PO) had also coordinated with the office of the DENR regarding the issuance of clearances of applicants for registration of rice mills in the province. During advocacy meetings and dialogues, local government officials were informed of the NFA rules and regulations on grains business. Likewise, the PO requested their assistance in monitoring their area of jurisdiction to ensure that government rice are being sold only by legitimate businessmen and that their constituents benefit from the government mandated selling price.

18.9 We recommended that the NFA Catanduanes Provincial Office persistently look and take appropriate actions on the activities of NFA rice sellers in order to encourage an environment of fairness, and impose the sanctions provided in the Regulation on the prohibited acts of NFA Licensees.

18.10 Management submitted the following actions taken by NFA-Catanduanes Provincial Office on the above observations and recommendations:

- a. Out of 31 grains businessmen selling NFA rice without license, Catanduanes Provincial Office have already licensed the nine grains businessmen. The rest have stopped in grains business but their cases were dismissed due to lack of evidence during the conduct of the fact finding investigation. Other grains retailers who are operating without NFA license were summoned and sent letters informing them to secure NFA license.
- b. The three grains businessmen who are selling rice beyond the government set price were summoned and accorded due process. Respondents and consumers submitted affidavits stating that consumers purchased NFA rice at authorized government selling price.

18.11 In addition to the above mentioned action/s taken and to maximize registration and licensing activities in Catanduanes, Management instructed the Provincial Industry and Services Officer to undertake the following:

- a. Regular inspection and monitoring of grains business establishments in the province;
- b. Send notices to persons reported to be illegally engaged in grains business to secure NFA license/registration;
- c. Conduct of spot licensing to intensify grains activities; and
- d. Close coordination with the local government units (LGUs) and Local DTI office for the information of those who are engaged or intending to engage in grains business to secure license from NFA.

18.12 Management took value of the above recommendations to improve and strengthen grains licensing and registration and added that the Industry Services Department, in particular, will be conducting within the year an evaluation of existing licensees/registrants to consider the following:

- a. Update of grains businessmen's capitalization, milling output and warehouse capacity, among others;
- b. Review of license/registration fees needs to be updated/upgraded; and
- c. Personal visits to non-renewees to check if they have indeed ceased operation.

19. Iron Fortified Rice (IFR) Labeling in NFA Region XV

19.1 Iron-Fortified Rice with net weight of 453,782 kilograms and cost of P15.701 million stored both in warehouses of GID, Surigao City and San Jose, Province of Dinagat Islands were not labeled with the word "iron-fortified." Thus, these might be mixed in sale/distribution with the plain NFA rice.

19.2 To implement the Rice Fortification Program of the government under Republic Act (RA) No. 8976 or The Philippine Food Fortification Act of 2000, the NFA issued SOP No. GM-PG11 dated June 20, 2005, which required the implementation of the mandatory food fortification for rice with iron, except brown rice, including those milled and distributed by the NFA effective on November 7, 2004.

19.3 Further, the said SOP required that the word "iron-fortified" shall be indicated/printed on all packages/containers of iron-fortified rice offered for sale in the market. In addition to the Philippine Grains Standard Program (PGSP) labeling standard, the nutrition facts being required shall be indicated in small packages (1, 2, 5 kg.) for retail.

19.4 Records showed that 453,782 net kgs with cost of P15.701 million were Iron-Fortified Rice (IFR). These IFR stocks were stored in warehouses of GID, Surigao City and San Jose, Province of Dinagat Islands (PDI), as follows:

Table 36- IFR Stocks

Warehouse	Qty (net kgs)	Amount
GID Warehouse, Surigao City	452,324	P14,754,734
San Jose, PDI Warehouse	1,458	945,943
Total	453,782	P15,700,677

19.5 Ocular inspection of the GID warehouse showed that sacks containing IFR were not labeled/printed with the word “iron-fortified.” Moreover, we gathered from interview that the IFR stocks transferred to San Jose, PDI Warehouse were not also labeled/printed with the word “IFR” because the sacks used in the bagging of IFR were the same as those used for plain NFA rice.

19.6 As such, it may result in mixed distribution with the plain NFA rice and the traders, wholesalers, retailers, repackers and end-consumers would not be made aware of iron fortified rice.

19.7 **We recommended that Management:**

a. Require the proper labeling/printing on the sacks used in packaging the “Iron-Fortified Rice” for identification, and easy segregation and distribution;

b. Observe and implement the guidelines provided for in NFA SOP No. GM-PG11 dated June 20, 2005, re: Implementation of Rice Fortification Program; and

c. Require the Rice Fortification Program-Provincial Committee (RFP-PC) to ensure that all traders, wholesalers, retailers and repackers are informed of the packaging, labeling and quality assurance standards, and create awareness of the end-consumers on the Iron-Fortified Rice.

19.8 Management explained that the Surigao City Office shall request for authorization of the NFA top Management on the labeling/printing of empty sacks (MTS) to be used in packaging Iron Fortified Rice as recommended.

19.9 Management added that there was no previous authorization for the printing of MTS for i-Rice because of the big inventory of MTS for unfortified milled rice then. However, to be able to properly identify i-Rice from other milled rice stocks, a general instruction was sent on March 28, 2012 to all NFA field offices to mark all sacks containing i-Rice by using a rubber stamp with the word “i-Rice” (the design was provided); color code the bin cards (tag cards) for i-Rice piles; and use yellow thread as closure stitch for the sacks filled with rice. Moreover, Management shall require explanation from NFA CARAGA and the Surigao City Office on non-compliance with the instruction.

19.10 Management also submitted the action plan of the Technical Research and Services Department on the implementation of the audit recommendations.

20. Excess Poly Ethylene Bags in NFA Region I

20.1 Excess poly ethylene plastic bags with a total cost of P13.111 million, which are no longer needed had already deteriorated and declared unserviceable by the Inventory and Inspection Committee, hence, adding more losses to NFA’s operations.

20.2 COA Circular No. 2012-003 dated October 29, 2012 on the “Amended Rules and Regulations on the Prevention of Irregular, Unnecessary, Excessive or Extravagant Expenditures or Uses of Funds and Property” provided that:

“One of the situational cases considered as excessive expenditures is the procurement of supplies and materials in quantities beyond the three (3) months requirement and that needed by the agency for a determinable period of time.”

20.3 In our inspection, we observed that 9,830,424 pieces of poly ethylene plastic bags with total cost of P13.111 million had already deteriorated and even declared as unserviceable by the Inventory and Inspection Committee. Breakdown of which are as follows:

Table 37-Unused Poly Ethylene Plastic Bags

Provincial Office/ Warehouse	Quantity		Total Cost
	2 Kg. Capacity	1 Kg. Capacity	
<u>NFA La Union PO</u>			
San Juan Warehouse	200,050		P 222,062
		408,000	350,099
Seahorse Warehouse	1,314,750		2,300,891
		159,500	86,811
Ormita Warehouse	684,000		1,197,041
		160,400	87,300
<u>NFA Baguio PO</u>			
Kadiwa Warehouse	46,000		80,500
		1,172,000	937,600
<u>NFA Lingayen PO</u>			
Ferrer Warehouse	2,773,032		4,852,506
		1,257,460	1,005,968
Kazenbar Warehouse	700,672		1,226,176
		954,560	763,648
Total	5,718,504	4,111,920	P 13,110,602

20.4 This case only implied that poly ethylene plastic bags were allocated in quantities more than the actual need of NFA Regional Office I and may be considered as excessive expenditure that adds more to the losses from operation.

20.5 We recommended that Management dispose of these excess poly ethylene plastic bags to the extent possible that NFA may recover the costs of the supplies, and that the Supply Officer to first ascertain the actual need of NFA Regional Office I before making requisition for supplies and materials to prevent overstocking and waste of government funds.

20.6 Management informed that NFA Region I has prepared the Inventory and Inspection Report (IIR) to cover the disposition of accumulated plastic containers of 1-kg and 2-kg capacities and a minimum bid price has been submitted to the Administrator for his approval. These poly ethylene plastic containers were intended before for the Dep-Ed Food-For-School, DSWD-Tindahan Natin and other pro-poor programs that were terminated in 2010.

21. Use of Drier and Bulk Storage in NFA Region II

21.1 The use of Drier and Bulk Storage with book value of P3.953 million of Kalinga Provincial Office was not maximized since this remained idle for several years now and is occupying a big space in the warehouse that could have been used to store thousands of sacks of palay during peak procurement period.

21.2 In our inquiry on the reason why the Drier and Bulk Storage is not being used, we gathered from inquiry the following information:

- a. The equipment is not viable for long time storage because palay stored at the bottom will form into cake; and
- b. The maintenance of the equipment is costly because it has to be aerated, thus, will increase cost of electricity.

21.3 We were informed, however, that a request for the dismantling of the equipment was already forwarded to the Regional Director, NFA Santiago City.

21.4 We recommended that Management consider transferring the Drier and Bulk Storage to other NFA branches that need the equipment to maximize its utilization. If no takers, then the Kalinga Provincial Manager needs to follow up the request for the approval of the dismantling of the equipment. Once approved, the Supply Officer shall prepare the Inventory and Inspection Report and the Disposal Committee created for the purpose shall dispose of the equipment in accordance with the government policies and procedures on disposal.

22. Cereal Procurement Fund in NFA Region VIII

22.1 Disbursements amounting to P1.536 million for replenishment of Cereal Procurement Fund (CPF) for palay procured on various dates of the two Special Disbursing Officers of NFA Naval, Biliran were not supported with Warehouse Stock Receipts (WSRs) and other documents to establish the validity of the disbursements for the procured palay. Details are shown below:

Table 38- Replenishment of Cereal Procurement Fund (CPF)

Name of Special Disbursing Officer	Particulars	Net Kilogram	Amount of Replenishment
Nancy de la Peña	Procurement for 5/3-17/12	28,995	P 497,730
Nancy de la Peña	Procurement for 10/12-17/12	16,660	289,893
Nancy de la Peña	Procurement for 12/12/12	4,503	78,366
Nancy de la Peña	Procurement for 4/18/12	15,568	268,829
Adora Gabisay	Procurement for 5/24/12	1,017	17,697
Adora Gabisay	Procurement for 10/10-15/12	11,007	191,455
Adora Gabisay	Procurement for 10/3-11/12	11,693	192,494
Total			P 1,536,464

22.2 NFA SOP No. GM-PR16, Item F.3.a provided that: “the imprest fund shall be replenished as often as necessary and every end of the month. For this purpose, the Special Disbursing Officer (SDO) shall submit Abstract of Grains Purchases, copies of WSRs, Statement of Deliveries and the Purchase Receipts to the Sr. Account Specialist.”

22.3 To substantiate the disbursement of funds for palay procurement, we recommended that Management require the Special Disbursing Officers to submit the liquidation reports on the CPF with proper and complete supporting documents within the time frame set under NFA SOP No. GM-PR16, COA Circular No. 2012-001 dated June 14, 2012 and Section 4(6) of PD No. 1445.

22.4 Management commented that based on the reports submitted by NFA Biliran, the liquidation reports were supported with proper and complete documents such as Purchase Receipts (PRs), Warehouse Stock Receipts (WSRs), and Abstract of Grains Purchases. All liquidation reports were submitted to COA-NFA Region VIII and COA-NFA Biliran.

22.5 As a rejoinder, verification of the related documents on file at COA Office in NFA Biliran was made but same were not found. Hence, we are reiterating our recommendation.

23. Grant of Cooperative Development Incentives in NFA Region VI

23.1 Cooperative Development Incentives amounting to P217,341 were granted to cooperatives/farmer’s organizations by NFA Aklan Provincial Office even without the Certificate of Good Standing (CGS) for Farmer’s Cooperatives (FCs) registered with Cooperative Development Authority (CDA) and Certificate of

Continued Existence (CCE) for other Farmer's Organizations (FOs) registered with other government agencies.

23.2 NFA embarked on the Cooperative Development Incentives Fund (CDIF) program to promote membership in FOs, by giving the farmer-members incentives if they sell their produce to NFA. The CDIF program as a monetary incentive was meant as a revolving fund for the acquisition or rental of post-harvest facility (PHF) and as a subsidy for training expenses of the FOs.

23.3 Section II.A.1 of NFA SOP No. TS-ES24 dated June 19, 2012, states, among others, the following:

“Only rice and corn Farmer's Organizations (FOs), such as Farmer's Cooperatives (FCs) or Farmer's Associations (FAs), which have legal/juridical personalities, and are registered as active and/or operational with any of the following Government Agencies shall be granted CDIF:

- For Farmer's Cooperatives (FCs)
 - Cooperative Development Authority (CDA)
- For other Farmer's Organizations (FOs)
 - b.1 Securities and Exchange Commission (SEC)
 - b.2 Department of Labor and Employment- Bureau of Rural Workers (DOLE-BRW)
 - b.3 Department of Agriculture and attached agencies as follows:
 - b.3.1 National Irrigation Administration (NIA)
 - b.3.2 National Tobacco Administration (NTA)
 - b.4 Department of Agrarian Reform (DAR)

A Farmer's Cooperative shall be categorized as active and/or operational if its Certificate of Good Standing (CGS) issued by the CDA is valid for the current year the CDIF is granted.”

23.4 Confirmation with CDA Kalibo Office disclosed that five of the 12 active FOs, were not duly registered with CDA as shown in the following table:

Table 39-Active Farmers' Organizations (FOs)

No.	Name of Cooperative	Incentive Granted	Remarks
1	Aglucay Maunlad Coconut Farmers MPC	P 18,687	
2	Aklan Seed Growers MPC	33,240	
3	Aquino Cluster Farmers Association, Inc.	1,576	Not registered with CDA
4	BLAC Irrigators Association, Inc.	12,505	Not registered with CDA
5	Cabaca Irrigators Association, Inc.	49,374	Not registered with CDA
6	Calizo MPC	40,019	
7	Camaca MPC	1,109	
8	Estrella SN. MPC	4,430	
9	Libang Farmers Irrigators Association	20,697	Not registered with CDA
10	Liloan Hybrid 7 Inbrid Rice Clusters Association, Inc.	3,876	Not registered with CDA
11	Sandona Development Cooperative	23,783	
12	Tag-osip El Progreso ARB MPC	8,045	
Total		P217,341	

23.5 Moreover, verification with the Provincial Industry Services Officer (PISO) showed the following information regarding the registration of the aforementioned five FOs with SEC:

Table 40-SEC Registration of FOs

Farmer's Organizations	SEC Registration		Remarks
	Date	Reg. No.	
BLAC Irrigators Association, Inc.	09-8-2009	CN200930114	
CABACA Irrigator's Association, Inc.	08-20-2010	CN201029064	
Libang Farmers Irrigator's Association	06-25-2012	CN201226540	
Liloan Hybrid 7 Inbrid Rice Clusters Association, Inc.	11-22-2007	CN2007731174	With application for renewal dated March 22, 2010
Aquino Cluster Farmers Association, Inc.	07-16-2008	CN200828885	

23.6 We recommended that Management of NFA Aklan Provincial Office make sure that cooperative incentives will only be granted to FOs that are duly registered with CDA and SEC or other authorized agencies as required under NFA SOP No. TS- ES24. Likewise, prepare the adjustment/forfeiture of the P217,341 incentives granted to 12 FOs if they could not present the required documents.

23.7 The NFA Aklan PO Management informed that letters were sent to concerned FCs and FOs, whose respective CCE and/or CGS from CDA or SEC are not updated or submitted. They were reminded that the CCE and CGS are basic requirements in the availment and withdrawal of the incentive fee. This matter was likewise discussed during the meeting with Central Office Management representing the Industry Services Department.

23.8 Furthermore, Management stated that while the amount of P217,392 appeared in the books of NFA-Aklan PO, this amount has not yet been released to the FOs; hence, the amount was posted as trust liability of NFA-Aklan. Since the amount has not yet been released to the FOs, the submission of CGS/CCE is not yet required; pursuant to the wire-authority of then Administrator Angelito T. Banayo in AO-2012-13-011 dated February 8, 2012. The CGS/CCE shall only be submitted when the release of the CDIF is requested.

24. *Unutilized Cooperative Development Incentive Fund (CDIF) in NFA Region XV*

24.1 Inadequate monitoring and reporting resulted in unutilized CDIF amounting to P0.835 million as of December 31, 2012, an indication that the CDIF of NFA Surigao del Sur was not maximized for the optimum benefits of the farmers' organization.

24.2 Paragraph 2.2.e of Article II of the Memorandum of Agreement (MOA) between NFA and the farmers' organization requires NFA to:

“xxx Inform the farmers' organization that its accumulated CDIF shall be considered inactive when it shows no transaction for a period of two (2) years and that it shall be forfeited. xxx,”

While Paragraph 2 of Article III of MOA provides that:

“The parties further agree to strictly adopt the implementing rules and regulations of the SOP on Cooperative Development Incentive Fund (CDIF) in order to effectively implement the provision of the MOA.”

24.3 Further, SOP No. TS-ES17 dated April 14, 2003, states among others the following:

Paragraph II.B.4 – “A semestral **Advice on Accumulated CDIF Granted** shall be sent to the FO at the end of June and December of every year.”

Paragraph II.E.1-4 – “The FOs CDIF shall be considered inactive or dormant when it has no transaction (no grant of CDIF or withdrawal) for a period of two (2) years. After this period, said CDIF shall be forfeited. Xxx

- The EBDPS shall check on a monthly basis with the Accounting Section if any CDIF is nearing forfeiture.
- Three (3) months prior to forfeiture, a **Notice for Inactive CDIF** shall be sent, through registered mail, to the FO with inactive CDIF.

- A **Notice of CDIF Forfeiture** shall be sent, through registered mail, to the FO if the FO does not respond nor act on the notice within two weeks after its receipt of the notice Xxx.”

Paragraph II.G.1-2 – “The EBDPS shall monitor the CDIF balances by maintaining an index card per FO. The FOs CDIF balances should tally with that of the Accounting Section.

- The **CDIF Performance Report** shall be prepared monthly by the EBDPS. It shall serve as reference for monitoring CDIF utilization and balances. It shall also reflect the amount of CDIF nearing forfeiture (at least three months before its scheduled forfeiture).”

24.4 Review of the financial statements showed an outstanding balance of Other Payable- CDIF amounting to P0.835 million, which was the monetary incentive granted to 57 Farmers’ Organizations for the sale of their produce to NFA.

24.5 The Table below shows the breakdown and ages of CDIF as of December 31, 2012.

Table 41-Aging of CDIF

Age	Amount	Percentage
4 years and above	P 753,014	90.2
3 years but less than 4 years	30,309	3.6
2 years but less than 3 years	42,708	5.1
Total expired / for forfeiture	P 826,031	98.9
1 year but less than 2 years	8,978	1.1
Total	P 835,009	100.0

24.6 Based on the initial data gathered by the Audit Team, majority of the farmers’ organizations with remaining balance of CDIF in the custody of NFA are now inactive, dissolved and are not registered with the Cooperative Development Authority (CDA) as shown below:

Table 42-Classification of CDIF per Status of Farmer’s Organizations

Status	Amount
Registered with CDA	P 131,146
No longer registered with CDA / Inactive / Dissolved	351,564
Uncertain due to incomplete data and/or to be verified with other regulating Agency	111,244
Unaccounted	241,055
Total	P 835,009

24.7 The guidelines provide that once accumulated, the FOs may withdraw this fund for payment of NFA loans or loans granted by third parties, acquisition or rental of Post Harvest Facilities (PHF), for the training expenses of the farmer’s organization and payment of license/s obtained from NFA. This CDIF will become inactive if it will show no

transaction, either granting or withdrawal of fund, for a period of two years and will eventually be forfeited in favor of NFA.

24.8 As such, proper implementation and monitoring of the program should be strictly observed to ensure maximum benefit on the part of the farmers' organization and avoid forfeiture of fund which rightfully belongs to the FOs. However, we noted the following deficiencies that could have contributed to the non-utilization of the CDIF by the farmers' organizations:

- a. Weak monitoring of the CDIF program as evidenced by the existence of huge balances of the fund despite the lapse of the two-year expiration period;
- b. Absence of records and reports for monitoring such as an index card or record of each farmers' organization and CDIF Performance Report every month, which will serve as reference for monitoring of CDIF utilization and balances, as well as the amount of CDIF nearing forfeiture;
- c. The semestral **Advice on Accumulated CDIF Granted** at the end of June and December every year was not regularly sent to FOs;
- d. Moreover, the FOs were not advised that the accumulated CDIF shall be considered inactive since monitoring of CDIF that is nearing forfeiture was not made. **Notice for Inactive CDIF** was not sent also to the FOs, through registered mail, three months prior to forfeiture; and
- e. The absence of database on the complete names and addresses of the FOs which caused the difficulty in communicating with them.

24.9 With the unutilized CDIF, the farmers' organizations were not able to avail the benefits from the fund. As a result, the objectives of the CDIF program were not achieved.

24.10 **We recommended that Management:**

- a. **Re-evaluate the actual monitoring system of the CDIF program and determine if it is in accordance with the policies and procedures provided in the SOP on Cooperative Development Incentive Fund (CDIF);**
- b. **Determine the exact location and complete addresses, as well as the current status of all the farmers' organizations which still have remaining balance of CDIF. Likewise, send Notice for Inactive CDIF to all FOs, either active or inactive, and exert best effort to find ways so that the CDIF will be given to its rightful beneficiaries; and**

- c. **Prepare immediately the notice of CDIF Forfeiture and send to the concerned FOs, in the event that the FO will not respond within two weeks and if after exerting best efforts, it was found out that the FOs were already dissolved or inactive. Accordingly, inform the accounting office of the forfeiture to make the necessary adjusting entries in the books.**

24.11 Management explained in its letter dated February 15, 2013, that the cumulative balance of CDIF amounting to P0.835 million as of December 31, 2012 comprised the incentives of both active and inactive cooperatives. Notices for inactive CDIF were sent but some cooperatives refused to receive the copy since their organization has been dissolved. Also, for verification purposes, letters were sent to Cooperative Development Authority to confirm registration of said cooperatives.

24.12 The Director of the Industry Services Department (ISD) also commented that it is incumbent upon the Accounting Section of the Provincial Office to be fully aware /updated of the inactive or dormant CDIF of the FOs that will be reported for Industry Services Section (ISS) as stated in the SOP on CDIF. Furthermore, the Director obliged to prepare a wire reminder to the regions and provinces to strictly observe and implement the provisions in the grant and use of CDIF.

25. Compliance with Tax Laws

25.1 Taxes withheld and due to BIR for the CY 2012 were recorded and remitted to the Bureau of Internal Revenue within the prescribed period.

26. Gender and Development

26.1 In 2012 NFA allocated the amount of P1.526 million for Gender and Development (GAD), of which the allocated amount of P1.236 million was utilized for the following:

Table 43- GAD Activities

Activity	Amount	
	Allocation	Utilization
a. In the promotion of Gender Responsive Governance, the following activities were conducted:		
a.1 Gender Sensitivity Training (GST) for 20 NFA officials/Executives	P24,000	P22,500
a.2 Orientation on GAD mainstreaming on NFA's Systems for 11 NFA employees	15,475	14,125

Activity	Amount	
	Allocation	Utilization
a.3 Gender Awareness and Development Briefing for 19 Central Office Employees	33,600	21,000
a.4 GAD Awareness Briefing to 581 employees of 19 NFA Regional and Provincial Offices	548,360	548,360
a.5 Participation in Women's month hosting of Region XI of 2012 Women's month for all DA offices in Region XI	206,000	206,000
a.6 Participation in CO and other 14 Regions' Celebration of Women's Month	35,052	35,052
a.7 Meeting and Planning Workshop of NFA Focal Point (FP), Technical Working Group (TWG) and Central Office (CO) coordinators	15,591	15,591
a.8 Attendance to seminar conducted by NGOs/Academe	19,000	19,000
a.9 Supplies, materials and equipment to facilitate GAD activities	265,000	12,754
a.10 Train coordinators/employees to enhance their psychosocial skills to personally cope with problems and/or provide counselling/ support to family and co-workers	164,000	145,000
b. In the promotion of Women's Economic Empowerment, NFA conducted the capability/skills enhancement especially on food utilization more specifically on rice supply and prices, household gardening and fertilizer production/use utilizing rice and agricultural by-products to 48 employees	200,000	196,880
Total	P1,526,078	P1,236,262

27. Status of Audit Disallowances, Suspensions and Charges

27.1 The NFA has total consolidated unsettled disallowances of P27.344 million, suspensions of P6.986 million, and charges of P1.743 million, as follows:

Table 44- Summary of Unsettled Disallowances, Suspensions and Charges

Region	Notice of Disallowance	Notice of Suspension	Notice of Charge	TOTAL
Head Office	P 833,790	P -	P -	P 833,790
NCR	2,077,710			2,077,710
Region I	11,383			11,383
Region III			1,742,647	1,742,647
Region IV	3,215,000			3,215,000
Region V	3,840,000			3,840,000
Region VI	3,091,690	5,282,632		8,374,322
Region VIII	6,935,501			6,935,501
Region X	2,424,383	1,689,909		4,114,292
Region XIII	4,915,000	13,000		4,928,000
Total	P27,344,457	P 6,985,541	P1,742,647	P36,072,645

B. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 59 audit recommendations embodied in prior years' Annual Audit Reports, 14 were fully implemented, 38 were partially implemented and seven were not implemented.

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>1. NFA incurred a total of P8,844.563 million financial expenses, of which P6,570.122 million and P1,424.783 million represent interest expense and guarantee fee, respectively. This was attributed to the incurrence by NFA of net loss of P15.667 million.</p> <p>We recommended that Management exert its best effort to minimize borrowings.</p>	<p>Partially implemented</p> <p>Analysis of 2012 Financial expenses showed a total of P8,023.236 million. Compared to last year's total of P8,844.563 million, it was reduced by P821.327 million or 10 per cent.</p> <p>Management requested for funding assistance in the form of annual net lending and subsidy which after two years shall be applied for conversion to subsidy in accordance with Department of Finance (DOF) guidelines for 2012. Converted to subsidy amounted to P4.029 billion per JEV-2012-08-015992 dated August 31, 2012.</p>
<p>2. Stock and empty sack shortages of Stock Accountable Officers amounting to P391.899 million remained uncollected for more than one to 25 years, due to the lax implementation of the provisions of NFA SOP FS-GP20 and NFA General Memorandum No. A02k10-01-003, particularly the provisions on payments and collections.</p> <p>We recommended that Management:</p>	<p>Related discussion in Part II- A.2, Audit Observation No. 13 of the current year's Report.</p> <p>Partially Implemented</p>
<p>a. Strictly implement the procedures, administrative sanctions and reporting and monitoring system as provided for under NFA SOP-FS-GP20 dated January 27, 2006, as amended under NFA General Memorandum Order No. AO2k10-01-003;</p>	

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>b. Look into the reasons or causes of shortages and require the Provincial Managers to institute measures to prevent or at least minimize the occurrence of shortages;</p>	Partially Implemented
<p>c. Consider the filing of administrative charges against the concerned Provincial Managers who failed to take any action to facilitate collection of shortages of Stock Accountable Officers; and</p>	Partially Implemented
<p>d. Exhaust all available legal remedies to enforce collection.</p>	Partially Implemented
<p>3. Account <i>Merchandise Inventory</i> with a year-end balance of P43.237 million was found existing in the books of the NFA-NCR despite decentralization of the cost accounting of stocks to the District Offices. This balance was the aggregate of individual stock varieties with balances of P30.61 million and those with abnormal balances of P12.626 million that can be attributed to error in encoding/interchanging of variety codes of rice.</p>	
<p>We recommended that Management undertake a thorough analysis of the Merchandise Inventory account to determine the stock transactions that need adjustments/corrections as the Merchandise Inventory account in the NFA-NCR books of accounts should show zero balance.</p>	<p>Partially Implemented</p> <p>Management analysis of Merchandise Inventory account was set for the second semester of CY 2012 to give priority to the reconciliation of Cash Disbursing Officer, Accounts Receivables, Property and Equipment and Inter-branch accounts set for the first semester of CY 2012.</p>
<p>4. Unreconciled variance existed between the accounting and warehouse stock records of Merchandise inventory account of NFA-Region I, with the accounting records higher by P8.159 million.</p>	<p>Related discussion in Part II- A.1, Audit Observation No. 4 of the current year's Report.</p>
<p>We recommended that Management of Provincial Offices reconcile the variance and effect the necessary adjustments.</p>	Not Implemented
<p>5. Four NFA Regional Offices reported short landing and spillages totaling 550,915.03 net kilograms valued at P12.227 million resulting in bigger cost of inventories.</p>	<p>Related discussion in Part II- A.1, Audit Observation No. 4 of the current year's Report.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
We reiterated our recommendations that Management:	
a. Institute additional control measures to minimize losses due to short landings and spillages;	Not Implemented
b. Consider amendment of the purchase contract; and	Not Implemented
c. Continue filing letter of protest to demand settlement of short landed deliveries.	Not Implemented
We also recommended that Benguet PO Management verify and confirm from the issuing PO, the amount charged/imposed to the hauler for spillages in excess of TOLA to serve as basis of treating it as reduction from the total losses recognized by the Benguet PO.	Partially Implemented NFA incurred short landings of just one percent as compared to five per cent being allowed by the private sector. Letters of protest to the shipping companies on a per vessel basis are continuously being sent to demand settlement of short landed deliveries.
6. Pile 5 of GID Taway Warehouse in NFA Region IX Zamboanga Sibugay PO containing 405 bags of PG1 variety could not be accounted due to spillages and damaged sacks.	
We recommended that Management:	
a. Instruct the Warehouse Supervisor to ensure that stocks are properly protected and preserved; and	Not Implemented
b. Resack/Rebag the stocks with damaged sacks to avoid spillages.	Not Implemented
7. Official Receipts on sales of stocks issued by Surigao del Norte PO were not stamped or written with AI number in violation of NFA SOP No. GM-WH11 as amended, which may result in unauthorized/over issuances of stocks.	
We recommended that Management:	
a. Strictly implement NFA SOP No. GM-WH11 as amended; and	Not Implemented

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>b. Make plans/strategies to resolve the problem on the approval of the NFA to issue stocks in warehouses located in places that are very far from the Provincial Office.</p>	<p>Partially Implemented</p> <p>Surigao del Norte Management committed to stamp the OR with AI number starting this CY 2012.</p>
<p>8. Iron Rice Premix consisting of 48,584.98 bags with book value of P299.998 million stored in the warehouses of NCR District/Provincial Offices were already expired and this may result to wastage if not immediately used for its intended purpose. Also, two units of Rice Fortification Equipment/Blender with acquisition cost of P5.435 million that were purchased by NFA Central Office, and transferred to NFA-NCR South District Office in 2008 and 2009 for the iron fortification project remained idle/unutilized.</p>	<p>Related discussion in Part II-A.2, Audit Observation No. 11 of the current year's Report.</p>
<p>We recommended that Management:</p>	
<p>a. Prepare plans of action for immediate disposal/use of said expired IRP stocks to avoid wastage;</p>	<p>Partially implemented</p>
<p>b. Observe the guidelines and implement the specific responsibilities provided under NFA SOP No. GM-PG11 dated June 20, 2005 re: Implementation of Rice Fortification Program (RA 9876);</p>	<p>Partially implemented</p>
<p>c. Request for laboratory analysis of the expired IRP from the Food and Drug Administration of the Department of Health to make sure that these IRP are still fit for human consumption; and</p>	<p>Fully Implemented</p> <p>The FDC Director issued a certification stating that the iron content of the raw iMix is within specification even after one year and seven months from its expiration date as indicated in the label.</p> <p>Information on Potency/shelf life from FDC disclosed that Iron Sulfate (Reference: Pure Chemistry ROMI Information) is very stable with a recommended shelf life of five years. It is quite hard to be oxidized by air alone.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>d. Propose to DSWD or Office of the President that instead of giving the whole amount of conditional cash transfer to its beneficiaries, 50 per cent or part of it be given in the form of iron fortified rice.</p>	<p>Partially implemented</p> <p>Talks on the subject have already been made with DSWD. However, up to now there is no positive reply yet.</p> <p>SDO explained that the non-utilization of the rice fortification equipment was only temporary due to the low sales of Iron Fortified Rice (IFR or iRice).</p>
<p>9. The First In-First Out (FIFO) method of handling inventory as required under NFA SOP No. GM-WHO7 was not applied by NFA Zamboanga City PO, resulting in CY 2010 undistributed Iron Fortified Rice (IFR) of 14,072 bags or 713,546.50 kilograms costing P18.615 million as of December 31, 2011. These IFR showed signs of infestation and damage which may eventually result in losses.</p>	<p>Related discussion in Part II-A.2, Audit Observation No. 11 of the current year's Report.</p>
<p>We recommended that Management apply the FIFO method in the issuance of stocks to reduce, if not prevent, the possibility of rice infestation, damage and eventual loss to the government; and make proper planning and monitoring of market demand for IFR to avoid excess and undistributed IFR.</p>	<p>Partially implemented</p> <p>NFA Zamboanga PO explained that during the 1st Quarter of 2010, they received a Memo from ODAMO directing them to mix 60 per cent of rice distribution target into IFR and utilize two mixing equipment to cope with the targeted volume under the Rice Fortification Program.</p> <p>In July 2010, mixing and distribution of IFR was suspended. Acceptability of the IFR became a problem due to the age of the stocks. The former NFA Administrator authorized the use of the newly milled rice and newly arrived IMR in the 2nd Quarter of 2011.</p> <p>NFA Zamboanga PO was able to distribute the aforementioned old IFR Stocks as of April 30, 2012.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>10. Five NFA Regional Offices reported a total estimated loss of P1.251 billion from the sales of 7,607,810.56 bags of imported rice sold through auction under NFA's "Sale through Market Determined Pricing (SMDP)." The loss may be attributed to the quality deterioration of stocks due to prolonged storage resulting in low selling price.</p> <p>We recommended that Management re-assess/re-evaluate the economy and effectiveness of SMDP as a marketing strategy considering the losses it has brought to the NFA.</p>	<p>Related discussion in Part II- A.2, Audit Observation No. 11 of the current year's Report.</p> <p>Partially implemented</p> <p>NFA Management encouraged all field offices to adopt other marketing strategies to dispose their old rice inventories and continue to assess the economy and effectiveness of SMDP.</p>
<p>11. The accounting and warehouse stock records of Raw Material inventory of six Provincial Offices (POs) of NFA Region I and NFA Region VI-Aklan PO were not reconciled with total variance of 4,662,226.70 kilograms valued at P83.914 million. Also, the warehouse stock records/stock report and the physical inventory report on grain stock at GID Taway warehouse in NFA Region IX-Zamboanga Sibugay PO were not reconciled, with a difference of 864 bags or 42,687.73 kilos. The existence of these unreconciled discrepancies was not in accordance with NFA SOP No. GM-WH12 requiring monthly reconciliation for immediate correction.</p> <p>We recommended that Management of various NFA Provincial Offices:</p>	<p>Related discussion in Part II- A.1, Audit Observation No. 4 of the current year's Report.</p>
<p>a. Verify their unreconciled balances/ variances and effect the necessary adjustments; and</p>	<p>Partially implemented</p> <p>The allowance account is adjusted every time a physical inventory taking is conducted whether bag to bag or volumetric count to come up with the corrected allowance at the date of the count.</p>
<p>b. Conduct periodic reconciliation of accounting and stock records/reports as required under NFA SOP No. GM-WH12 in order to reflect accurate account balances.</p>	<p>Partially implemented</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>12. Good warehouse keeping on the preservation/keeping of stocks was not properly observed in NFA Regions IV, VI, VIII and IX as required under NFA-SOP No. GM-WH07 and NFA-SOP No. IDM'97 TRDD-QAD-II.32 dated November 25, 1977.</p>	
<p>We recommended that Management:</p>	
<p>a. Strictly observe the policies and procedures on good warehouse keeping on preservation/keeping of stocks provided under NFA SOP No. GM-WH07 and NFA SOP No. IDM'97 TRDD-QAD-11-32; and</p>	<p>Fully Implemented</p> <p>NFA Regions IV, VI, VIII and IX are regions with huge procurement. The observations cited in the audit report occurred during peak procurement period. Deliveries from the farmers are always a priority, and they cannot reject incoming stocks just because of limited warehouse space. Nevertheless, the reported deviation from the standard piling system is only temporary. After the procurement season, any excess of palay stocks in a buying station are transferred to another storage warehouse so that the proper warehousing system and practices for stock quality preservation is followed and observed.</p> <p>The Guidelines for the Conduct of a Classifiers' Pool Training was sent to all Regional Offices on January 10, 2012 to improve the grains procurement system and to be more stringent in the selection of grains classifiers.</p>
<p>b. Repair the roof of Banigan Warehouse and ensure that stocks are free from any damage caused by defects on warehouse.</p>	<p>Fully Implemented</p> <p>Repair already done and all defects were already corrected as of June 4, 2012.</p>
<p>13. Remaining 5,007,075 bags of imported stocks amounting to P8,516.363 million received at the NFA-NCR in CY 2010 could further deteriorate if</p>	<p>Related discussion in Part II- A-2, Audit Observation No. 11 of the current year's Report.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>remained unsold/unwithdrawn. Additional storage and pest control expenses would be incurred to maintain said stocks. Sweepings and damaged stocks totaling 3,420 bags were also noted.</p>	
<p>We recommended that Management:</p>	
<p>a. Come up with a concrete and viable stock distribution plan/marketing strategy that will ensure that the existing stocks are sold while still in good condition to avoid additional expenses and to get a better selling price;</p>	<p>Partially Implemented</p> <p>Reduction of Indicative Price from P25/kg was a marketing strategy to make it attractive and competitive to the prospective bidder in order to expedite and hasten immediate disposition of said stocks after a series of failed SMDPs.</p>
<p>b. Require the winning bidders to withdraw their stocks within the prescribed withdrawal period. Although the winning bidders pay storage fees for late withdrawal of stocks, said fees were not enough to compensate for the amount of warehouse rental and the expenses incurred for pest control measures;</p>	<p>Partially implemented</p> <p>Grains Marketing Operations Department (GMOD) instructed NFA NCR to prioritize the withdrawal of awarded stocks to winning bidders.</p>
<p>c. Consider increasing the storage fee as a measure to force the concerned retailers/winning bidders to withdraw the stocks within the withdrawal period; and</p>	<p>Partially implemented</p> <p>While there were unwithdrawn stocks sold thru SMDP, the NFA was able to collect the total amount of P19.807 million as penalty and storage fee from the winning bidders who failed to withdraw the stocks within the prescribed withdrawal period.</p> <p>Increase in storage fees was recommended and other stricter measures to compel winning bidders to withdraw their stocks within a prescribed period.</p>
<p>d. Dispose immediately the sweepings/damaged stocks.</p>	<p>Partially Implemented</p> <p>“No Accumulated Sweepings Policy” is being continuously practiced.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>14. Of the balance of Accounts Receivable-Trade in the amount of P1,402.754 million as at December 31, 2011, 21.34 per cent or P299.336 million remained outstanding and uncollected for one to over 30 years, hence its validity and collectibility were deemed doubtful.</p> <p>We recommended that Management:</p> <p>a. Provide the NFA Regional/Provincial Offices (RO/PO) with updated information on collections and/or status of the receivables and send collection advices to concerned RO/PO;</p> <p>b. Facilitate reconciliation with Department of Education (DepEd), Department of Social Welfare and Development (DSWD), National Disaster Coordinating Council (NDCC) /Regional Disaster Coordinating Council (RDCC), Local Government Units (LGUs) and other National Government Offices concerned; and</p> <p>c. Instruct the concerned NFA Provincial Manager to meet with the present LGU executives to resolve the issue of non-recording of their liabilities.</p>	<p>Related discussion in Part II- A.1, Audit Observation No. 2 of the current year's Report.</p> <p>Partially Implemented</p> <p>Partially implemented</p> <p>Partially Implemented</p>
<p>15. In six NFA Regional Offices, the accuracy and validity of the balance of Property and Equipment accounts amounting to P266.478 million were not ascertained due to unreconciled variances of P74.338 million between book balance and the physical inventory report. Also, unserviceable property totaling P11.72 million remained under PPE accounts instead of transferring the same to Other Assets. Further, the same were not yet disposed of, contrary to Section 79 of PD No. 1445.</p> <p>We recommended that Management:</p> <p>a. Require the Regional Accountant and the Supply Officer to reconcile their variances and make the necessary adjustments to ensure accurate balances of the Property and Equipment accounts;</p>	<p>Related discussion in Part II- A.1, Audit Observation No. 6 of the current year's Report.</p> <p>Partially Implemented</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>b. Investigate and take appropriate action for all the discrepancies/ variances between the physical and booked inventories;</p>	<p>Partially Implemented</p>
<p>c. Record small tangible assets with serviceable life of more than one year but small enough to be considered PE as inventories upon acquisition and expenses upon issuance; and prepare a separate inventory report for these items; and</p>	<p>Partially Implemented</p>
<p>d. Maintain Equipment Ledger Card for each class of equipment to record the acquisition, description, custody, estimated life, depreciation and other information about the equipment; and reconcile the physical inventory with the equipment ledger cards and the control accounts.</p>	<p>Partially Implemented</p>
<p>16. Unserviceable/obsolete and beyond economical repair property were still recorded under Property and Equipment accounts instead of reclassifying them to Other Assets account. Likewise, the same were not yet disposed of, contrary to Section 79 of PD No. 1445.</p>	<p>Related discussion in Part II- A.1, Audit Observation No. 6 of the current year' Report.</p>
<p>We recommended the following courses of action:</p>	
<p>a. Require the Property Officer to prepare the Inventory and Inspection Report of Unserviceable Property (IIRUP) and submit the same to the Accountant for reclassification to Other Assets account; and</p>	<p>Partially Implemented</p>
<p>b. Dispose the unserviceable property immediately in accordance with Section 79 of PD No. 1445 and Section 502 of GAAM, Volume 1 to avoid further deterioration and obsolescence and to generate additional funds to augment its operation.</p>	<p>Partially Implemented</p> <p>From January to July 2012, total proceeds collected from disposition of unserviceable properties amounted to P0.813 million.</p>
<p>17. In three NFA Regional Offices, Property and Equipment accounts with book value of P16 million were not provided with depreciation charges, contrary to PAS No. 16 and NFA SOP No. FS-GP08 thereby understating the depreciation expense and overstating the</p>	

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
income.	
We recommended that Management:	
a. Require the concerned committee to determine the new estimated useful life of the assets to compute correctly the depreciation expense; and	Fully Implemented
b. Provide depreciation charges for the capitalized repair cost.	Fully Implemented
18. Balances of Bidders/Performance bond recorded in the books of NFA Central Office and NFA Regions II and V as of December 31, 2011 totaling P37.97 million and P3.94 million, respectively, had been outstanding for more than two years.	
We recommended that Management make an analysis of the above accounts to determine their correctness, accuracy and validity in order that appropriate/necessary adjustments can be made to reflect the correct balances in the books of accounts.	Partially Implemented
	Region II-Kalinga had adjusted the amount of P2,100 from the dormant balance of P25,700 while Region V effected the adjustments on performance bond with only the balance of P96,601 as of June 2012. Reconciliation of the bidders bond is on-going and adjustments will immediately be undertaken.
	Central office adjusted/reclassified the amount of P0.508 million in March 2012 per JEV 2012-03-005778 and P0.643 million in May 2012 from various JEVs for a total of P1.151 million representing 4.4 per cent of the outstanding amount of P25.932 million.
19. NFA North District Office, NFA South District Office and NFA Cavite Provincial Office could have saved a total of P4.748 million had they conducted immediate cost analysis of rice inventory vis-à-vis maintenance expenses and made representation with NFA – NCR in coordinating with the winning bidders for the	

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>immediate withdrawal of stocks in their warehouses. In addition, utilization of five leased warehouses at the NFA South District Office was not fully maximized where the level of utilization ranged only from 26.76 per cent to 93.23 per cent as of December 31, 2011.</p>	
<p>We recommended that Management:</p>	
<p>a. Give official instruction to the Economist III to conduct regular cost analysis of stock of rice vis-à-vis maintenance expenses and thereafter, render report with corresponding recommendation to avoid the incurrence of unnecessary expenses in warehouse rental and security services;</p>	<p>Fully Implemented</p> <p>The NFA Field Offices take into account the percentage utilization of their warehouses and determine the need to maintain or terminate each warehouse based on factors like level of inventory, turnover of stocks, economies of transferring the stocks vis-à-vis rental rates.</p>
<p>b. Observe the guidelines set forth in NFA SOP Nos. GM-WH05 and GM-DN08; and</p>	<p>The Contract of Lease for Granville warehouse in Cavite branch had been terminated as of May 15, 2012.</p>
<p>c. Schedule first the withdrawal of stocks from leased warehouses and study the possibility of increasing the storage fee to discourage late withdrawal of stocks.</p>	<p>Fully Implemented</p>
<p>20. The accuracy and validity of the year-end balance of Intra-Agency accounts (Due from/Due to) were doubtful due to unreconciled variances totaling P14 billion.</p>	<p>Related discussion in Part II- A.1 Audit Observation No. 5 of the current year's Report.</p>
<p>We recommended that Management:</p>	
<p>a. Strictly comply with NFA SOP No. FS-GP13 as amended;</p>	<p>Partially Implemented</p>
<p>b. Make periodic and immediate reconciliation of reciprocal accounts and effect the necessary adjustments; and</p>	<p>Partially implemented</p>
<p>c. Instruct the Accounting Office of the NFA Regional and Provincial offices to coordinate</p>	<p>Partially implemented</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>with other Regions and Provincial Offices to identify and reconcile the variances noted.</p>	
<p>21. Stock examination reports and/or computation of Tolerable Allowance (TOLA) on the stock accountabilities of Warehouse Accountable Officers remained uncompleted despite the guidelines issued in NFA SOP No. GM-WH13; thus, affecting the accuracy of the balance. This was attributed to lack/missing/unreadable warehouse documents and lack of manpower.</p>	<p>Related discussion in Part II- A.2 Audit Observation No. 12 of the current year's Report.</p>
<p>We recommended that Management:</p>	
<p>a. Strictly adhere to NFA SOP No. GM WH13; and</p>	<p>Partially Implemented</p>
<p>b. Instruct the stock examination group of NFA Provincial offices to fast track/speed up the stock examination to facilitate TOLA computation and establish the final shortage, if any, of the concerned Accountable Officers; set up the actual receivable from them and take appropriate measures to recover the amount of final shortage.</p>	<p>Partially Implemented</p>
<p>22. Four thousand ninety four (4,094) bags of rice recoveries from test milling of PG1 palay received from NFA Pampanga Provincial Office did not conform with the standard specifications of WMO, contrary to the quality standards for palay/milled rice provided under the Primer on Philippine Grains Standardization Program and NFA's Standard Operating Procedures. This resulted in total estimated loss of P0.453 million.</p>	
<p>We recommended that Management:</p>	
<p>a. Make an in-depth investigation on this matter, and file necessary charges against erring personnel, if warranted; and</p>	<p>Fully Implemented</p>
	<p>Deviations from the standards of procured palay especially on the percentage of discolored and damaged (D&D) kernels are sometimes inevitable especially if these have been stored for a long period, say, more than two harvest seasons. The percentage of MC of the grain and the condition of the warehouse play</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>b. Give instruction to NFA Regional Office No. III to make further evaluation of palay being transferred by NFA Pampanga PO to NFA Tarlac Provincial Office and other NFA Provincial Offices for milling, based on the result of laboratory analysis conducted by the PSQAO and RSQAO, to determine the cause of the high percentage of yellow and damaged kernels from rice recoveries and its extent as regards the other palay stock inventory of NFA Pampanga before its transfer to other provinces for milling, and to prevent the incurrence of additional loss due to downgrading of stocks brought about by misclassification of palay procured.</p>	<p>vital roles in maintaining palay quality while it is stored. Palay, being hygroscopic in nature, has the tendency to absorb and give off moisture to its surroundings depending on the temperature and relative humidity of the warehouse. Under unfavorable conditions, there is a possibility for stored palay to deteriorate fast which is manifested by a rapid increase in D&D kernels.</p> <p>Per TRSD, prolonged storage of PG1 or PG2 stocks beyond one year can also affect milling recoveries.</p> <p>Fully Implemented</p> <p>Despite the problem on fermentation or yellowing of the kernels, the NFA opts to store its procured palay 'as is, in palay form' rather than processing or milling it immediately and then storing it as buffer stock 'in rice form'. The reason for this is the susceptibility to heavier insect infestation and faster oxidation of milled rice compared to palay.</p> <p>Inspection and monitoring of the condition of stocks is being done every month. Laboratory analysis of stocks is done every quarter to assess their quality.</p> <p>Validation was initiated by the NFA-Regional Office III through the conduct of milling of palay from Pampanga using the facilities of contracted millers. The validation process was closely supervised by the Regional Team composed of the Acting RSQAO, Regional Engineer and all PSQAOs and Plant Engineers of Region III.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
	<p>The Regional Team came up with their detailed findings, observations and recommendations. Outcome of the validation was submitted to Central Office thru the Internal Audit Team who conducted a more detailed analysis of milling operations in Tarlac and Nueva Ecija from 2010 to March 2012.</p> <p>The final audit observations, findings and recommendations of the Internal Audit Team would then be the basis of undertaking the necessary actions by the concerned NFA Office(s).</p>
<p>23. The accuracy and validity of the book balance of Deferred Credits – unwithdrawn stocks totaling P18.566 million in the books of NFA-NCR were doubtful due to existence of unwithdrawn stocks paid in prior years.</p>	<p>Related discussion in Part II- A.1 Audit Observation No. 7 of the current year’s Report.</p>
<p>We recommended that Management:</p>	
<p>a. Require a thorough analysis of the Deferred Credits - Unwithdrawn Stocks; and review/analyze regularly the account to immediately determine completeness and accuracy of the transactions recorded;</p>	<p>Partially Implemented</p>
<p>b. Coordinate with the district offices or obtain data from them to determine the complete stock withdrawals for said years/dates so that appropriate adjustments can be made; and</p>	<p>Partially Implemented</p>
<p>c. Transfer account balance affected by the decentralization of cost accounting of stocks to the books of accounts of the district offices.</p>	<p>Partially Implemented</p> <p>NCR-Reconciliation of these accounts is still on-going, however, adjustments were already effected in the books leaving the balance amounting to P16.206 million as of May 2012.</p>
<p>24. Various lands acquired through purchase/unconditional donation/dacion en pago located in different NFA Regional/Provincial/District Offices were not</p>	<p>Related discussion in Pat II- A.1 Audit Observation No. 6 of the current year’s Report.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>covered with land titles, contrary to Section 3.1 of NFA SOP No. GS-PD19 and Section 449 of the Government Accounting and Auditing Manual, Volume I.</p> <p>We reiterated our recommendation that Management exert extra efforts to facilitate titling of land in order to establish absolute ownership.</p>	<p>Partially Implemented</p>
<p>25. Eight units of mechanical dryers costing P3.407 million provided by the NFA Central Office and installed in different stations of NFA Provincial Office, Kidapawan City, were not fully utilized, as evidenced by the low income generated/earned therefrom.</p> <p>We recommended that Management exert efforts to find alternative actions to utilize fully the driers in order to achieve its objective of helping the farmers in drying their palay and for Management to earn additional income.</p>	<p>Fully Implemented</p> <p>The Kaneko Drier located at GID #1 warehouse in Kidapawan and the Satake drier located at NFA owned warehouse in NFA Malang, North Cotabato were already junked, unserviceable and beyond repair and were already considered for disposal.</p> <p>The two units mechanical driers installed at GID #5 are still serviceable and are being used in the Iron Fortified Rice (IFR) mixing operations.</p> <p>The newly installed driers with bio-mass furnace are serviceable and will be used during the main cropping season in September to December 2012 when NFA North Cotabato will procure fresh palay from the farmers.</p>
<p>26. The practice of the NFA Region III Zambales Provincial Office Manager of signing checks without any accompanying disbursement vouchers and supporting documents; and checks that were signed on the dates the countersigning official of NFA Region VII Siquijor PO was on travel and out of the official station was not in accordance with sound internal control practices.</p>	

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>We recommended that Management of Zambales and Siquijor POs refrain from signing blank checks. Delegate the authority to sign/countersign checks to the next in rank officials on the dates the said Provincial Managers are out of the official station.</p>	<p>Fully Implemented</p> <p>The concerned Regional Directors already called the attention of the concerned Provincial Officials and said practice was already discontinued.</p>
<p>27. The targeted farmer beneficiaries of the Rapid Seed Supply Financing Project – Phase III (RaSSFIP) implemented by the NFA Catanduanes Provincial Office were not able to fully avail of the subsidized cost of certified inbred seeds (CS) due to its late distribution.</p>	
<p>We recommended that Management strengthen their ties with partner agencies through strong coordination and immediate information dissemination to maximize the availment by the project beneficiaries of the benefits offered by the program; and maximize the use of its monitoring system and the preparation of weekly report on stock issuances and balances as a decision tool.</p>	<p>Fully Implemented/justified</p> <p>The incurrance of additional cost amounting to P8,883 could not be avoided considering the regional office directed Virac to transfer to Albay said inventory to the low distribution areas and in order to fill up their demand for Certified Seeds.</p>
	<p>Reclassification of 65 bags stocks could not also be avoided considering the erratic preference of farmers for selected varieties. It was learned that farmers' preference for a certain variety depends on weather condition and specific area which could hardly be determined even by the experienced agricultural technicians.</p>
	<p>Further, the agency's role in this program is to procure and distribute Certified Seeds that have passed through the laboratory analysis so that the determination as what variety is preferred by farmers rests on the concerned agriculture officials.</p>

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN/COMMENTS
<p>28. Certified Seed delivered to three municipalities under NFA Zamboanga Sibugay Provincial Office reported low germination rate.</p>	<p>Lastly, had DA Central Office been consistently prompt and updated in downloading relevant information for important programs like this and had local agriculture officials been true to their commitment to attain their targets which are beyond the control of NFA, reclassification and transfer of stocks could have been avoided.</p>
<p>We recommended that Management coordinate with the Municipal Office/BPI as well as the Seed Grower to review operating procedures to avoid similar lapses in the future, to monitor certified seed issuances under the questioned laboratory results and to require the return of the difference between the cost of the certified seed and the cost of ordinary seeds including handling cost.</p>	<p>Fully Implemented</p> <p>Management had conducted a meeting with the seed grower concerned and reasoned with him for the payback of the amount subsidized by the office for the Certified Seeds.</p>

National Food Authority
Comparison of Total Branch Balances and Consolidated Regional Balances by Account
(In Philippine Peso)

	National Trial Balance Branch Balances	Consolidated Regional TB	Difference
ASSETS			
Cash and Cash Equivalents	981,850,337	981,850,341	(4)
Accounts Receivables - net	310,238,205	365,436,484	(55,198,279)
Inventories - net	17,763,468,232	17,763,136,350	331,882
Other Current Assets	1,078,725,751	1,008,479,398	70,246,353
Property and Equipment	1,967,829,613	2,141,505,548	(173,675,935)
Other Assets	3,744,176,634	3,570,499,915	173,676,719
TOTAL ASSETS	25,846,288,772	25,830,908,036	15,380,736
LIABILITIES and EQUITY			
LIABILITIES			
Accounts Payable	647,710,568	647,851,006	(140,438)
Due to Bureau of Treasury	9,574,832	9,574,832	-
Deferred Credits to Income	645,734,747	691,954,052	(46,219,305)
Other Current Liabilities	882,878,540	1,086,916,948	(204,038,408)
Other Liabilities	-	151,725	(151,725)
TOTAL LIABILITIES	2,185,898,687	2,436,448,563	(250,549,876)
EQUITY			
Government Equity	107,704,518,380	108,206,553,713	(502,035,333)
Intra- Agency Receivables	249,883,617,088	250,809,939,748	(926,322,660)
Intra-Agency Payables	314,316,015,075	314,592,680,073	(276,664,998)
Retained Earnings/(Deficit)	(148,476,526,282)	(148,594,834,565)	118,308,283
TOTAL EQUITY	23,660,390,085	23,394,459,473	265,930,612
TOTAL LIABILITIES AND EQUITY	25,846,288,772	25,830,908,036	15,380,736

**National Food Authority
Status of Registration of Parcels of Land
As of December 31, 2012**

Location	Handling Lawyer	Area (sq.m.)	Mode of Acquisition	Status
FDC, Taguig City	Atty. Edna Loveria	14,775 & 21,202	Dacion en Pago	Already titled in the name of NFA under TCT Nos. 164-2012001930 and 164-201200199
Bantay, Ilocos Sur	Atty. Jubal Picio	6,588	Donation	Already waiting for the Register of Deeds to release the TCT
Tagudin, Ilocos Sur	Atty. Bob Quintin	2,000	Donation	Donation contains a <u>resolutory condition</u>
Loakan, Benquet	Atty. Ma. Charizma M	15,000	Donation	Pending request for the issuance of Presidential Proclamation
Poblacion South, Lagawe, Ifugao		1,325	Donation	No available documents
Banawe, Ifugao	Atty. Arnold Aggalao	241	Donation	Requested the Provincial Office for additional documents
Namillangan, Alfonso Lista, Ifugao	Atty. Arnold Aggalao	3,000	Donation	For filing of petition
Sta. Maria, Alfonso Lista, Ifugao	Atty. Arnold Aggalao	1,247	Reposessed	For follow up with the Provincial Office
Manila		3,200	Contract of Lease	Pending request for the issuance of Presidential Proclamation
Visayas Ave., Quezon City		9,100		Already titled in the name of NFA under TCT No. 120423
Mangoso, Sigma Capiz	Atty. Arnold Aggalao	20,000	Donation	For follow up with the BIR for the tax clearance of the donor
NRA, Cebu City	Aty. Ma. Theresa Villafuerte	25,000	Purchase	With on-going issue on the payment of the capital gains tax
Banilad, Cebu City	Atty. Ma. Charizma Madriaga	5,000	Donation	Pending request for the issuance of Presidential Proclamation
Sta Fe	Atty. Cherry Laguting	5,319	Donation	Requested the Provincial Office for additional documents
Bogo	Atty. Tin Castillo	8,027	Donation	For evaluation
Tudela, Camotes		2,000	Donation	No available documents
Badian	Atty Tin Castillo	5,000	Donation	With Court Decision already in favour of NFA. Coordinating with the Land Registration Authority and Register of Deeds for confirmation of our title

National Food Authority
Status of Registration of Parcels of Land
As of December 31, 2012

Location	Handling Lawyer	Area (sq.m.)	Mode of Acquisition	Status
Mangasa, Tagbilaran, Bohol		66	Purchase	No available documents
Bay-ang, Ubay, Bohol	Atty. Rhoesel Ammiel Santos	2,948	Donation	Waiting reply of DENR
Siquijor	Atty. Rhoesel Ammiel Santos	3,000	Purchase	For verification with the Register of Deeds
Brgy. Quezon, Surigao City		14,616	Donation	No available documents
Dapa, Surigao del Norter	Atty. Leslie Ramirez	2,149	Donation	For gathering of additional documents
San Jose Dinagat Island Province	Atty. Edna Loveria		Donation	Atty. Loveria will be going to San Jose to cause the registration of the lot

National Food Authority
Analysis of Excess Shipment
2012 PSF Importation

Annex C

Importer	Shipment Volume in MT (A)	Allocated Volume in MT (B)	Excess Shipment in MT (C)		TS Availed of for whole shipment (D)		TS per MT* (E)		TS for Excess Shipment** (F)
1 Barcelona	2,400.00	2,000	400.00	P	14,922,405	P	6,217.67	P	2,487,068.00
2 Bating MPC	2,250.00	1,750	500.00		17,238,661		7,661.63		3,830,815.00
3 Bumaisa MPC	2,050.00	1,800	250.00		15,830,050		7,721.98		1,930,495.00
4 Calintaan Guardian MPC	1,765.00	1,760	5.00		11,821,021		6,697.46		33,487.00
5 Chon Buri	11,700.00	10,000	1,700.00		81,781,580		6,989.88		11,882,796.00
6 Kamburay Agro	2,425.00	1,975	450.00		18,124,696		7,474.10		3,363,345.00
7 King Casey	10,064.50	10,000	64.50		74,428,802		7,395.18		476,989.11
8 Mabandi MPC	1,875.00	1,675	200.00		15,515,331		8,274.84		1,654,968.00
9 Mauswagon MPC	2,050.00	1,800	250.00		15,940,725		7,775.96		1,943,990.00
10 Pagpapaunlad Kita	2,417.25	1,720	697.25		20,847,282		8,624.38		6,013,348.79
11 Pinambaran Farmers	2,975.00	2,000	975.00		22,443,897		7,544.17		7,355,565.75
12 Rizal Senior	1,725.00	1,720	5.00		13,999,913		8,115.89		40,579.45
13 Sariling Atin	2,050.00	2,000	50.00		16,549,783		8,073.06		403,653.00
14 Sta. Ines MPC	2,250.00	2,000	250.00		18,858,528		8,381.57		2,095,392.50
Total	47,996.75	42,200	5,796.75					P	43,512,492.60

* E= TS availed for the whole shipment / Shipment volume (D/A)

**F = TS per MT / Excess Shipment (E*C)

MT- Metric Tons

TS- Tax Subsidy

National Food Authority
Summary of Undelivered Volume of Importation
2012 PSF Importation

Annex D

Importers	Allocation in MT	Volume of Shipment in MT	Undelivered Volume in MT
1 ALDECO (Alakaak)	1,500	987.00	513.00
2 Balaong MPC	2,000	1,500.00	500.00
3 Barrio SitePurnaga Mktg. Coop	1,720	1,589.00	131.00
4 Bubog Farmers MPC	2,000	1,375.00	625.00
5 Cabanatuan City Seed Growers MPC	2,000	250.00	1,750.00
6 Caingin Farmers MPC	1,600	500.00	1,100.00
7 Canturoy Samahang Magsasaka	1,500	798.00	702.00
8 Cruzada MPC	2,000	420.00	1,580.00
9 Damayan ARB	2,000	1,700.00	300.00
10 D'Survivor's Con Coop	2,000	1,675.00	325.00
11 Dujali Free Farmers MPC	2,000	1,075.00	925.00
12 Dujali Irrigator's Dev't. Coop	2,000	1,250.00	750.00
13 Formosa MPC	10,000	9,998.50	1.50
14 GPI San Miguel MPC	10,000	9,500.00	500.00
15 Gutad Pessin MPC	1,500	1,323.00	177.00
16 Jaded Ranch Grains & Cereals Trading	10,000	8,230.00	1,770.00
17 Jefmin Farmers MPC	2,000	1,994.00	6.00
18 Kaagapay Kilusang Bayang Tagapagunlad MPC	1,750	1,700.00	50.00
19 Kabalikat MPC	2,000	1,550.00	450.00
20 Kapatirang Takusa MPC	2,000	1,050.00	950.00
21 Louis London Trading	10,000	9,912.00	88.00
22 Magsaysay MPC	1,500	1,008.00	492.00
23 Malinao MPC	1,500	450.00	1,050.00
24 Malipampang Concern Citizens MPC	1,600	355.00	1,245.00
25 Mindoro Occidental People's MPC	1,720	1,715.00	5.00
26 Monteclaro Occ, Mindoro Ilocano Farmers Assn.	1,720	961.70	758.30
27 Montevallo Enterprise	10,000	9,565.00	435.00
28 Narra Palawan Community Credit Cooperative	1,400	250.00	1,150.00
29 Nemic Fussion Rice & Grains Ent.	10,000	9,850.00	150.00
30 NIA-SAUG Employees and Irrigators MPC	2,000	1,300.00	700.00
31 Pinaod Central MPC	1,600	596.00	1,004.00
32 Pure Country Trading	10,000	9,959.00	41.00
33 Riverview MPC	10,000	9,455.00	545.00
34 Samaco Malupa Farmers MPC	2,000	1,998.00	2.00
35 Samahang Bagong Anyo MPC Dev't. Coop.	2,000	1,710.00	290.00
36 San Vicente Dev't. Coop.	2,000	1,000.00	1,000.00
37 St. Andrew's Field Grains & Cereals Trading	10,000	9,938.50	61.50
38 St. John of San Miguel MPC	2,000	1,425.00	575.00

39	St. Dominique Rice & Foodstuff Ent.	10,000	9,028.00	972.00
40	Sta. Cecilia MPC	10,000	9,950.00	50.00
41	Ugnayang Magbubukid ng San Isidro, Inc.	1,600	1,035.00	565.00
42	Ugnayang Magsasaka sa Kaunlaran MPC	10,000	9,875.00	125.00
43	Umpucan Palay & Vegetable Growers	1,600	250.00	1,350.00
44	Upper and Lower Magbay MPC	1,745	1,715.00	30.00
Total		177,555	151,765.70	25,789.30

National Food Authority
Summary of Tax Subsidy vs. Service Fee Collected
2012 PSF Importation

Annex E

Importer	Delivered Volume in MT	Allocated Volume in MT		Tax Subsidy		Service Fee Collected	Difference bet. TS and SF
1 Agdahon Farmers MPC	1,750	1,750	P	17,050,928	P	12,306,000	P 4,744,928
2 Agraca Agrarian Reform	1,975	1,975		16,847,534		14,220,000	2,627,534
3 Antongalon Agusan MPC	1,745	1,745		13,415,697		12,222,678	1,193,019
4 Balaong MPC	1,500	2,000		14,294,170		14,120,000	174,170
5 Barrio Site	1,589	1,720		12,726,990		12,005,600	721,390
6 Bating Irrigators	1,750	1,750		13,293,179		12,307,750	985,429
7 Bating MPC	2,250	1,750		17,238,661		12,308,800	4,929,861
8 Bigasan ng Magsasaka	2,000	2,000		16,201,610		14,000,000	2,201,610
9 Bugtong Buri	1,670	1,670		13,448,073		11,609,840	1,838,233
10 Bumaisa MPC	2,050	1,800		15,830,050		12,685,680	3,144,370
11 Burot MPC	1,745	1,745		14,618,140		12,393,688	2,224,452
12 Calintaan Guardian	1,765	1,760		13,721,021		12,390,400	1,330,621
13 Calintaan Young Blood	1,720	1,720		14,234,676		12,159,712	2,074,964
14 Calumpang MPC	2,000	2,000		16,442,285		13,996,000	2,446,285
15 Chon Buri	11,700	10,000		81,781,580		67,600,000	14,181,580
16 Family 10	1,975	1,975		15,132,953		13,753,900	1,379,053
17 Formosa	9,999	10,000		73,362,476		61,600,000	11,762,476
18 Four (4) SM MPC	2,000	2,000		15,858,039		14,400,000	1,458,039
19 Genaro MPC	1,720	1,720		13,998,651		12,147,328	1,851,323
20 GPI San Miguel MPC	9,500	10,000		74,139,703		59,400,000	14,739,703
21 Jaded Ranch Grains and Cereal	8,230	10,000		80,123,338		57,000,000	23,123,338
22 Jellicuon Este MPC	1,745	1,745		13,434,532		12,390,198	1,044,334
23 Kaagapay Kilusang Bayan	1,700	1,750		13,919,964		12,330,500	1,589,464
24 Kabuhayan ng Samahang Manggagawa MPC	1,950	1,950		15,517,534		13,985,400	1,532,134
25 Kakampi MPC	1,800	1,800		14,021,502		12,672,000	1,349,502
26 Kalahi Farmers MPC	1,700	1,700		16,046,517		12,110,800	3,935,717
27 Kamburay Agro Livelihood	2,425	1,975		18,124,696		13,769,700	4,354,996
28 Kapatiran sa Kaunlaran	1,760	1,760		14,956,221		12,396,736	2,559,485
29 King Casey	1,065	10,000		74,428,802		69,600,000	4,828,802
30 King Kabayo	1,800	1,800		16,824,751		12,841,200	3,983,551
31 Lambakin Agri. Mktg. Coop.	2,000	2,000		15,975,955		13,984,000	1,991,955
32 Land Reform Farmers	2,000	2,000		17,266,981		13,980,000	3,286,981
33 Louis London	9,912	10,000		74,321,752		68,600,000	5,721,752
34 Mabandi MPC	1,875	1,675		15,515,331		11,691,500	3,823,831
35 Magbay Bagong Buklod	1,720	1,720		13,531,675		12,014,544	1,517,131
36 Magsaysay First	2,000	2,000		15,828,582		13,996,000	1,832,582
37 Mahindra Rice and Food Training	10,000	10,000		75,662,953		65,600,000	10,062,953
38 Manoot Rizal Women Farmers	1,720	1,720		13,868,125		12,048,944	1,819,181
39 Matagnop MPC	1,825	1,825		14,470,461		12,877,200	1,593,261
40 Manibad MPC	1,750	1,750		14,044,867		12,390,400	1,654,467
41 Matagnop Rural Improvement Club MPC	2,000	2,000		17,043,921		14,328,000	2,715,921
42 Mauswagon MPC	2,050	1,800		15,940,725		12,765,600	3,175,125
43 Minanhon Farmers	1,745	1,745		13,728,138		12,392,292	1,335,846
44 Mindoro Farmers Inc.	1,950	1,950		16,527,980		13,650,000	2,877,980
45 Mindoro Occ. People's MPC	1,715	1,720		14,420,386		12,032,432	2,387,954
46 Mindoro Occ. Womens Rotary	1,720	1,720		15,049,330		12,039,312	3,010,018
47 Montevallo	9,565	10,000		75,348,252		63,200,000	12,148,252
48 Multi Grains MPC	1,900	1,900		16,316,806		13,649,600	2,667,206
49 Murtha Dev't. MPC	1,710	1,710		13,822,849		12,161,520	1,661,329
50 Nemic Fussion	9,850	10,000		75,876,024		62,200,000	13,676,024
51 Northern Mindoro FMC	1,875	1,975		15,110,772		13,817,100	1,293,672
52 Nursery Farmers	1,900	1,900		15,634,553		13,672,400	1,962,153
53 Pagpapaunlad Kita MPC	2,417	1,720		20,847,282		12,076,120	8,771,162
54 Palabatyawan Farmers	1,750	1,750		13,365,643		12,365,500	1,000,143

55 Palayan MPC	1,975	1,975	15,040,815	13,773,650	1,267,165
56 Paliwasan Farmers	1,750	1,750	13,231,506	12,264,000	967,506
57 Paraiso del Rio	1,750	1,750	14,251,452	12,325,250	1,926,202
58 Pinambaran Farmers	2,975	2,000	22,443,897	14,396,000	8,047,897
59 Pinay Farmers	1,750	1,750	14,809,366	12,326,300	2,483,066
60 Poblacion Proper	1,750	1,750	14,157,605	12,332,600	1,825,005
61 Pure Country	9,959	10,000	74,287,726	56,600,000	17,687,726
62 Red Mountain	10,000	10,000	77,585,210	55,600,000	21,985,210
63 Riverview	9,455	10,000	68,589,608	60,600,000	7,989,608
64 Rizal Occ. Mindoro United	1,720	1,720	14,597,351	12,101,232	2,496,119
65 Rizal San Jose Farmers Coop.	1,720	1,720	14,684,918	12,097,448	2,587,470
66 Rizal Senior	1,725	1,720	13,999,913	12,022,112	1,977,801
67 SAVACOMFAS MPC	1,800	1,800	15,091,159	12,683,520	2,407,639
68 SAMAGNI FARMERS	1,745	1,745	15,198,588	12,394,735	2,803,853
69 Samahan Antiqueños	1,760	1,760	15,619,003	12,398,496	3,220,507
70 San Agustin	1,760	1,760	13,770,157	12,401,664	1,368,493
71 San Juan Brgy. Manoot	1,745	1,745	14,115,425	12,389,849	1,725,576
72 Sariling Atin	2,050	2,000	16,576,783	14,000,000	2,576,783
73 Sitio Muzon	10,000	10,000	79,025,916	54,400,000	24,625,916
74 St. Andrews	9,939	10,000	71,506,269	65,000,000	6,506,269
75 St. Dominique	9,028	10,000	68,631,298	57,600,000	11,031,298
76 Sta. Cecilia	9,950	10,000	76,785,283	53,600,000	23,185,283
77 Sta. Cruz Labangan	1,850	1,850	15,804,667	12,958,140	2,846,527
78 Sta. Ines MPC	2,250	2,000	18,858,528	13,988,000	4,870,528
79 Tumulalud Farmers MPC	1,750	1,750	15,175,016	12,333,300	2,841,716
80 Ugnayang Magsasaka	9,875	10,000	74,522,039	59,600,000	14,922,039
81 Upper and Lower Magbay	1,715	1,745	12,920,732	12,221,980	698,752
82 West Point	10,000	10,000	80,996,732	58,400,000	22,596,732
83 Wish Granted	8,200	10,000	77,145,172	64,200,000	12,945,172
Total			P 2,409,975,750	P 1,981,264,650	P 428,711,100

Legend:

MT- Metric Tons
TS- Tax Subsidy
SF- Servcie Fee