



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, 2013

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.

Executive Order (EO) No. 1028, dated May 31, 1985, provided further the deregulation in the production and trading of food grains and related agricultural inputs being undertaken by all government agencies, including NFA. The Agency had to relinquish or transfer to another government entity or to the private sector, as appropriate, all its non-grain stabilization and trading activities. Under EO No. 116 dated January 30, 1987, NFA was detached from the Office of the President and was realigned under the Department of Agriculture (DA) to respond to policy changes with emphasis on private sector participation towards strengthening of a freer, market-oriented enterprise economy and trend towards liberalization, privatization and deregulation.

Pursuant to EO No. 398 dated January 31, 1997, NFA shall also undertake 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. On May 5, 2014, EO No. 165 reassigned NFA again to the Office of the President, with oversight responsibilities given to Secretary Francis N. Pangilinan in the newly-created post of Presidential Assistant for Food Security and Agricultural Modernization.

The NFA has 15 regional and 86 provincial offices.

NFA has plantilla positions of 4,892 with 4,531 filled positions as of December 31, 2013. Only 558 personnel holding permanent plantilla items are assigned at the NFA Central Office while 3,518 personnel are assigned at the field offices. It also has 455 co-terminous employees; 96 assigned at the Central Office and 359 assigned at the field offices.

FINANCIAL HIGHLIGHTS (In million pesos)

I. Comparative Financial Position

	2013	Restated 2012	Increase (Decrease)
Assets	20,973.692	29,396.470	(8,422.778)
Liabilities	165,810.075	162,990.044	2,820.031
Capital deficiency	(144,836.383)	(133,593.574)	11,242.809

II. Comparative Results of Operation

	2013	2012	Increase (Decrease)
Sales and Other income	19,478.407	21,627.742	(2,149.335)
Cost of sales and Expenses	32,703.424	35,130.617	(2,427.193)
Loss from operations	(13,225.017)	(13,502.875)	(277.858)
Subsidy from national government (NG)	2,145.913	8,029.829	(5,883.916)
Loss after subsidy from NG	(11,079.104)	(5,473.046)	5,606.058

III. Budget and Actual Expenditures

	Budget	Utilization	Variance
Personal services	1,999.702	1,964.184	35.518
Maintenance and other operating expenses	4,098.878	2,871.868	1,227.010
Capital outlay	640.421	169.713	470.708
	6,739.001	5,005.765	1,733.236

SCOPE OF AUDIT

Our audit covered, on a test basis, the accounts and operations of NFA for calendar year (CY) 2013. 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 validity and accuracy of the Accounts Receivable-Trade totaling P1,655.278 million cannot be ascertained due to lack of proper documentation, negative results of confirmation, and absence of updated information on collections;
2. Other Non-current Assets – Stock Shortages further increased by P376.767 million from P2,618.001 million in 2012 to P2,994.768 million in 2013, most of which remained outstanding for more than 10 years, but cannot be reclassified to Due from Officers and Employees due to missing/incomplete warehouse/stock reports and slow-paced stock examination and computation of Tolerable Allowance (TOLA); thus, adversely affecting the determination of final amount of shortages collectible from the accountable officers;
3. Of the Due from GOCCs, Due from NGAs, Due from LGUs and Other Receivables accounts totaling P319.320 million, 36.9 per cent or P117.711 million remained non-moving since/prior to April 2007, some of which were dormant for more than 10 years and without sufficient supporting documents, thus rendering doubtful the existence and accuracy of the accounts balance;

4. Due to Other NGAs and Due to Other GOCCs accounts totaling P707.925 million include 29.2 per cent or P206.623 million dormant accounts, 8.0 per cent or P56.293 million without supporting schedules and documents, and payables for some projects insufficiently backed up with cash amounting to P37.815 million or 5.3 per cent, all conditions rendered the payable accounts balance unreliable;

5. The absence of documents to establish ownership of several lots with total value of P147.901 million; the variance of P46.218 million between the book balance and the established inventory count of Property, Plant and Equipment (PPE) account in the Head Office (HO) and National Capital Region (NCR); and the inclusion of "For Reconciliation" items in the total amount of P20.389 million, all cast doubt on the reliability of the PPE account with net book value of P2,422.752 million; and

6. The Other Liability - Other Payables account of P401.665 million as of December 31, 2013 cannot be relied upon because it includes a project fund with unliquidated balance of P30.288 million since April 2007, another project fund with balance that differed by P42.208 million from the reported Status of Financial Report and by P61.328 million when compared with the bank balance, and payables of P17.137 million that have been dormant for more than five years were closed to Prior Years' Adjustment without supporting documents.

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. Require the Accounting Services Department (ASD) to fast-track the verification and analysis of the Accounts Receivables so that necessary adjustment can be effected in the books, and update the status of collections as basis for the preparation of credit advices to the regional/provincial offices (ROs/POs);

2. Oblige the Accountants and other responsible personnel of the ROs/POs to obtain and or accomplish the complete and proper documents supporting the sales on credit, and conduct reconciliation of the actual rice releases with the payments made at NFA-HO to come up with the correct balances of Accounts Receivable. Henceforth, strictly enforce the provisions of the Memorandum of Agreement (MOA) and NFA Standard Operating Procedure (SOP) on the documentation of rice releases on credit sales, and the collection of the same;

3. Continue to vigorously pursue efforts to collect the receivables not only from the National Government Agencies (NGAs) but from the Local Government Units (LGUs) and other institutions as well;

4. Require the Stock Examination Group to expedite the stock examination and apply the provisions of NFA SOP No. GM-WH13 on the use of secondary documents when

warranted to facilitate the examination, and to immediately submit the Stock Examination Report (SER) to the Regional Tolerable Allowance Committee (RTAC) for TOLA computation;

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

6. Require the Legal Affairs Department (LAD) to look into the status of the filing of cases against accountable officers who incurred stock shortages as reported by the ROs/POs;

7. 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;

8. Enforce the sanctions provided in the Special Provisions of NFA 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 NFA SOPs on the stock examination and TOLA computation;

9. Require the ASD to sustain its best efforts in the verification and reconciliation of the accounts, and after all the efforts have been exerted, determine those deemed uncollectible for possible request for write-off, in accordance with COA Circular No. 97-001 on dormant accounts;

10. Coordinate with the authorized officials of the concerned agencies for reconciliation of records and to facilitate collection of the receivables;

11. Gather all the MOAs/Contracts, disbursement reports and other relevant documents pertaining to the dormant accounts and cause the thorough verification of the nature or purposes of these projects to determine the status whether already completed, discontinued or abandoned;

12. Make the necessary adjustments in the books to determine unutilized balances and cause remittance to the National Government thru the Bureau of Treasury (BTr);

13. On projects with remaining balances in the books, coordinate with the source agencies to reconcile the NFA book balances with their records, and cause the preparation of the necessary correcting entries to arrive at the accurate balances of the Due to Other NGAs and Due to Other GOCCs;

14. Oblige the ASD to fast track the reconciliation of the balances of the Due to Other NGAs, Due to Other GOCCs and payable – Despatch Held-in-Trust accounts against relevant records, determine the actual existence and proper valuation of these accounts, ascertain and validate discrepancies between the recorded amounts and the actual existing balances and make appropriate adjustments to reflect the correct balances;

15. Require the ASD to maintain separate subsidiary ledgers for each of the projects recorded under the accounts Due to Other NGAs and Due to Other GOCCs and for each of the rice collection bank accounts, and regularly analyze and reconcile these subsidiary ledgers. In this way, unremitted balances awaiting reconciliation will not be mixed up with the general fund of the Agency, avoiding misuse of funds;
16. Ensure that the ASD and the project implementing unit be guided by COA Circular No. 94-013, on Rules and Regulations in the Grant, Utilization and Liquidation of Funds Transferred to Implementing Agencies, in the implementation of projects under trust accounts;
17. Require the ASD and General Services Department (GSD) to conduct complete and thorough verification and reconciliation of the property and accounting records, including the PPE items "For Reconciliation," to determine the cause/s of discrepancies so that necessary corrections/adjustments can be effected in both records to arrive at corrected/reconciled balances;
18. Exhaust all means to secure all the documents needed 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;
19. For the Lingap Para sa Mahihirap Program Fund, require the ASD and the Internal Audit Service Department (IASD) to reconcile their records to reflect the correct balance and cause the liquidation of the remaining balance, if any;
20. For the Corn Development Fund (CDF), instruct the ASD to conduct reconciliation of the Other Payables - CDF with the records being maintained by the CDF Secretariat and with bank records, and cause the preparation of the annual report and the monthly financial reports required in NFA SOP No. TS-ES22; and
21. On dormant payable to Presidential Commission on Good Government (PCGG), coordinate with the concerned agency to determine the exact beneficiary of the sale of flour. Since transactions involved unpaid obligations, thorough analysis, reconciliation and review of this account are necessary.

The other significant audit observations and recommendations are as follows:

Rice Importation

22. The estimated marketing costs per metric ton (MT) as reference price of the 2013 rice importation still included losses from spillage and shortlandings allowances; hence, defeating the purpose of the shift from Cost and Freight Free Out (CFR-FO) to Cost, Insurance, Freight-Delivered, Duties Unpaid (CIF-DDU) terms. Under the CIF-DDU terms, the buyer, like NFA, accepts and pays only stocks in good condition.

22.1 We recommended that Management exclude the allowances for spillages and shortlanded deliveries from the computation of NFA reference price considering the shift to CIF-DDU terms in order to come up with a cost that is more advantageous to the government. We also recommended that the breakdown of costs be properly documented to support the computation of the estimated reference price.

Tax Subsidy

23. The shift in rice importation terms from CFR-FO to CIF-DDU was not considered in the determination of declared dutiable cost for purposes of computation of customs duties by the Bureau of Customs (BOC), thereby resulted in overvaluation of customs duties for the 205,700 MT of imported rice in the total amount of P233.527 million.

23.1 We recommended that Management:

- a. Perform independent review of the computation of the dutiable value of importation before the submission of the Memorandum of Undertaking to BOC with consideration on the contract terms to ensure the accuracy of customs duties granted as tax subsidy to NFA; and
- b. Coordinate with the BOC on the difference in the computation of the dutiable cost and resulting customs duties in 2013 importations, for appropriate adjustment, recording and reporting purposes.

Palay Procurement

24. The Cereal Procurement Fund (CPF) in 2013 of P7.890 billion was not fully maximized for the procurement of palay of which the unutilized amount of P1.019 billion or 12.9 per cent of the total available funds could have been used to procure 1.172 million bags of palay for the buffer stock of NFA. This condition resulted from the shortfall of 415,779 MT or 53.3 per cent of the targeted volume of procurement and the setting of very low procurement target compared to the palay production of more or less 368,788,120 bags or 18,439,406 MT.

24.1 We recommended that Management:

- a. Review the setting of procurement targets considering the established data on palay production to maximize the utilization of available funds to be able to maintain the mandated buffer stock of NFA;
- b. Assess the low NFA buying price in order to determine the appropriate increase and additional incentives that can level up or compete with local traders;
- c. Evaluate the procurement performance of the ROs/POs with low accomplishments to determine the necessary assistance and measures needed to improve the implementation of the procurement program;
- d. Formulate strategies to increase the procurement of palay and encourage participation from farmers, among others:
 - d.1 Intensify information dissemination on palay procurement before the start of main crop season to encourage farmers to sell their produce to NFA;
 - d.2 Deploy more procurement teams in areas where harvesting season is ongoing. Put in place the early preparation of palay procurement logistics plan that include the pre-positioning of equipment and personnel both in stationary

buying stations and mobile procurement teams in their respective service areas with early harvest schedule;

d.3 Ensure that NFA's assistance are accessible to farmers like the post-harvest facilities that they can use to minimize post-harvest losses; and

d.4 Regularly monitor extent of utilization of available funds based on the palay production during the period to meet or even exceed the targeted palay procurement.

Cooperative Development Incentive Fund (CDIF)

25. The CDIF amounting to P10.657 million remained inactive/unutilized for more than two years, indicating that the farmers' organizations (FOs) have not availed of the incentive granted by NFA, thus affecting the attainment of the fund's objectives of promoting membership of farmers in FOs and providing them with financial and technical assistance.

25.1 We recommended that Management:

a. Conduct further verification and evaluation of the operational status of the concerned FOs with inactive accounts especially in NFA ROs IV, V, VI and X to determine the reasons thereof and identify the needed improvement in the implementation of the procurement programs; and

b. Implement the forfeiture of the inactive CDIF balances in all the NFA ROs/POs by sending Notice for Inactive CDIF and Notice of CDIF Forfeiture to the concerned FOs in accordance with the procedures provided in NFA SOP No. TS-ES24 and in the MOA between the NFA and FOs. Henceforth, require the POs' Industry Services Section (ISS) to periodically check with the Accounting Section the CDIF accounts nearing forfeiture, for monitoring, appropriate action and reconciliation of records.

Distribution of stocks

26. Same individuals appeared to have withdrawn and received rice on behalf of several retailers of the National Capital Region (NCR) - Central District Office (CDO) and North District Office (NDO), as evidenced by similar signatures in the Warehouse Stock Issues (WSIs). In NCR - Cavite PO and NDO, payments were made by various accredited NFA retailers using checks drawn from a common bank and branch with almost continuous series of personal and Manager's/Cashier's check number, thereby casting doubt on whether the intention of the allocation system on rice to be purchased on a per retailer basis was served.

26.1 We recommended that Management:

a. Require the Enforcement and Investigation Section (EIS) to conduct investigation to determine whether the checks that were endorsed as payment for the withdrawals of rice were made by legitimate or authorized representatives. If they are not, devise procedures or impose sanctions to avoid occurrence of the

same, to ensure that the objective of the allocation of stocks to retailers is not defeated; and

b. Require the personnel responsible in the release of stocks to request the recipients to present documents for proper identification and have the authorized recipients affix their signatures over their printed names in the appropriate boxes of the WSI, to ensure that only legitimate recipients received the stocks.

27. Unusual depletion of stocks of rice retailers in NCR-NDO could result in diversion of NFA stocks which is prohibited under Regulation XV, Section 1 of the revised Rules and Regulations on Grains Business (RRGB), since this could affect the NFA's mandate of stabilizing supply and price of rice in the market. In NCR-Cavite PO, there were stocks loaded in the same truck delivered to various business locations of buying retailers that could also result in diversion of NFA stocks to commercial rice and or selling or lending government stocks to other grains businessmen.

27.1 We recommended that the NCR-NDO and NCR-Cavite PO Management:

a. Require the EIS to conduct in-depth investigation on the probability that one or few individuals are behind the possible diversion of rice allocation under the name of several retailers, and strictly impose penalties in accordance with existing rules; and

b. Closely monitor the distribution activities to accredited retailers, and establish effective controls, such as:

b.1 Account for the owners of frequently used delivery trucks, and determine if the driver is properly authorized to receive stocks in behalf of various retailers; and

b.2 Validate/confirm if the stocks, under similar circumstances, were indeed bought by accredited retailers and delivered to their registered business locations and made available for sale as NFA rice to the consumers.

28. Only five representatives/assignees of farmers' organizations/cooperatives (FOs/FCs) withdrew and received a total of 38,893 bags of NFA rice amounting to P40.060 million thru Institutionalized Farmers as Distributors (IFAD) program in 2012, which might have resulted in giving control of NFA rice to only few individuals, thereby defeating the purpose of the IFAD program to give FOs/FCs the opportunity to participate in rice distribution.

28.1 We recommended that the NCR-CDO Management make representation with the NFA-HO to revisit the implementation of the IFAD program particularly on the manner of using special powers of attorney and deeds of assignment in the payment, withdrawal and sale of stocks allocation of IFAD participants, to ensure that the existing arrangements are not resulting in monopoly in rice distribution by few FOs/FCs, and that the purpose of the program of giving equal opportunities to all qualified FOs/FCs to participate in the distribution of NFA rice may not be defeated.

Disaster Risk Reduction and Management

29. Levels of rice inventories of the NFA-CDO immediately before and after the onslaught of Typhoon Yolanda were only good from 7.958 to 10.861 days consumption, instead of the required 15 to 30-day buffer stock levels, which could have affected the accomplishment of its mandated function to timely respond to rice requirements especially during calamities.

29.1 We recommended to Management that the monitoring of the levels of stock be strengthened to ensure at all times the required 15-day and/or 30-day buffer stock levels for the NFA to accomplish its mandate to respond within 48 hours to rice requirements during calamities; restore rice supply at levels prior to a calamity; and achieve national food security through stabilized supply and price of rice.

30. The reliability and accuracy of the 1,173,268 bags of rice with estimated value of P1,466.585 million that were reported as distributed to government agencies and private institutions for Typhoon Yolanda relief operations cannot be ascertained due to the variance of 236,426 bags caused by, among others, erroneous/unrecorded/unreported issuances, and inclusion of issuances for other purposes.

30.1 We recommended that Management put in place an effective monitoring and review mechanism on the releases of the authorized stock issuances so that the public, concerned agencies, and users of the report are informed of the actual releases of NFA rice during relief operations, and as reference and inputs in assessing NFA's response to the disaster. Moreover, the significant difference of 153,627 bags between the reported releases of NCR and the actual releases should be looked into, including the discrepancies in the rest of the regions, to establish accountability for the unaccounted stocks.

Warehousing Operations

31. The lease of privately-owned property at the NFA-NCR for use of the district offices grains storage amounted to P275.075 million for the past three years, or an average of P91.692 million per year, which based on historical cost of a 90,000-bag capacity of NFA-owned warehouse in Cavite, can already be considered more than sufficient to build own facility, thereby reducing storage expenses.

31.1 We recommended that Management conduct cost-benefit analysis on the viability of constructing NFA-NCR warehouses vis-a-vis cost of leasing warehouses.

Disbursement Acceleration Program (DAP)

32. The NFA was not able to fully support the attainment of the purpose of the DAP to fast-track public spending and push economic growth because only P10.089 million or 43.6 per cent of the funds of P23.165 million was utilized as of December 31, 2013, even after almost nine months from receipt of the funds from the Bureau of the Treasury (BTr) in April 2013, due to delayed fund transfers from NFA-HO to the regions and also caused by, among others, difficulty in finding suppliers/fabricators of parts/materials needed in the improvement of mechanical dryers.

32.1 We recommended that Management fast-track the implementation of the DAP projects by addressing the causes of delay, conducting regular monitoring, and facilitating the acquisition of materials so that the mechanical dryers are restored to their efficient physical condition to cater to the needs of the farmers; and, henceforth, funds received for specified purposes be immediately transferred to concerned offices to maximize fund utilization and attain the intended benefits.

Procurement of Trucking, Freight and Hauling Services

33. Extending/renewing expired contracts for trucking, freight and handling services in RO V amounting to P80.292 million in 2013 without substantially undertaking the required procurement activities and which was not due to circumstances beyond the control of NFA, is not in consonance with the Government Procurement Policy Board (GPPB) Resolution No. 23-2007; hence, no assurance that the renewed contracts are the most advantageous to the Agency.

33.1 We recommended that NFA RO V strictly observe the provisions especially on the time frame in the conduct of bid activities as provided by Republic Act No. 9184 to avoid extensions of contract. Pre-procurement planning activities can be conducted preferably at the end of the third quarter of each year to provide the Bids and Awards Committee (BAC) enough time to prepare the necessary bidding documents and to start the procurement process at the earliest possible time.

33.2 We further recommended that, in cases where the proposed contract extension exceeds six months, these shall be reported to the GPPB in writing, as a procedural requirement in Annex A of GPPB Resolution No. 23-007.

Storage and Preservation of Stocks

34. The NFA is exposed to further significant losses considering that year-old and bad stocks of palay and rice with estimated value of P417.156 million as of December 2013 are not yet disposed due to failure to observe existing guidelines on the disposition of damaged stocks, lack of interested buyers, delayed request or delayed results of sample laboratory analysis. This could result in deterioration and infestation of the good stocks.

34.1 We recommended that Management:

- a. Facilitate the disposition of old and damaged grains stocks; and, henceforth, strictly follow the guidelines set under NFA SOP No. GM-DS03; and
- b. Resort to alternative marketing distribution/disposal strategies to address the accumulation of bad and old stocks and increasing warehousing costs that could eventually lead to losses.

SUMMARY OF TOTAL AUDIT DISALLOWANCES, SUSPENSIONS AND CHARGES

The NFA had total consolidated unsettled audit disallowances, suspensions and charges as of December 31, 2013 of P62.973 million, P91.112 million, and P1.743 million, respectively.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 80 recommendations embodied in the previous years' consolidated Annual Audit Reports, 16 were fully implemented; 53 were partially implemented; and 11 were not implemented. Details are presented in Part III of this Report.

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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, 2013, 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 were considered in forming our opinion:

1. The validity and accuracy of the Accounts Receivable-Trade totaling P1,655.278 million cannot be ascertained due to lack of proper documentation, negative results of confirmation, and absence of updated information on collections.
2. Other Non-current Assets – Stock Shortages further increased by P376.767 million from P2,618.001 million in 2012 to P2,994.768 million in 2013, most of which remained outstanding for more than 10 years, but cannot be reclassified to Due from Officers and Employees due to missing/incomplete warehouse/stock reports and slow-paced stock examination and computation of Tolerable Allowance (TOLA); thus, adversely affecting the determination of final amount of shortages collectible from the accountable officers.
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5. The absence of documents to establish ownership of several lots with total value of P147.901 million; the variance of P46.218 million between the book balance and the established inventory count of Property, Plant and Equipment (PPE) account in the Head Office (HO) and National Capital Region (NCR); and the inclusion of “For Reconciliation” items in the total amount of P20.389 million, all cast doubt on the reliability of the PPE account with net book value of P2,422.752 million.
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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, 2013, 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 of the Report, we also identified areas for improvement in NFA's operations, internal controls and compliance with applicable government rules and regulations and company policies and procedures, which include among others the following:

1. The determination of the reasonable reference price for importation of rice that will ensure advantageous terms to NFA, and the declaration of the accurate dutiable costs of imported rice that will be charged to the tax subsidy of NFA;
2. The maximization of the Cereal Procurement Fund for palay procurement and encouraging participation of farmers' organization in NFA's Institutional Procurement Programs to avail of financial and technical assistance to increase production that will contribute to NFA buffer stocks for food security;
3. Strengthening controls in dispersal and distribution of stocks, and warehousing operations to safeguard stocks and properties and minimize losses; and
4. Proper management of Corn Development Fund to attain the objectives of helping ensure sufficient supply of corn and provide relief to the hog and poultry industry.

COMMISSION ON AUDIT


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

July 21, 2014



**PAMBANSANG
PANGASIWAAN
SA PAGKAIN**
NATIONAL FOOD AUTHORITY

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

April 21, 2014

We are responsible for all information and representations contained in the Balance Sheet of the National Food Authority as of December 31, 2013 and the related Statements of Income and Expenses, Changes in Capital Deficiency and Cash Flows for the year then ended. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on our best estimates and informed judgment with an appropriate consideration to materiality.

In this regard, we maintain a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. We likewise disclose to our independent auditors; (1) all significant deficiencies in the design or operation of internal controls that could adversely affect our ability to record, process, and report financial data; (2) material weaknesses in our internal controls; and (3) any fraud that involves management or other employees who exercise significant roles in internal controls.


ATTY. EFREN J. SABONG
Assistant Administrator for
Finance and Administration


ORLAN A. CALAYAG
Administrator

NATIONAL FOOD AUTHORITY
B A L A N C E S H E E T
December 31, 2013
(In Philippine Peso)

	Note	2013	2012 As restated
ASSETS			
Current Assets			
Cash and cash equivalents	3	1,627,171,637	1,781,661,615
Trade and other receivables	4, 23	1,709,272,775	1,218,657,728
Inventories - net	5	8,076,984,171	17,781,713,460
Prepayments	6, 23	12,747,329	9,674,265
Other current assets	7, 23	310,022,039	336,183,937
		11,736,197,951	21,127,891,005
Non-Current Assets			
Investments	8, 23	2,528,139,548	2,044,638,155
Property and equipment - net	9	2,422,752,010	2,388,909,943
Other non-current assets	10, 23	4,286,601,994	3,835,030,938
		9,237,493,552	8,268,579,036
TOTAL ASSETS		20,973,691,503	29,396,470,041
LIABILITIES AND CAPITAL DEFICIENCY			
Current Liabilities			
Payable accounts	11, 23	30,904,596,051	30,666,019,581
Inter-agency payables	12, 23	26,282,283,148	21,516,376,228
Other liability accounts	13, 23	557,403,790	580,303,619
		57,744,282,989	52,762,699,428
Non-Current Liabilities			
Loans payable - domestic	14	107,330,119,395	109,132,119,395
Loans payable - foreign	15	277,035,862	336,632,702
		107,607,155,257	109,468,752,097
Deferred credits	16, 23	458,636,957	758,592,655
TOTAL LIABILITIES		165,810,075,203	162,990,044,180
CAPITAL DEFICIENCY	17, 23	(144,836,383,700)	(133,593,574,139)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY		20,973,691,503	29,396,470,041

The Notes on pages 9 to 33 form part of these financial statements.

NATIONAL FOOD AUTHORITY
STATEMENT OF INCOME AND EXPENSES
For the Year Ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012
Sales		19,232,675,481	17,687,884,417
Cost of sales		20,963,365,697	22,322,948,787
Gross loss from sales		1,730,690,216	4,635,064,370
Operating expenses	18	4,836,051,952	4,784,431,760
Financial expenses	19	6,904,006,063	8,023,236,207
		11,740,058,015	12,807,667,967
Loss from operations		13,470,748,231	17,442,732,337
Other income		245,731,703	3,939,857,084
Net loss before government subsidy		13,225,016,528	13,502,875,253
Subsidy income from national government	20	2,145,912,646	8,029,829,188
Net loss		11,079,103,882	5,473,046,065

The Notes on pages 9 to 33 form part of these financial statements.

NATIONAL FOOD AUTHORITY
STATEMENT OF CHANGES IN CAPITAL DEFICIENCY
For the Year Ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012 As restated
EQUITY CONTRIBUTION FROM NATIONAL GOVERNMENT	17	5,000,000,329	5,000,000,329
DEFICIT			
Balance at the beginning of the year		(138,593,574,468)	(133,486,595,884)
Correction of prior period errors	23	(163,705,679)	366,067,481
As restated		(138,757,280,147)	(133,120,528,403)
Net loss for the year		(11,079,103,882)	(5,473,046,065)
Balance at the end of the year		(149,836,384,029)	(138,593,574,468)
CAPITAL DEFICIENCY		(144,836,383,700)	(133,593,574,139)

The Notes on pages 9 to 33 form part of these financial statements.

NATIONAL FOOD AUTHORITY
CASH FLOW STATEMENT
For the Year Ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection from customers		18,730,572,312	21,603,966,782
Subsidy received from the national government		2,145,912,646	8,029,829,188
Payment to suppliers of imported rice		(1,137,193,846)	(3,918,223,028)
Payment to suppliers and employees		(5,406,997,454)	(4,751,388,250)
Payment to suppliers of palay		(6,259,879,524)	(6,568,899,552)
		<u>8,072,414,134</u>	<u>14,395,285,140</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement of investments		(400,000,000)	(199,995,800)
Proceeds from sale of property		2,058,438	1,875,487
Purchase/construction of property		(84,473,109)	(93,509,546)
		<u>(482,414,671)</u>	<u>(291,629,859)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of loans		(2,327,092,398)	(7,433,309,044)
Payment of financial charges		(5,425,037,659)	(7,256,818,183)
		<u>(7,752,130,057)</u>	<u>(14,690,127,227)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(162,130,594)</u>	<u>(586,471,946)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		7,640,616	(6,384,340)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3	1,781,661,615	2,374,517,901
CASH AND CASH EQUIVALENTS, END OF YEAR	3	1,627,171,637	1,781,661,615

The Notes on pages 9 to 33 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 Corporation 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 86 provincial offices. It has plantilla positions of 4,892 with 4,531 filled positions as of December 31, 2013. Only 558 personnel holding permanent plantilla items are assigned at the NFA Central Office, while 3,518 personnel are assigned at the field offices. It also has 455 co-terminous employees; 96 assigned at the Central Office and 359 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 P1.498 billion out of which P1.466 billion are held in trust by NFA. Cash with accountable officers amounted to P129.127 million.

4. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	2013	2012
Accounts receivable	1,655,277,852	987,237,429
Less: Allowance for doubtful accounts	745,001,846	676,999,224
Accounts receivable – net	910,276,006	310,238,205
Due from officers and employees	415,606,000	434,182,614
Due from government-owned and controlled corporations (GOCCs)	164,912,407	211,966,287
Loans receivables	48,379,438	50,926,094
Due from national government agencies (NGAs)	36,240,501	40,333,783
Due from local government units (LGUs)	14,897,598	14,813,439
Receivables – disallowances/charges	11,873,866	12,844,674
Due from national treasury	-	319,680
Other receivables	107,086,959	143,032,952
	1,709,272,775	1,218,657,728

The accounts receivable is aged as follows:

	Amount	Percentage
Less than one year	768,137,019	46.4
One year but less than two years	36,549,317	2.2
Two years but less than three years	120,755,807	7.3
Three years but less than four years	217,396,380	13.1
Four years and above	512,439,329	31.0
	1,655,277,852	100.0

Due from officers and employees includes shortages of Stock Accountable Officers for stocks and empty sacks (MTS) amounting to P350,841,449 and P25,097,641, respectively.

5. INVENTORIES - NET

This account consists of the following:

	2013	2012
Merchandise inventory	5,858,175,558	10,258,874,354
Raw materials inventory	1,715,848,398	7,079,082,969
Work-in-process inventory	131,478,921	74,860,268
	7,705,502,877	17,412,817,591
Less: Allowance for inventory variance	109,973,518	349,960,466
	7,595,529,359	17,062,857,125
Others	481,454,812	718,856,335
	8,076,984,171	17,781,713,460

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. PREPAYMENTS

	2013	2012
Advances to contractors	7,131,398	4,263,989
Prepaid rent	3,764,458	3,951,214
Prepaid insurance	1,686,521	1,357,303
Other prepaid expenses	164,952	101,759
	12,747,329	9,674,265

7. OTHER CURRENT ASSETS

This account consists of the following:

	2013	2012
Guaranty deposits	56,037,865	57,155,431
Other current assets	253,984,174	279,028,506
	310,022,039	336,183,937

Other current assets 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 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).

8. INVESTMENTS

	2013	2012
Sinking fund	2,011,956,267	1,527,190,375
Investment in stocks	500,755,187	501,997,187
Other investments	15,428,094	15,450,593
	2,528,139,548	2,044,638,155

Investment in stocks in the amount of P500 million was recognized in the books of NFA pursuant to Section 8 of PD No. 1770 dated January 14, 1981, which provided 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 P2.012 billion provision of Sinking fund for the long term bonds.

9. 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, 12/31/12	763,408,110	2,212,879,146	2,010,280,712	47,728,081	5,034,296,049
Additions	9,402,597	126,905,119	227,096,895	88,530,518	451,935,129
Deductions	(3,259,840)	(98,047,228)	(138,785,962)	(69,384,928)	(309,477,958)
Cost, 12/31/13	769,550,867	2,241,737,037	2,098,591,645	66,873,671	5,176,753,220

	Land and land improvements*	Buildings and structures**	Furniture, fixtures, equipment, books	Construction in Progress	Total
Acc. Depr., 12/31/12	121,525,193	1,188,551,733	1,335,309,180	-	2,645,386,106
Depreciation - 2013	3,327,204	56,922,393	101,010,861	-	161,260,458
Adjustment - transfer	15,431,824	(17,085,211)	(50,991,967)	-	(52,645,354)
Acc. Depr., 12/31/13	140,284,221	1,228,388,915	1,385,328,074	-	2,754,001,210
Net book value, 12/31/13	629,266,646	1,013,348,122	713,263,571	66,873,671	2,422,752,010
Net book value, 12/31/12	641,882,917	1,024,327,413	674,971,532	47,728,081	2,388,909,943

* Includes leasehold improvements on land amounting to P20,647,313.

**Includes leasehold improvements on buildings amounting to P13,544,625.

Various land acquired through purchase/unconditional donation located in the different district/provincial offices were not yet covered with land titles under the name of NFA. The Status of NFA Real Properties for Land Titling/Registration and Status of NFA Properties at Regional Office II assigned to Legal Affairs Department (LAD) lawyers are shown after Note 23.

10. OTHER NON-CURRENT ASSETS

	2013	2012
Restricted funds	54,802,784	54,802,783
Other assets	4,231,799,210	3,780,228,155
	4,286,601,994	3,835,030,938

Other assets composed of the following:

	2013	2012
Stocks shortages – without examination	2,247,654,875	2,203,082,410
Stocks shortages – with examination without tolerable allowance (TOLA)	519,627,467	254,584,029
Stocks shortages – with examination for TOLA	227,485,464	160,334,166
	2,994,767,806	2,618,000,605
Non-performing assets	54,488,835	57,600,077
Junked assets	19,887,959	22,792,664
Equipment and implements – Agro-processing and Marketing Project Office (APMPO)	5,852,973	5,852,973
Other receivables - government agencies - claims on unrelieved losses on contingent assets (CULCA)	23,510,127	23,523,361
Other receivables – government-owned and controlled corporations (GOCCs) - CULCA	1,267	1,267
Other receivables – contingent assets	1,133,290,243	1,052,457,208
	4,231,799,210	3,780,228,155

11. PAYABLE ACCOUNTS

This account consists of payables to farmers and private contractors, notes payable, and interest payable on notes payable from various banks.

It also includes due to officers and employees that 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.

12. INTER-AGENCY PAYABLES

	2013	2012
Due to national treasury	25,469,194,617	20,411,460,859
Due to other NGAs	673,420,676	953,327,822
Due to GSIS	66,914,385	67,952,492
Due to other GOCCs	34,504,064	37,916,992
Due to BIR	21,371,992	27,238,687
Due to LGUs	14,992,552	16,715,706
Due to Pag-IBIG	1,383,231	1,218,242
Due to PhilHealth	501,631	545,428
	26,282,283,148	21,516,376,228

Due to national treasury consists primarily of guarantee fees payable to the Bureau of the Treasury (BTr) of P5.839 billion and advances made by BTr for the settlement of NFA's short term loans through net lending program of P18.850 billion and proceeds of USPL 480 rice of P46.223 million.

13. OTHER LIABILITY ACCOUNTS

	2013	2012
Performance/bidder/bail bonds payable	149,525,802	101,804,685
Guaranty deposits payable	6,212,589	6,225,193
Other payables	401,665,399	472,273,741
	557,403,790	580,303,619

14. LOANS PAYABLE – DOMESTIC

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

	2013	2012
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
	75,000,000,000	75,000,000,000

	2013	2012
2. Loans from Republic of the Philippines (ROP) long-term notes – BTr		
ROP long-term notes – BTr dated February 8, 2008; due date - February 8, 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 - October 29, 2019 (callable year 2014), interest 6.375% (fixed rate)	9,000,000,000	9,000,000,000
	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	4,320,000,000	4,860,000,000
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	3,382,500,000	3,792,500,000
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	3,712,500,000	4,162,500,000
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, 5.1435% for the first quarter	3,300,000,000	3,700,000,000
	14,715,000,000	16,515,000,000
4. Corn Development Fund For the Dryermat and Corn Center Project	14,500,000	16,500,000
5. DBP – Minprocor Acquired assets from Minprocor properties	91,200,000	91,200,000
6. Human Settlements Development Corporation – P553.824 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
	107,330,119,395	109,132,119,395

The ten-year notes/loans are short-term availments of credit lines from different banks to finance the rice importation activities of the Corporation.

15. LOANS PAYABLE - FOREIGN

This account consists of foreign loans, as follows:

	2013	2012
1. 1995 Japanese Rice Loan – Y541.355 million 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 Y27.068 million starting July 31, 2006 to July 31, 2025	138,261,031	169,312,143
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 \$937,393	138,774,831	167,320,559
	277,035,862	336,632,702

16. 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.

17. EQUITY CONTRIBUTION FROM NATIONAL GOVERNMENT

Authorized capital stock is P5.0 billion divided into 50 million shares with par value of P100 per share. Capital stock rose by P1.1 billion due to additional equity contribution given by the National Government in 2007 to complete the authorized capitalization of the National Government. This account is already reconciled with the records of the BTr.

18. OPERATING EXPENSES

This account consists of the following:

	2013	2012
Personal services		
Salaries and wages	1,254,505,473	1,253,688,314
Other compensation	422,787,045	428,911,919
Personnel benefits contributions	176,615,820	175,534,567
Other personnel benefits	110,275,516	188,014,402
	1,964,183,854	2,046,149,202

	2013	2012
Maintenance and other operating expenses		
Inventory losses	876,527,210	799,314,115
Professional/contract services	505,396,777	450,000,473
Depreciation and depletion	161,260,458	160,003,628
Handling	152,627,043	130,937,281
Utilities	124,312,094	121,623,237
Storage	119,972,799	214,731,011
Repairs and maintenance	113,459,421	90,274,266
Supplies and materials	91,380,043	99,218,611
Bad debts	83,245,406	103,523,366
Gasoline, oil and lubricants	79,804,932	78,309,924
Traveling	75,151,760	66,640,607
Taxes and other fees	49,045,790	44,862,088
Transportation and delivery	43,493,752	27,846,244
Rent	37,253,483	37,780,441
Communication	31,711,033	30,230,708
Rewards and other claims	2,936,839	137,594,315
Other expenses	324,289,258	145,392,243
	2,871,868,098	2,738,282,558
	4,836,051,952	4,784,431,760

19. FINANCIAL EXPENSES

This account consists of the following:

	2013	2012
Interest expense	5,393,501,061	6,466,940,638
Guaranty fees	1,376,316,808	1,419,575,161
Documentary stamps	133,978,033	135,104,705
Bank charges	210,161	1,615,703
	6,904,006,063	8,023,236,207

20. SUBSIDY INCOME FROM THE NATIONAL GOVERNMENT

This account consists of subsidy for food security and stabilization programs. A total amount of P2.146 billion was received from the Department of Budget and Management as subsidy allotment for the year.

21. TAX SUBSIDY

Special Allotment Release Order (SARO)-BMB-F-13-0017305 dated October 14, 2013 with Certificate of Entitlement to Subsidy No. 0142 dated August 30, 2013 was released to NFA to cover the payment of duties for the 168,600 metric tons (MT) rice importation actually billed by the Bureau of Customs in the amount of P1.303 billion.

22. TAX COMPLIANCE

Taxes withheld and Due to Bureau of Internal Revenue (BIR) for the CY 2013 were recorded and remitted to BIR.

	Amount (In thousand)
Withheld	176,458
Others	309,934
	486,392

23. RECLASSIFICATION AND RESTATEMENT OF ACCOUNTS

The 2012 balances of the following accounts were reclassified to conform to 2013 presentation and disclosures in the financial statements:

Accounts	Note	2013 Balances	Balances previously reported in 2012	2012 Balances as reclassified in 2013	Difference due to accounts reclassified	Amount	Note	From/to
Other current assets	7	310,022,039	889,141,778	336,183,937	Net decrease	(552,957,841)	7	
					Due from officers and employees excl. stock shortages	(69,046,667)		
					Loans receivable	(50,926,094)		
					Due from national treasury	(319,680)		
					Due from NGAs	(40,333,783)		
					Due from GOCCs	(211,966,287)		
					Due from LGUs	(14,813,439)		
					Receivables-disallowances/charges	(12,844,674)		
					Other receivables	(143,032,952)		
						(543,283,576)	4	To Trade and other receivables
					Prepayments	(9,674,265)	6	To Prepayments
Other non- current assets	10	4,286,601,994	2,185,687,919	3,835,030,938	Net increase	1,649,343,019	10	
					Investments in stocks	(501,997,187)		
					Sinking fund	(1,527,190,375)		
					Other investments	(15,450,593)		
						(2,044,638,155)	8	To Investments
					Stocks shortages - with exam for TOLA	160,334,166		
					Stocks shortages - with exam without TOLA	254,584,029		
					Stocks shortages - without exam	2,203,082,410		
					Other receivables - CULCA with government agencies	23,523,361		
					Other receivables - contingent assets	1,052,457,208		
						3,693,981,174		From Prior periods' adjustment/ Capital deficiency

Accounts	Note	2013 Balances	Balances previously reported in 2012	2012 Balances as reclassified in 2013	Difference due to accounts reclassified	Amount	Note	From/to
Other liabilities	13	557,403,790	2,963,917,817	580,303,619	Net decrease	(2,383,614,198)	13	
					Due to officers and employees	(87,539,144)		
					Interest payable	(1,191,159,686)		
						(1,278,698,830)	11	To Payable accounts
					Due to BIR	(27,238,687)		
					Due to GSIS	(67,952,492)		
					Due to Pag-IBIG	(1,218,242)		
					Due to PhilHealth	(545,428)		
					Due to Other NGAs	(953,327,822)		
					Due to Other GOCCs	(37,916,991)		
					Due to LGUs	(16,715,706)		
						(1,104,915,368)	12	To Inter-agency payables
Deferred credits	16	458,636,957	561,589,885	758,592,655	Deferred credits – overages, increase	197,002,770	16	From Prior periods' adjustment/ Capital deficiency
Capital deficiency	17	(144,836,383,700)	(137,455,688,489)	(133,593,574,139)	Net decrease	3,862,114,350		
					Due from officers and employees - stock shortages	365,135,946	4	To Trade and other receivables
					Stocks shortages - with exam for TOLA	160,334,166		
					Stocks shortages - with exam without TOLA	254,584,029		
					Stocks shortages - without exam	2,203,082,410		
					Other receivables - CULCA with government agencies	23,523,361		
					Other receivables - contingent assets	1,052,457,208		
						3,693,981,174	7	To Other non-current assets
					Deferred credits - overages	(197,002,770)	16	To Deferred credits

STATUS OF NFA REAL PROPERTIES FOR LAND TITLING/REGISTRATION

AS OF MAY 31, 2014

NO.	TOWN	PROVINCE	TOTAL AREA IN SQ.M.	STATUS
1	RAWIS, LAO-ANG	NORTHERN SAMAR	10,000	THE PROPERTY WAS ACQUIRED THRU PURCHASE. HOWEVER, THE ORIGINAL COPY OF THE DEED OF SALE CANNOT BE LOCATED. THIS IS THE REASON WHY TRANSFER TO NFA CANNOT BE EFFECTED. PER REPORT FROM THE FO, THE SELLER IS DECEASED ALREADY.
2	KAYCHANRIANAN, BASCO	BATANES	1,011.71	THIS LOT WAS DONATED TO NFA BY THE MUNICIPALITY OF BASCO, BATANES. HOWEVER, THE ORIGINAL DEED IS LOST. MEMORANDA WERE SENT TO THE PO BUT THEY HAVE YET TO LOCATE THE ORIGINAL COPY OF THE DEED OF DONATION. WILL PREPARE A FOLLOW-UP.
3	BRGY. LIWANAG, PUERTO PRINCESA	PALAWAN	2.232	THERE IS A PENDING APPLICATION FOR THE ISSUANCE OF A SPECIAL PATENT BY THE DENR. WILL MAKE A FOLLOW-UP UNTIL FEBRUARY 28, 2014
4	LINABUAN SUR, BANGA	AKLAN	7,659	THE ORIGINAL COPY OF OCT NO. 0-509 IS NOW IN THE CUSTODY OF BTFMD.
5	CAPITOL DRIVE, BALANGA BATAAN P.O	BATAAN	600	PER BTN-PM-D-026 THE PROVINCIAL OFFICE HAS ALREADY REQUESTED THE SANGGUNIANG PANLALAWIGAN THRU THE VICE GOVERNOR, FOR THE CONFIRMATION OF PROVINCIAL BOARD RESOLUTION NO. 139 APPROVED ON NOVEMBER 13, 1976. AS THE SOURCE OF THE INFORMATION ON THE LOT AREA PRESENTLY OCCUPIED BY THE NFA PROVINCIAL OFFICE BUILDING, NO AVAILABLE RECORD IS ON FILE EVEN AT THE PROVINCIAL CAPITOL, ACCORDING TO SOME FORMER EMPLOYEES WHO ARE NOW RETIRED, THE AREA WAS DETERMINED ONLY BY ACTUAL MEASUREMENT AND WAS BOOKED IN OUR ACCOUNTING RECORDS IN THE EARLY 1980S.
6	BRGY. LUNA, SAN JOSE, DINAGAT ISLANDS	SURIGAO DEL NORTE	960	
7	SAN GABRIEL	CAGAYAN	324	
8	BUAYAN, DATU PIANG	MAGUINDANAO	23,520	REQUESTED FOR ALL DOCUMENTS FROM LOCAL FIELD OFFICE.
			14,911	

9	CENTRO, DATU PIANG,	MAGUINDANAO	41,162	REQUESTED FOR ALL DOCUMENTS FROM LOCAL FIELD OFFICE.
10	IBA, ZAMBALES P.O. WHSE. 1 AND 2	ZAMBALES	7,350	

MAGSAYSAY, CASTILLEJOS	ZAMBALES	11,000	REQUESTED FOR ALL DOCUMENTS FROM LOCAL FIELD OFFICE.
BETINAN, SAN MIGUEL	ZAMBOANGA DEL SUR	2,000	REQUESTED FOR ALL DOCUMENTS FROM LOCAL RD, LETTER TO BE SENT TO LGU PER RECOMMENDATION OF PM REGINODELFIN, TO PERSUADE LGU TO FACILITATE TRANSFER OF OWNERSHIP AND SUBDIVIDE THE LAND SO NFA CAN TAKE POSSESSION OF THE CORRESPONDING PORTION OF THE LOT.
BRGY. LIBERTY, HILONGOS	LEYTE	10,000	ORIGINAL COPY OF OCT NO. 2624 ALREADY WITH BTMFD. PHOTOCOPY OF OCT IN LAD FILE.
VALENCIA CITY	BUKIDNON	7,000	REQUESTED FOR ALL DOCUMENTS FROM LOCAL FIELD OFFICE.
MALAYBALAY CITY P.O	BUKIDNON	5,345	REQUESTED FOR ALL DOCUMENTS FROM LOCAL FIELD OFFICE.
BRGY. POBLACION. MARAMAG	BUKIDNON	3,493	TCT NO. T-10819 WITH LEASE CONTRACT ON FILE WITH CRYSTAL SUGAR COMPANY, INC. - EXPIRED AS OF MAY 2013.
BRGY. POBLACION. MARAMAG	BUKIDNON	22,881	FOR VERIFICATION WITH REGION RE: ACTUAL STATUS OF LOT. TCT NO. T-21301
BO. POBLACION, KALILANGAN	BUKIDNON	5,345	FOR VERIFICATION ON STATUS OF ORIGINAL DOCUMENTS. DEED OF SALE AND SKETCH PLAN ON FILE.
MUSUAN, MARAMAG	BUKIDNON	50,000	FOR VERIFICATION ON STATUS OF ORIGINAL DOCUMENTS.
BRGY. BANGA, WAO	LANAO DEL SUR	116,785	OCT CLOA-918 UNDER LEONARDO LIZADA AND MILAGROS LARIZA. FOR VERIFICATION ON STATUS OF ORIGINAL DOCUMENTS.
BRGY. BANGA, WAO	LANAO DEL SUR	10,000	WITH DEED OF DONATION - LANA O BUKIDNON COTABATO COOPERATIVES TO NFA. FOR VERIFICATION ON STATUS OF ORIGINAL DOCUMENTS.
DOTAL ST. POBLACION LAGAW E	IFUGAO	1,323	REQUESTED FOR ALL DOCUMENTS FROM LOCAL FIELD OFFICE.
SAN DIONISIO, ILOILO	ILOILO	10,000	
PACOL, PILI, CAMARINES SUR P.O.	CAMARINES	26,897	REQUESTED FOR ALL DOCUMENTS FROM LOCAL FIELD

			OFFICE.
NFA COMPOUND, MARAWI CITY	LANAO DEL SUR	4,824 (5,000)	

26	CAMACHO DRIVE, BALANGA	BATAAN	20,000	
27	KM. 10, BRGY. QUEZON SURIGAO CITY	SURIGAO DEL NORTE	14,616	
28	DIGOS CITY	DAVAO DEL SUR	130,506	NFA FILED A PETITION FOR THE ISSUANCE OF A 2ND OWNER'S DUPLICATE COPY OF TCT NO. 2390. THE COURT WAS APPROVED THE PETITION.
29	BRGY. CULO, MOLAVE	ZAMBOANGA DEL SUR	19,475	IN THE PROCESS OF COLLECTING SEVERAL DOCUMENTS PERTAINING TO THE CADASTRAL SURVEY. LAD REQUESTED TO SEARCH FOR THE ORIGINAL DEED OF DONATION CONSIDERING THAT THE PHOTOCOPY OF THE SAME IS INCOMPLETE, PAGE 2 THEREOF IS MISSING.
30	POBLACION, BONTOC	MOUNTAIN PROVINCE	800	
31	LAOAG CITY	ILOCOS NORTE	3,834	RENTED ONLY
32	NFA FLGC- NAMILLANGAN, ALFONSO LISTA	IFUGAO	3,000	FOR ANNOTATION OF THE AFFIDAVIT OF LOSS. NOTE HOWEVER, THAT THE AFFIDAVIT OF LOSS WAS EXECUTED BEFORE A NOTARY PUBLIC OF CALIFORNIA AND NOT WITH THE NOTARY PUBLIC FOR THE PHILIPPINES OR A PHILIPPINE CONSUL DULY AUTHORIZED TO ADMINISTER OATH.
33	NFA-AGUIAN VIEWDECK- PATILONG VIEWPOINT, BANAUE	IFUGAO	241	FOR FOLLOW-UP,
34	BRGY. CARIG, TUGUEGARAO CITY	CAGAYAN		SENT A LETTER TO THE OFFICE OF PROVINCIAL GOVERNOR, REQUESTING FOR COPIES OF THE TITLE OR CERTIFICATION.
35	LIWAN WEST, RIZAL	KALINGA	20,000	MADE A FOLLOW-UP MEMORANDUM AND PHONE CALL REQUESTING FOR COPIES OF THE SUBDIVISION PLAN AND TECHNICAL DESCRIPTION.
36	CAMP FULLON, SAN JOSE/AUTAJAY-TAVARRO VS. NFA ANTIQUE	ANTIQUE	18,297	THE NFA ANTIQUE PROVINCIAL OFFICE HAS NOT SURVEYED THE PROPERTY. SAID SURVEY IS INDISPENSABLE TO DETERMINE THE METES AND BOUNDS OF THE DONATED PROPERTY.
			4,056	
			623	

37	MANGOSO, SIGMA	CAPIZ	20,086	ON OCTOBER 18, 2013, THE ATTY. AGGALAO DRAFTED AN SPA, FOR THE SIGNATURE OF THE ADMINISTRATOR, AUTHORIZING MANAGER ABELLO TO FILE THE PETITION FOR SEGREGATION AND ISSUANCE OF NEW TITLE.
38	SAN FERNANDO, SAN JOSE BUANAVISTA	ANTIQUE	18,279 4,056 623	A NOTICE OF LIS PENDENS IS PENDING REGISTRATION WITH THE REGISTER OF DEEDS OF ANTIQUE.
39	RAPU-RAPU PROPERTY, BUENAVISTA ALBAY	ALBAY	590000 (19.6 HECTARES)	PENDING IS A MEMO ADVISING NFA ALBAY TO OCCUPY, CONDUCT SURVEY, AND FENCE THE PROPERTY TO PROVE LATER THAT NFA HAS BEEN IN OPEN, PUBLIC, EXCLUSIVE, NOTORIOUS OF THE POSSESSION OF THE PROPERTY, WHICH IS ONE OF THE REQUIREMENTS IN FILING A PETITION FOR ORIGINAL REGISTRATION.
40	NAPO, PANDAN, JICA WHSE.	CATANDUANES	2,000	FOR EVALUATION
41	ALIAGA	NUEVA ECIJA	4,707	FOR EVALUATION
42	ALLILINU, CALAMANUIGAN	CAGAYAN	6,780	FOR EVALUATION
43	DINALUPIHAN	BATAAN	5,000	FOR EVALUATION
44	NURSERY SITE, TUGUEGARAO	CAGAYAN	650	WRIT OF EXECUTION ISSUED. COORDINATE WITH THE SHERIFF FOR THE EXECUTION OR LEVYING OF PROPERTIES.
45	LOGON, COMBADO, ORMOC CITY	NORTHERN LEYTE	2,200	FOR EVACUATION
46	BRGY. AGUIT-ITAN, CALBAYOG CITY	WESTERN SAMAR	1,800	PREPARED DEED OF ACCEPTANCE. LGU REFUSED TO SIGN INSTEAD IT WANTS TO GIVE NFA MERE USUFRUCT OVER THE PROPERTY
			1,210	

47	BRGY. LEONARDA, PENGUE RUYU (LOT 3)	CAGAYAN	508	WRIT OF EXECUTION ISSUED. COORDINATE WITH THE SHERIFF FOR THE EXECUTION OR LEVYING OF PROPERTIES.
48	ALAC, SAN QUINTIN	PANGASINAN	6,271	ORIGINAL DOCUMENTS CANNOT BE LOCATED. FOR DETERMINATION AS TO THE PROPRIETY OF FILING AN APPLICATION FOR ORIGINAL REGISTRATION UNDER P.D. 1529.

49	A. GOVERNMENT CENTER, CATBALOGAN CITY B. CATBALOGAN	WESTERN SAMAR EASTERN SAMAR	1,924.56	PREPARED DEED OF ACCEPTANCE FOR THE DEED OF DONATION. MOTHER TITLE IS IN THE NAME OF THE PROVINCE. WAITING FOR DOH CLARIFICATION(DOH RENTAL OFFICE) AS REQUIRED BY DENR, FOR APPLICATION OF PRESIDENTIAL PROCLAMATION.
50	BALALENG, BANTAY, ILOCOS SUR	ILOCOS SUR	6,588	LRA DIRECTED REGISTRAR OF DEEDS TO ISSUE TITLE. -NFA P.O. PAID THE NECESSARY FEES FOR THE ISSUANCE OF THE TITLE. NOW AWAITING RELEASE OF THE TITLES IN FAVOR OF NFA.
51	LUNA, ISABELA	ISABELA		UPON INQUIRY WITH LMB, THE PROPERTY APPEARS TO HAVE BEEN FINALLY "DEEDED" ON NOVEMBER 03, 1947, TO MR. HIPOLITO GARMA. -DEED OF DONATION CANNOT STILL BE LOCATED DESPITE EFFORT.
52	BRGY. ASUNCION, ORMOG CITY	LEYTE		NFA FILED AN APPLICATION FOR ORIGINAL REGISTRATION OF TITLE. PETITION GRANTED. LRA TO PROCESS ISSUANCE OF TITLE.
53	BRGY. OSMENA, DAPA	SURIGAO DEL NORTE	2,000 (2,149)	TO SECURE ALL RELEVANT DOCUMENTS FROM THE FIELD OFFICE.
54	BRGY. 4, CATBALOGAN CITY	WESTERN SAMAR	5,000	FOR ISSUANCE OF SPECIAL PATENT. STILL WAITINGFORDOCUMENTFROM THE DOH REGION 8.
55	JORDAN, GUIMARAS	CAPIZ	1,099 (1,000)	PER CHECKLIST SUBMITTED BY THE FIELD OFFICE, TITLING IS IN PROGRESS PER LRA REG. CASE. NO 4 AND LRA RECORD N-74569. TO BE VERIFIED.
56	BARAS, PALO, LEYTE (GOV'T. SITE)	NORTHERN LEYTE	28,000	FOR PREPARATION OF USUFRUCT AGREEMENT. DRAFT USUFRUCT AGREEMENT PREPARED BY THE PROVINCIAL OFFICE ALREADY REVIEWED BY LAD ON AUGUST 2013, WAITING FOR FURTHER

				DEVELOPMENTS.
57	POB. BOJO, SERGIO OSMENA	ZAMBOANGA DEL NORTE	2,000	TO SECURE ALL RELEVANT DOCUMENTS FROM THE FIELD OFFICE.
58	BRGY. BANCO, TITAY	ZAMBOANGA SIBUGAY	2,500	TO SECURE ALL RELEVANT DOCUMENTS FROM THE FIELD OFFICE.
59	POBLACION COMPOSTELA	COMPOSTELA VALLEY	10,000	ON 29 MARCH 2011, DENR REGION XI ALREADY ASSIGNED THE PROPERTY PATENT NO. 3858, WHICH IS STILL PENDING APPROVAL OF THE DENR SECRETARY. ON APRIL 7, 2011, LADINQUIRE ON THE STATUS OF THE APPLICATION. NO REPLY FROM THE LMB YET.
60	CADRE , GUIHULNGAN CITY	NEGROS ORIENTAL	3,000	STILL AWAITING FOR THE ISSUANCE OF TITLE BY THE LAND REGISTRATION AUTHORITY / REGISTRY OF DEEDS. DECISION ISSUED BY THE COURT IN FAVOR OF NFA. COPY OF DECISION FORWARDED TO LRA.
61	BRGY. HIPUSNGO, BAYBAY CITY	SOUTHERN LEYTE	5,394	VERIFICATION MADE WITH THE ROD-N. LEYTE PER LAD LETTER 07 FEB. 2012, WHETHER THERE WAS ANY TITLE ISSUED TO THE MUN. OF BAYBAY PURSUANT TO THE SAID COURT DECREE. AWAITING REPLY.

62	DIFFUN	QUIRINO	3,500	FOR EVALUATION WHETHER APPLICATION FOR FREE PATENT UNDER RA 10023, AS SUGGESTED BY THE PENRO, IS FEASIBLE.
63	SAMONTE, QUEZON	ISABELA	5,000	CANNOT BE REGISTERED. SB ISSUED RESOLUTION NO. 2011-46 WITHDRAWING ITS INTENTION TO DONATE PROPERTY TO NFA.
64	SAN ANTONIO, SANTA MARIA	ISABELA	20,000	TO SECURE ALL RELEVANT DOCUMENTS FROM THE FIELD OFFICE.
65	BORONGAN	EASTERN SAMAR	5,136	FOR EVALUATION.
66	COGON, GUIAUN,	EASTERN SAMAR	2,000	TO SECURE LEGIBLE COPY OF DOCUMENTS AND PREPARATION OF PETITION FOR REGISTRATION OF REAL PROPERTY.
67	STA. ANA, DAVAO CITY	DAVAO DEL SUR		PENDING ISSUANCE OF A PRESIDENTIAL PROCLAMATION.
68	SHARIF AGUAK	MAGUINDANAO	23,311	TO SECURE FROM PROVINCIAL OFFICE THE FOLLOWING DOCUMENTS; AFFIDAVIT OF LOSS, CERTIFIED COPY OF TITLE BY THE REGISTER DEEDS, LATEST TAX DECLARATION AND PUBLICATIONS.
69	SAN LORENZO, GUIMARAS	CAPIZ	5,000	REQUESTED FROM PROVINCIAL OFFICE ON NOVEMBER 4, 2013, THE FOLLOWING DOCUMENT: CERTIFIED PHOTOCOPY SURVEY PLAN, CERTIFIED COPY OF THE DEED, LATEST TAX DECLARATION AND TECHNICAL DESCRIPTION.

70	KABACAN	NORTH COTABATO	10,000	NFA CANNOT ACQUIRE OWNERSHIP. THE SAID DEED DOES NOT TRANSFER OWNERSHIP BUT ONLY RIGHT TO USE AND ENJOY THE LAND, UNLESS THE LAND IS UNREGISTERED AND WERE OCCUPIED BY NFA CONTINUOUSLY TO THE EXCLUSION OF OTHERS.
71	TUMOG, LUNA, APAYAO	NORTHWESTERN CAGAYAN	20,000	NFA CANNOT ACQUIRE OWNERSHIP. TITLE IS ALREADY NAMED UNDER THE BUREAU OF PLANT AND INDUSTRY. MERE TAX DECLARATION IS NOT SUFFICIENT PROOF OF OWNERSHIP.
72	BAHBAH, PROSPERIDAD	AGUSAN DEL SUR		INQUIRE FROM THE MANAGEMENT IF WE WILL PURSUE THE LAND AS THERE WAS ALREADY REVOCATION OF THE DEED OF DONATION FOR FAILURE TO COMPLY WITH THE CONDITION OF THE DEED, BESIDES, WE HAVE NOT SINCE UTILIZE THE SAID LAND.
73	CAMIGUIN		3,500	
74	BIDCOR, BRGY. POBLACION, BAYUGAN CITY	AGUSAN DEL SUR	8,000	WE STILL WAIT FOR THE FOLLOWING DOCUMENTS: SURVEY PLAN, CERTIFIED COPY OF THE DEED, LATEST TAX DECLARATION AND TECHNICAL DESCRIPTION.

75	BRGY. CALAGDAAN, CANTILAN	SURIGAO DEL SUR	4,172	WE FILE A PETITION IN COURT REGARDING UNTITLED LOT AND TRANSFER FROM THE RD AS TO THE TITLED ONE.
76	268 QUIRINO HIGHWAY, SAN BARTOLOME, NOVALICHES	QUEZON CITY, CDO	2,892	READY FOR FILING. THE ONLY DOCUMENT LACKING IS A CERTIFICATION FROM THE RD THAT TCT WAS BURNED DURING A FIRE WITH THE RD.
77	MINPROCOR WHSE. 447 DEL MONTE AVE. SFDM	QUEZON CITY, CDO	2,929	WAIT FOR THE DECISION OF THE MANAGEMENT ON THE MATTER.
78	BANGKILING, SUCLARAN, SAN LORENZO	GUIMARAS	10,000	
79	BOROL 1 ST , BALAGTAS	BULACAN	13,858	THE NATURE OF OWNERSHIP IS UNDETERMINED BUT WE HAVE POSSESSION AND TAX DECLARATION AS PROOF OF OWNERSHIP. WE REQUESTED LAST NOVEMBER 5, 2013 FOR AN UPDATE.
			1,246	
			859	
			57	

80	CALIGUIAN, BURGOS	ISABELA	4,716	WE STILL AWAIT FOR THE FOLLOWING DOCUMENTS: SURVEY PLAN, CERTIFIED COPY OF THE DEED, LATEST TAX DECLARATION AND TECHNICAL DESCRIPTION.
81	PROVINCIAL CAPITOL COMPOUND	JOLO SULU	7,125	
82	INTEGRATED FLGC, WAO	LANAO DEL SUR	10,000	IN THE LETTER DATED 14 NOVEMBER 2013, PROVINCIAL MANAGER HADJA SITTIENAI DAH D. SAMPACO INFORMED LAD THAT THEY CANNOT PROVIDE THE REQUESTED DOCUMENTS BECAUSE THE SAID PROPERTY "IS UNDER THE JURISDICTION" OF NFA REGIONAL OFFICE NO. X, HENCE, WE SENT A REQUEST TO THE REGIONAL OFFICE ON DECEMBER 4, 2013.
83	BO. LIBERTAD, PORO, TUDELA	CEBU	2,000 (2,107)	REQUESTED FOR DOCUMENTS TO BE ATTACHED IN THE PETITION FOR REGISTRATION.
84	BRGY. SALUDANES, DINGRAS	ILOCOS NORTE	10,000	REQUESTED FOR DOCUMENTS TO BE ATTACHED IN THE PETITION FOR REGISTRATION.
85	MARAMAG	BUKIDNON	26,374	REQUESTED FOR DOCUMENTS TO BE ATTACHED IN THE PETITION FOR REGISTRATION.
86	BRGY. CALUMPANG, NAVAL	BILIRAN	3,229	REQUESTED FOR DOCUMENTS TO BE ATTACHED IN THE PETITION FOR REGISTRATION.
87	BRGY. CALAGDAAN	SURIGAO DEL SUR	6,027	REQUESTED FOR DOCUMENTS TO BE ATTACHED IN THE PETITION FOR REGISTRATION.
88	TACURONG	SULTAN KUDARAT		ALREADY REFERRED TO THE MANAGEMENT FOR ACTION.

89	POOC, SANTA FE	CEBU	5,000	FOR COMPLETION OF DOCUMENTS NEEDED IN THE FILING OF THE PETITION.
90	BARUBOC, MALLIG	ISABELA	5,000	FOR COMPLETION OF DOCUMENTS NEEDED IN THE FILING OF THE PETITION. ALSO SENT MEMORANDUM DATED JUNE 2013 REQUESTING THE PROVINCIAL OFFICE TO INQUIRE FROM THE REGISTER OF DEEDS REGARDING PAYMENT OF REGISTRATION FEES, TAXES IF THERE IS ANY, AND OTHER FEES FOR PURPOSES OF REGISTERING THE PROPERTY.
91	POB. 2 INATOPILAN, CATUBIG	NORTHERN SAMAR	8,000	REQUESTED FOR DOCUMENTS AND WAS ONLY GIVEN PHOTOCOPIES OF TAX DECLARATIONS, DEED OF DONATION AND SUBDIVISION

92	BO. CENTRO DATU PIANG	MAGUINDANAO	41,162	LOT IS ALREADY TITLED IN THE NAME OF NFA UNDER TCT NO. T-3585 BUT WE DO NOT HAVE THE ORIGINAL COPY. TAX DECLARATION IS ALSO IN THE NAME OF NFA. 41, 162 SQ.M. LOT IS BEING OCCUPIED BY SQUATTERS ACCORDING TO THE PROVINCIAL OFFICE.
93	CABID-AN SORSOGON P.O.	SORSOGON	20,000 (19,958)	REAL PROPERTY IS BEING LEASED FROM THE PROVINCIAL GOVERNMENT OF SORSOGON. 19,958 SQ.M. ALREADY REQUESTED THE PROVINCIAL OFFICE FOR DOCUMENTS THRU LAD-B-J-535, DATED OCTOBER 29, 2013, NO DOCUMENTS RECEIVED YET.
94	APAS, BANILAD	CEBU	5,000	ALREADY REQUESTED THE PROVINCIAL OFFICE FOR DOCUMENTS THRU LAD-B-J-532, DATED OCTOBER 29, 2013. NO DOCUMENTS RECEIVED YET.
95	LEONARDA, PENGUE RUYU (LOT 4)	CAGAYAN	509	ALREADY REQUESTED THE PROVINCIAL OFFICE FOR THE DOCUMENTS THRU LAD-B-J-533, DATED OCTOBER 29, 2013. ONLY RECEIVED A COPY OF THE TAX DECLARATIONS.
96	FLGC, KILI-KILI	LANAO DEL SUR		ALREADY REQUESTED THE PROVINCIAL OFFICE FOR DOCUMENTS THRU LAD-B-J-534, DATED OCTOBER 29, 2013. NO DOCUMENTS RECEIVED YET.
97	SALVACION, ALICIA	ISABELA	10,000	PM LESLIE MARTINEZ STATED IN IDM CODED ISA-SSID-A-16, DATED JANUARY 8, 2014, THAT THE SUBJECT LOT IS NOW REGISTERED UNDER NFA'S NAME LAST MARCH 22, 2012, AND THE OWNER'S DUPLICATE COPY IS WITH THE BTMFD FOR SAFEKEEPING.

98	POBLACION, BADIAN	CEBU	5,244	ON OCTOBER 23, 2013, A MEMORANDUM WAS ISSUED TO PM NESTOR REY ALCOSEBA, CEBU REQUESTING HIM DOCUMENTS NECESSARY FOR FILING FOR LAND REGISTRATION OF THE NFA LOT.
99	BRGY. DANCALAN, BOBON	NORTHERN SAMAR	5,000	VERIFY AND EVALUATE IF THE DOCUMENTS NEEDED FOR FILING OF THE PETITION FOR LAND TITLING IS COMPLETE SO WHEN CAN PROCEED WITH THE APPLICATION FOR TITLING.

100	CAPITOL SITE, BAYOMBONG	NUEVA VIZCAYA	947.47	DRAFT LETTER TO THE PROVINCIAL ASSESSOR'S OFFICE (PAO) TO REQUEST FOR THE FOLLOWING ORIGINAL DOCUMENTS: THE ORIGINAL OR CERTIFIED PHOTOCOPY OF TITLE AND THE COPY OF THE TAX DECLARATION OF THE BOTH LOT AND THE BUILDING ERECTED THEREIN FOR POSSIBLE FILING OF PETITION FOR LAND TITLING OF THE NFA PROPERTY INVOLVED.
101	BANIGAN, LILOY	ZAMBOANGA DEL NORTE	1,800	REQUIRE THE NFA PROVINCIAL OFFICE TO COORDINATE WITH THE OWNER OF THE PROPERTY, TO GIVE TO US THE ORIGINAL COPY OF THE TITLE SINCE IT WAS MENTIONED IN THE CHECKLIST THAT THE TITLE IS STILL IN THE OWNER. AS OF NOW NO RESPONSE FROM THE OFFICE YET.
102	BANISILAN	NORTH COTABATO	14,149	TO FOLLOW-UP WITH THE PROVINCIAL OFFICE, NFA- NORTH COHABITE, IF THEY ALREADY COMPLIED WITH THE MEMO FROM THE LAD. THEN, TO VERIFY AND CHECK THE UPDATE ON CLOA APPLICATION BEFORE THE DAR-NORTH COTABATO.
103	BRGY. BISLIG CITY (MANGAGOY)	SURIGAO DEL SUR	1,507	ALREADY SENT A MEMORANDUM REQUESTING THE DOCUMENTS FROM THE PROVINCIAL OFFICE LAST DECEMBER 21, 2013.
104	FSC LOT, BAY-ANG, UBAY	BOHOL	2,948	THE LOT REQUIRES A SPECIAL PATENT IN ORDER THAT IT MAY BE REGISTERED IN THE NAME OF NFA. THE PETITION IS ALREADY FILED WITH THE DENR.
105	BRGY. BAGACAY, ROMBLON	ROMBLON	1,122	REQUEST FOR THE DOCUMENTS NEEDED FOR THE TITLING ALREADY SENT TO THE PROVINCIAL OFFICE LAST DECEMBER 21, 2013. NO RESPONSE YET FROM PROVINCIAL OFFICE.
106	LEGAZPI PROPERTY, ALBAY	ALBAY		SUBMITTED DOCUMENTS FROM NFA ALBANY FOR REVIEW AND EVALUATION.
107	LIGAO PROPERTY, ALBAY	ALBAY		SUBMITTED DOCUMENTS FROM NFA ALBANY FOR REVIEW AND EVALUATION.
108	LIBON PROPERTY, ALBAY	ALBAY		FOR FOLLOW-UP, STATUS OF THE ISSUANCE OF NEW TCT FROM THE REGISTRY OF DEEDS.
109	TABACCO CITY	ALBAY		FOR FOLLOW-UP, STATUS OF THE ISSUANCE OF NEW TCT FROM THE REGISTRY OF DEEDS.

110	LIBERTAD, BUTUAN CITY	AGUSAN DEL NORTE	16,448	FOR ISSUANCE OF PRESIDENTIAL PROCLAMATION (WITH COMPLETE STAFF WORK)
111	MANSASA, TAGBILIRAN CITY	BOHOL	66	NFA BOHOL COORDINATED AND SET A MEETING TO DR. SORIA

				WHICH IS IN THE POSSESSION OF THE TITLE AND PROMISED TO SURRENDER THE TITLE TO RD TAGBILARAN ON JULY 11, 2014(FRIDAY).
112	CAMARAG, SAN ISIDRO	ISABELA	5,000	BEFORE WE FILE THE PETITION, A CERTIFIED COPY OF THE DEED OF DONATION IS NEEDED. DETERMINE ALSO IF OPEN POSSESSION CAN BE USED AS A MODE OF ACQUIRING OWNERSHIP.
113	BRGY. POBLACION, TRENTO	AGUSAN DEL SUR	10,000	BEFORE WE MOVE, LET US WAIT FOR THE RESULT OF THE CONTROVERSY PENDING BEFORE DENR AS THE LAND MIGHT ALREADY IN THE NAME OF THE PROVINCE, WRITE THE PROVINCIAL OFFICE REGARDING THE STATUS OF THE CONTROVERSY.
114	COGON, BOGO	CEBU	5,000	DONATION DATED 10-21-1975
115	LARENA, SIQUIJOR	SIQUIJOR	3,000	PURCHASED DATED 4-18-1977, NFA SIQUIJOR REQUESTED FROM THE LRA A CERTIFICATION ON THE REGISTRATION OF THE SAID LOT. AWAITING THE REQUESTED DOCUMENTS.
116	LOAKAN, BAGUIO CITY	BAGUIO CITY	21,115(1,214)	FOR ISSUANCE OF PRESIDENTIAL PROCLAMATION/SPECIAL PATENT

STATUS OF NFA PROPERTIES AT REGIONAL OFFICE II ASSIGNED TO LAD LAWYERS

AS OF MARCH 31, 2014

1	SAN GABRIEL	CAGAYAN	324		ATTY. EDNA T. LOVERIA
2	DOTAL ST. POBLACION LAGAWE	IFUGAO	1,323	REQUESTED FOR ALL DOCUMENTS FROM LOCAL FILED'S OFFICE ON SEPTEMBER 30, 2012	ATTY. JOEFFREY G. PAGDANGANAN
3	POBLACION, BONTOC	MOUNTAIN PROVINCE	800		ATTY. ARNOLD O. AGGALAO
4	NFA FLGC- NAMILLANGAN, ALFONSO LISTA	IFUGAO	3,000	FOR ANNOTATION OF THE AFFIDAVIT OF LOSS. NOTE HOWEVER, THAT THE AFFIDAVIT OF LOSS WAS EXECUTED BEFORE A NOTARY PUBLIC OF CALIFORNIA AND NOT WITH THE NOTARY PUBLIC FOR THE PHILIPPINES OR A PHILIPPINE CONSUL DULY AUTHORIZED TO ADMINISTER OATH.	ATTY. ARNOLD O. AGGALAO
5	NFA-AGUIAN VIEWDECK-PATILONG VIEWPOINT, BANAUE	IFUGAO	241	FOR FOLLOW-UP,	ATTY. ARNOLD O. AGGALAO
6	FLGC-WHSE. STA. MARIA, ALFONSO LISTA	IFUGAO	1,247	RE-POSSESSION ISSUE IS BEING HANDLE BY ATTY. ERWIN C. ANGLES	ATTY. ARNOLD O. AGGALAO
7	BRGY. CARIG, TUGUEGARAO CITY	CAGAYAN		SENT A LETTER TO THE OFFICE OF PROVINCIAL GOVERNOR, REQUESTING FOR COPIES OF THE TITLE OR CERTIFICATION.	ATTY. ARNOLD O. AGGALAO
8	LIWAN WEST, RIZAL	KALINGA	20,000	MADE A FOLLOW-UP MEMORANDUM AND PHONE CALL REQUESTING FOR COPIES OF THE SUBDIVISION PLAN AND TECHNICAL DESCRIPTION.	ATTY. ARNOLD O. AGGALAO
9	ALLILINU, CALAMANUIGAN	CAGAYAN	6,780	FOR EVALUATION	ATTY. JUBAL R. PICIO
10	NURSERY SITE, TUGUEGARAO	CAGAYAN	650	WRIT OF EXECUTION ISSUED. COORDINATE WITH THE SHERIFF FOR THE EXECUTION OR LEVYING OF PROPERTIES.	ATTY. JUBAL R. PICIO
11	BRGY. LEONARDA, PENGUE RUYU (LOT 3)	CAGAYAN	508	WRIT OF EXECUTION ISSUED. COORDINATE WITH THE SHERIFF FOR THE EXECUTION OR LEVYING OF PROPERTIES.	ATTY. JUBAL R. PICIO
12	DIFFUN	QUIRINO	3,500	FOR EVALUATION WHETHER APPLICATION FOR FREE PATENT UNDER RA 10023, AS SUGGESTED BY THE PENRO, IS FEASIBLE.	ATTY. LESLIE B. RAMIREZ

12	SAMONTE, QUEZON	ISABELA	5,000		ATTY. LESLIE B. RAMIREZ
13	SAN ANTONIO, SANTA MARIA	ISABELA	20,000	TO SECURE ALL RELEVANT DOCUMENTS FROM THE FIELD OFFICE.	ATTY. LESLIE B. RAMIREZ
14	TUMOG, LUNA, APAYAO	NORTHWESTERN CAGAYAN	20,000	NFA CANNOT ACQUIRE OWNERSHIP. TITLE IS ALREADY NAMED UNDER THE BUREAU OF PLANT AND INDUSTRY. MERE TAX DECLARATION IS NOT SUFFICIENT PROOF OF OWNERSHIP.	ATTY. ERWIN C. ANGELES
15	CALIGUIAN, BURGOS	ISABELA	4,716	WE STILL AWAIT FOR THE FOLLOWING DOCUMENTS: SURVEY PLAN, CERTIFIED COPY OF THE DEED, LATEST TAX DECLARATION AND TECHNICAL DESCRIPTION.	ATTY. ERWIN C. ANGELES
16	BARUBOC, MALLIG	ISABELA	5,000	FOR COMPLETION OF DOCUMENTS NEEDED IN THE FILING OF THE PETITION. ALSO SENT MEMORANDUM DATED JUNE 2013 REQUESTING THE PROVINCIAL OFFICE TO INQUIRE FROM THE REGISTER OF DEEDS REGARDING PAYMENT OF REGISTRATION FEES, TAXES IF THERE IS ANY, AND OTHER FEES FOR PURPOSES OF REGISTERING THE PROPERTY.	ATTY. CHERRY F. LAGUTING
17	LEONARDA, PENGUE RUYU (LOT 4)	CAGAYAN	509	ALREADY REQUESTED THE PROVINCIAL OFFICE FOR THE DOCUMENTS THRU LAD-B-J-533, DATED OCTOBER 29, 2013. ONLY RECEIVED A COPY OF THE TAX DECLARATIONS.	ATTY. MA. CHARIZMA B. MADRIAGA
18	SALVACION, ALICIA	ISABELA	10,000	PM LESLIE MARTINEZ STATED IN IDM CODED ISA-SSID-A-16, DATED JANUARY 8, 2014, THAT THE SUBJECT LOT IS NOW REGISTERED UNDER NFA'S NAME LAST MARCH 22, 2012, AND THE OWNER'S DUPLICATE COPY IS WITH THE BTFMD FOR SAFEKEEPING.	ATTY. BENEDICK C. NOGOY
19	CAPITOL SITE, BAYOMBONG	NUEVA VIZCAYA	947.47	DRAFT LETTER TO THE PROVINCIAL ASSESSOR'S OFFICE (PAO) TO REQUEST FOR THE FOLLOWING ORIGINAL DOCUMENTS: THE ORIGINAL OR CERTIFIED PHOTOCOPY OF TITLE AND THE COPY OF THE TAX DECLARATION OF THE BOTH LOT AND THE BUILDING ERECTED THEREIN FOR POSSIBLE FILING OF PETITION FOR LAND TITLING OF THE NFA PROPERTY INVOLVED.	ATTY. BENEDICK C. NOGOY
20	CAMARAG, SAN ISIDRO	ISABELA	5,000	BEFORE WE FILE THE PETITION, A CERTIFIED COPY OF THE DEED OF DONATION IS NEEDED. DETERMINE ALSO IF OPEN POSSESSION CAN BE USED AS A MODE OF ACQUIRING OWNERSHIP.	ATTY. MARKO C. CALLANTA

PART II - OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL OPERATIONS

1. The validity and accuracy of the Accounts Receivable-Trade totaling P1,655.278 million cannot be ascertained due to lack of proper documentation, negative results of confirmation, and absence of updated information on collections.

1.1 As defined in the Chart of Accounts under the New Government Accounting System (NGAS), Accounts Receivable pertains to the amount due from customers arising from services rendered, trading/business transactions or sale of merchandise or property. This account consists of several sub-accounts, as presented in Table 1.

Table 1 - Schedule of Accounts Receivable – Trade

	Amount	Percentage
National government agencies (NGAs)	P 1,476,773,907	89.2
Local government units (LGUs)	155,978,937	9.4
Government-owned and controlled corporations (GOCCs)	1,067,162	0.1
Private corporations	14,920,793	0.9
Retailers	320,632	0.0
Erap sari-sari store operators; emergency cereal loan assistance	31,787	0.0
Employees	952,964	0.1
Farmers	5,231,670	0.3
Total	1,655,277,852	100.0
Less: Allowance for Doubtful Accounts	745,001,846	45.0
Accounts Receivable – net	P 910,276,006	55.0

1.2 Aging of the accounts revealed that P850.591 million or 51.4 per cent of the total balance of P1,655.278 million has remained outstanding for two to four years and more, as shown in Table 2.

Table 2 - Aging of Accounts Receivable-Trade

Age	Amount	Percentage
Less than one year	P 768,137,019	46.4
One year but less than two years	36,549,317	2.2
Two years but less than three years	120,755,807	7.3
Three years but less than four years	217,396,380	13.1
Four years and above	512,439,329	31.0
	850,591,516	51.4
	P 1,655,277,852	100.00

1.3 In the audit of the December 31, 2012 Accounts Receivable, there was P125.486 million from the Branch Transactions Accounting Section (BTAS) that have been outstanding for many years but the particulars of the transactions remained unverified. As at audit date, the amount of unverified transactions increased to P129.915 million or by 3.5 per cent equivalent to P4.429 million as shown in Table 3.

Table 3 - Schedule of Unverified Accounts Receivables

	2013	2012	Increase/(Decrease)
NGAs	P 61,499,346	P 55,946,241	P 5,553,105
LGUs	5,133,235	4,497,854	635,381
GOCCs	50,275,921	46,739,528	3,536,393
Private corporations	10,303,759	15,697,159	(5,393,400)
Retailers	183,351	83,824	99,527
Employees	333,294	335,443	(2,149)
Farmers	2,185,945	2,185,945	-
	P 129,914,851	P 125,485,994	P 4,428,857

1.4 The year-end unverified transactions of P129.915 million are equivalent to 7.8 per cent of the year-end balance of the Accounts Receivable account of P1,655.278 million. While the percentage is quite low, it must be noted that the unverified amount is very material and even increased during the year.

1.5 NFA Standard Operating Procedure (SOP) No. GM-DN14 on Rice Credit Sales Program for Local and National Government Offices including State Universities and Colleges (SUCs) and Government-Owned and Controlled Corporations dated March 25, 1999 provides that rice issuances shall be treated as credit sales by the issuing provincial office (PO). NFA-Head Office (HO), as provided in the said SOP, will handle the collections, including the preparation of credit advice memoranda for any or all collections received. The advices shall be sent to the concerned POs as their basis to credit or reduce the Accounts Receivable account.

1.6 Rice withdrawals/issuances based on wired instructions from NFA-HO are recorded as Accounts Receivable in the regional and provincial offices (ROs/POs). Collections may have already been received by NFA-HO from the concerned agency/units but NFA field offices could not effect the adjustments in their books in the absence of corresponding advice memorandum from NFA-HO. Table 4 presents the status of some accounts receivables in the NFA-HO and ROs.

Table 4 – Status of some Accounts Receivable accounts

Office	Balance (in millions)	Remarks
HO	P 74.274	78.9 per cent or P58.599 million receivables from the Office of the President (OP) remained outstanding since April 2007; total balance also includes receivables from the Bureau of the Treasury (BTr), Philippine National Red Cross (PNRC) and Department of National Defense (DND); confirmations made yielded negative results; reconciliation on-going.
Central District Office (CDO)	140.963	6.8 per cent or P9.656 million receivables from the Department of Social Welfare and Development (DSWD) and Philippine Amusement and Gaming Corporation (PAGCOR) remained outstanding and uncollected for over two years.
South District Office (SDO)	92.066	8.4 per cent or P7.711 million remained outstanding and uncollected for over two years; also includes receivables from DSWD.

Office	Balance (in millions)	Remarks
Region I – Benguet Provincial Office (PO)	2.427	89.6 per cent or P2.175 million receivables from Aviation Security Command (AVSECOM), Bureau of Telecommunications, Ministry of Public Works and Highways, now Department of Public Works and Highways (DPWH), National Disaster Coordinating Council (NDCC), N.Castillo and PNRC remained outstanding for over four years; supporting documents lacking to enforce collections.
Region I – Eastern Pangasinan PO	4.015	100 per cent remained outstanding for over four years; includes receivables from DSWD, NDCC, Abono Partylist and Municipality of San Fabian.
Region IV – Marinduque PO	8.412	54.3 per cent or P4.568 million pertains to CYs 2006-2007 accounts with the Office of the Congressman.
Region IV – Romblon PO	7.789	100 per cent remained outstanding for over three years.
Region IV – Palawan PO	7.080	46.7 per cent or P3.308 million cannot be ascertained due to incomplete and improper documentation of transactions; includes receivables from Provincial Disaster Risk Reduction and Mitigation Office - Provincial Government of Palawan (PDRRMO-PGP). However, the sales were not supported with documents as required in the Memorandum of Agreement (MOA).
Region V- Catanduanes PO	5.764	93.0 per cent or P5.359 million remained outstanding for over four years, accuracy not validated due to absence of subsidiary ledgers.
CARAGA	15.612	80.0 per cent or P12.482 million remained outstanding for over two years.

1.7 The lack of proper/complete documentation, negative results of confirmation, and absence of updated information on collections in preparation of credit advice memoranda and existence of dormant accounts rendered the validity and recoverability/collectibility of the Accounts Receivable – Trade account doubtful.

1.8 **We reiterated our recommendations in previous audit that Management:**

a. **Require the Accounting Services Department (ASD) to fast-track the verification and analysis of the Accounts Receivables so that necessary adjustment can be effected in the books, and update the status of collections as basis for the preparation of credit advices to the regional/provincial offices (ROs/POs);**

b. **Oblige the Accountants and other responsible personnel of the ROs/POs to obtain and or accomplish the complete and proper documents supporting the sales on credit, and conduct reconciliation of the actual rice releases with the payments made at NFA-HO to come up with the correct balances of Accounts Receivable. Henceforth, strictly enforce the provisions of the MOA and NFA SOP on the documentation of rice releases on credit sales, and the collection of the same; and**

c. **Continue to vigorously pursue efforts to collect the receivables not only from the NGAs but from the LGUs and other institutions as well.**

1.9 The ASD submitted the following actions taken on NFA-HO and Districts' accounts:

- a. OP - NFA submitted the certified photocopy of pertinent documents to OP to support the NFA's claims. The OP referred the matter to the Presidential Management Staff (PMS) since according to them the latter was the one which handled the special project during the time of former Presidents Joseph E. Estrada and Gloria M. Arroyo. NFA is currently preparing another demand letter to this effect.
- b. BTr – retrieval/verification of supporting documents and coordination with NFA field offices are being undertaken in the reconciliation of this account.
- c. PNRC – Grains Marketing and Operations Department (GMOD) and ASD have sent reiteration wire messages to the concerned provinces regarding the unbilled issued stocks amounting to P2.473 million. The remaining balance of P1.059 million is still for verification and reconciliation with the concerned Departments.
- d. DND – reconciliation of this account was completed. The necessary adjustment was effected in the books of accounts in March 2014.
- e. NFA has filed a petition for money claim with the Commission on Audit (COA) on June 20, 2014 for the collection of rice deliveries under the Department of Education's Food for School Program in the amount of P92.797 million. The petition was made pursuant to the provision of the 2009 Revised Rules of Procedure of the COA (RRPC).
- f. A follow-up letter was also sent to PAGCOR on June 11, 2014 requesting for the settlement of its P9.405 million obligation to NFA.

1.10 During the audit exit conference, the Administrator has instructed that there should be an Accounts Receivable session every quarter to discuss the problems with the account. He mentioned that this is the same pattern for reconciliation of account balances and that the one who sells should be the one to collect based on his previous experience. Request for write-off is also an alternative provided there are documents to support the efforts made to collect these accounts.

1.11 The Administrator further directed the GMOD, as the Department in charge of rice issuances, to explain the nature of these long overdue receivables. He also mentioned that the Agency cannot discount the possibility that there might be recorded receivables without delivery of stocks.

1.12 The Deputy Administrator commented that the contract with PNRC, being a private institution, will not be renewed and any issuance should be paid in cash. He admitted though that the accounts will have to be scrutinized, responsibilities identified and collection targets set.

1.13 The comments of the NFA ROs/POs Management are:

a. Region I – Benguet PO - request for condonation of the receivable from AVSECOM, Bureau of Telecommunications and Ministry of Public Highways, now DPWH, was already made with the COA. On the receivable from NDCC, the statement with supporting documents was already submitted to ASD, NFA-HO. Per wire information from NFA-HO, schedule for travel of accounting personnel per province to HO shall be determined by ASD. For the accounts of politician N. Castillo and PNRC, the PO Finance Section will determine through its original documents if collection shall be undertaken by the PO or it shall be transferred also to NFA-HO.

b. Region I – Eastern Pangasinan PO – NFA-HO made the authorization to issue rice on credit to the government agencies/organization, namely: DSWD, NDCC and Abono Partylist. The PO forwards the supporting documents to HO, as the latter will bill and collect the payment. The PO will only credit or reduce the accounts upon receipt of credit advice memorandum from HO on the collections received. Likewise, the Head of Accounting Unit had already coordinated with HO regarding the status of the outstanding receivables. HO confirmed that the said receivables are still uncollected. Accordingly, they added that they are exerting efforts to collect these receivables from concerned government agencies. The receivable from Municipality of San Fabian amounting to P300,667 represents interest and penalties on delayed payment of accounts. A request for condonation was already forwarded to the COA.

c. In Region IV – Palawan PO - Management agreed to implement all recommendations in 2014.

2. Other Non-current Assets – Stock Shortages further increased by P376.767 million from P2,618.001 million in 2012 to P2,994.768 million in 2013, most of which remained outstanding for more than 10 years, but cannot be reclassified to Due from Officers and Employees due to missing/incomplete warehouse/stock reports and slow-paced stock examination and computation of Tolerable Allowance (TOLA); thus, adversely affecting the determination of final amount of shortages collectible from the accountable officers, some no longer connected with the Agency due to retirement, death, resignation and absence without leave.

2.1 Stock 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 Non-current assets - stock shortages and are still subject to stock examination by the Provincial Office (PO), and computation of TOLA 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.

2.2 NFA issued SOP No. GM-WH13 dated April 22, 2003, which pertains to the New Computerized Stock Examination and TOLA Computation. This NFA 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. NFA SOP No. FS-GP20 also

contained revisions on the stock examination and TOLA computation that includes amendments on the manner of payment and the responsibility of the Provincial Manager to file/initiate appropriate administrative and/or criminal charges against the accountable officers.

2.3 As reported in 2012 Annual Audit Report (AAR), the shortages determined from the variances during the physical count of stocks had accumulated and had been lodged in the Other Non-current assets – stocks shortages account for more than 10 years because of incomplete or absence of stock examination and TOLA computation which are requisites in the determination of the final shortages so that the settlement could be worked out.

2.4 In 2013, the stock shortages that are still lodged in Other Non-current assets account due to the absence of and/or incomplete stock examination and TOLA computation amounted to P2,994.768 million, which increased by 14.4 per cent or P376.767 million from 2012 balance, as shown in Table 5.

Table 5 – Other Non-current Assets - Stocks shortages

	2013	2012	Increase
Without stock examination	P 2,247,654,875	P 2,203,082,410	P 44,572,465
With stock examination- without TOLA computation	519,627,467	254,584,029	265,043,438
With stock examination- for TOLA computation	227,485,464	160,334,166	67,151,298
	P 2,994,767,806	P 2,618,000,605	P 376,767,201

2.5 Table 5 shows that shortages amounting to P2,247.655 million without stock examination remained to be the big bulk, which represents 75.1 per cent of the total shortages. These shortages could not be submitted for TOLA computation without the required stock examination. The amount of P519.627 million with stock examination was still with the ROs/POs and had not been submitted to the RTAC for TOLA computation, while the amount of P227.485 million with stock examination was already submitted to the RTAC for TOLA computation.

2.6 The increase by a total amount of P376.767 million in 2013 consisted mostly of new set up for initially determined stock variances for stock examination and TOLA computation. Most of the accountabilities had been outstanding for more than 10 years showing that efforts exerted in the conduct and completion of the stock examination and TOLA computation were still wanting. Thus, the final shortages on these accountabilities could not be established and the collection/settlement from accountable officers concerned could not be pursued.

2.7 As reported in the previous audit, the common problems noted in the ROs/POs were the missing/incomplete warehouse documents/stock reports which should have been the basis for the conduct of stock examination since the accountabilities were incurred as far back in the 1980s (even prior to 80s). Some POs also justified that they lacked personnel for the conduct of examination so they have resorted to the hiring of personnel on job orders, and most of the accountable officers are no longer connected with NFA due to death, retirement, resignation and absence without leave making the stock examination process more difficult.

2.8 **We reiterated our recommendations in previous year that Management:**

- a. **Require the Stock Examination Group to expedite the stock examination and apply the provisions of NFA SOP No. GM-WH13 on the use of secondary documents when warranted to facilitate the examination, and to immediately submit the Stock Examination Report (SER) to the 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 the balance of the accountabilities that could not be ascertained minimized/reduced;**
- c. **Require the Legal Affairs Department (LAD) to look into the status of the filing of cases against accountable officers who incurred stock shortages as reported by the ROs/POs;**
- 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 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 NFA SOPs on the stock examination and TOLA computation.**

2.9 In response, Management gave information that Memorandum Order (MO) Nos. AO-2013-04-13 and 14, both dated April 8, 2013, were issued to all Regional Managers/ RTAC Chairmen and all Provincial Managers/Officers-in-charge 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 NFA SOP No. GM-WH13. Each Office was instructed to submit a timetable to the Administrator's Office, and the Internal Audit Services Department (IASD) was tasked to monitor the compliance with this instruction.

2.10 The IASD recently furnished us with the following updates on the actions taken by Management on the 2012 audit recommendations:

- a. On the stock examination, the field offices were required to submit to IASD their annual targets of stock accountabilities for stock examination and TOLA computation. For the year 2013, the consolidated target was 559 cases of stock accountabilities worth P320.510 million which was about 14.5 per cent of the P2,203.082 million (reported amount in 2012 without stock examination), as shown in Table 6.
- b. On the TOLA computation, Management issued MO No. AO-2013-04-14 dated April 8, 2013 instructing the ROs to submit their timetable of cases of stock

accountabilities for TOLA computation and unresolved appeals. Compliance to this instruction is being monitored by IASD.

**Table 6 - Stock Accountabilities for Stock Examination and TOLA Computation
Target versus Accomplishment
For the year ended December 31, 2013**

Region	Target		Accomplishment		Percentage of no. of cases
	Cases	Amount (in millions)	Cases	Amount (in millions)	
I	40	P 9.612	70	P 75.270	175.0
II	47	21.176	18	12.827	38.3
III	64	26.818	111	47.795	173.4
IV	126	90.096	203	218.732	161.1
V	40	19.726	26	9.686	65.0
VI	36	66.786	12	1.715	33.3
VII	23	3.967	13	5.769	56.5
VIII	26	14.396	20	2.655	76.9
IX	12	1.512	27	22.103	225.0
X	27	41.147	14	7.569	51.9
XI	18	2.984	15	5.317	83.3
XII	20	2.436	44	11.538	220.0
XIII	60	8.071	51	28.121	85.0
XIV	11	10.524	18	379.809	163.6
XV	9	1.259	47	10.603	522.2
Total	559	P 320.510	689	P 839.509	123.3

Noteworthy is the overall accomplishment of 123.3 per cent, which can be attributed to some field offices that exceeded their targets.

c. On the filing of cases against the SAOs, the IASD is preparing the quarterly list of unpaid final shortages of the SAOs, copies of which will be furnished to LAD, Security Services and Investigation Division (SSID) and ASD. The LAD is closely coordinating with IASD and based on their report dated June 18, 2014, they have already filed criminal cases for malversation against 45 SAOs with shortages in the aggregate amount of P306.385 million. About 42 SAOs have settled their stock shortages in the total amount of P4.260 million as of April 30, 2014.

d. On timelines for stock examination and TOLA computation, the IASD shall require the field offices to submit their backlogs with timeframe to complete the stock examination and TOLA computation aside from the annual target being required from them.

e. On sanctions on non-compliance with the NFA SOPs, IASD already conducted special audit on TOLA in selected field offices to determine compliance with SOPs, results of which were forwarded to concerned ROs/POs and HO for their appropriate action. Some findings were referred to SSID for thorough investigation to determine persons responsible and liable for non-compliance of NFA SOPs and Civil Service Commission (CSC) rules.

f. Management has been looking for ways to improve its system. Proof of that is the Electronic-Integrated Financial and Operations Management Information System (e-IFOMIS) software program that will cater to information needs of the

Office. It also inter-connected internal control mechanism from warehouses to the operation and to accounting.

2.11 COA recognized and took note of the actions taken by Management on the audit recommendations, **as we further recommend that these efforts be sustained to attain significant reduction in the stock accountabilities by which the amounts of final shortages have to be established for settlement by the accountable officers.**

3. The significant amount of final stock shortages of P350.841 million recorded under Due from Officers and Employees - Final Stock Shortages account that remained unsettled for more than 20 years casts doubt on the full recovery of the receivable account.

3.1 Final stock shortages are established after the stock examination and computation of the TOLA, and are then reclassified from Other Assets to Due from officers and employees for collection and settlement.

3.2 To facilitate the collection and settlement of the final shortages, NFA had formulated and issued various policies and procedures contained in SOPs. Nonetheless, despite these NFA SOPs, the unsettled shortages recorded as Due from Officers and Employees still amounted to P350.841 million as of December 31, 2013, a slight decrease of 3.9 per cent or P14.295 million from 2012 balance of P365.136 million, indicating the results of the efforts undertaken by Management in requiring the accountable officers to settle the shortages.

3.3 In 2013, a Technical Working Group (TWG) was created composed of employees from LAD, ASD, Human Resource Management Department (HRMD), SSID, IASD, GMOD, NFA Employees' Association (NFAEA) and Administrator's Office to look into the effective implementation of the Guidelines in the Execution of a Compromise Agreement in the Payment of Final Shortages by the NFA accountable officers. The guidelines were approved last November 11, 2013. As of December 31, 2013, through the implementation of the guidelines, collection amounted to P9.272 million. Some SAOs have already paid their accounts in full while others have already submitted their request for installment payment either directly to the Cashier or deducted from what they will receive from their retirement benefits.

3.4 The remaining uncollected/unsettled amount of P350.841 million, however, is still significant that requires more efforts to implement the settlement of shortages.

3.5 Thus, in view of the recurring shortages and the significant amount that remained unsettled, we emphasized to Management the need to conduct an evaluation of the existing warehousing policies and procedures to identify the causes of the incurrence of shortages and to strengthen the measures that will prevent and/or address the same.

3.6 We also reiterated our prior year's audit recommendations that Management:

a. Establish Agency level monitoring and evaluation of the

implementation of the NFA SOPs and guidelines on the settlement of shortages particularly on the issuance of demand letters to SAOs with established shortages within the prescribed period, filing of the appropriate administrative and criminal cases, and collection of shortages;

b. Relieve the SAOs from their posts while stock examination is on-going, as internal control measure; and

c. Strictly enforce the sanctions provided in the Special Provisions of NFA 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.

4. Of the Due from GOCCs, Due from NGAs, Due from LGUs and Other Receivables accounts totaling P319.320 million, 36.9 per cent or P117.711 million remained non-moving since/prior to April 2007, some of which were dormant for more than 10 years and without sufficient supporting documents, thus rendering doubtful the existence and accuracy of the accounts balance.

4.1 As of December 31, 2013, the inter-agency receivables such as the Due from Government-Owned and Controlled Corporations (GOCCs), Due from National Government Agencies (NGAs) and Due from Local Government Units (LGUs), and the Other Receivables account, with total balance of P319.320 million is shown in Table 7.

Table 7 - Inter-agency and Other Receivables accounts

	HO	Field Offices	Total
Inter-agency receivables			
Due from GOCCs	P 95,002,323	P 69,910,084	P 164,912,407
Due from NGAs	6,799,489	29,441,012	36,240,501
Due from LGUs	5,626,446	9,271,152	14,897,598
	107,428,258	108,622,248	216,050,506
Other receivables*	12,637,632	90,632,093	103,269,725
	P 120,065,890	P 199,254,341	P 319,320,231

*Other receivables do not include Advances to Officers and Employees amounting to P3,817,234.

4.2 Analysis of the Due from GOCCs, NGAs and LGUs accounts revealed that, of the total P107.428 million year-end balance of the NFA-HO, 99.7 per cent or P107.081 million pertained to prior years' receivables which remained non-moving since/prior to April 2007; and these non-moving accounts represent 33.5 per cent of the total inter-agency and other receivables of P319.320 million.

4.3 On the other hand, verification of Other Receivables account of P12.638 million disclosed that 84.1 per cent or P10.630 million had been dormant for more than 10 years already. These dormant accounts represent 3.3 per cent of the total receivables of P319.320 million. Only photocopies of the subsidiary ledgers indicating that transactions booked were from payment of marine insurance premium on the importation of rice were

presented as supporting documents. No other document is available to verify the accuracy of the recorded transactions.

4.4 Generally accepted accounting principles dictate that receivables must be existing, the balances are accurate, complete and realizable. And confirmation is one of the procedures to determine the existence of the receivables.

4.5 Out of the 16 confirmation letters sent for receivable accounts amounting to P176.076 million, only six agencies replied, as shown in Table 8. The results show a total variance of P4.548 million.

Table 8 - Results of Confirmation

	Per Books	Confirmed Balance	Variance
Quedan Guaranty Fund Board (QGFB)	P 35,583,940	P 34,555,154	P 1,028,786
Vietnam Southern Food Corporation	2,736,628	-	2,736,628
Manila International Airport Authority (MIAA)	382,176	349,863	32,313
Philippine International Trading Center (PITC)	355,773	-	355,773
Department of Budget and Management (DBM)	346,904	-	346,904
Philippine Center for Postharvest Development	47,975	-	47,975
	P 39,453,396	P 34,905,017	P 4,548,379
	100.0%	88.5%	11.5%

4.6 The receivables from QGFB, MIAA and PITC are non-moving accounts since/prior to April 2007.

4.7 Based on inquiry with the ASD personnel, reconciliation of these receivable accounts is on-going. Due from NGAs - DBM account is used in recording the supplies procurement transactions with the DBM-Procurement Service. The last journal entry made to the account Due from NGAs - Philippine Center for Postharvest Development was on August 31, 2009.

4.8 COA Circular No. 97-001 dated February 5, 1997 on the Guidelines on the Proper Disposition/Closure of Dormant Funds and/or Accounts of NGAs provides that if the accounts which balances remained non-moving for more than five years, these should be considered dormant and the write-off/adjustment be requested from the COA if the analysis/review of the accounts is not possible due to absence of records and documents.

4.9 The total dormant accounts amounted to P117.711 million (P107.081 million + P10.630 million) or 36.9 per cent of the total accounts' year-end balance of P319.320 million. Hence, rendering the existence of these receivables and accuracy of the balances doubtful.

4.10 **We recommended that Management:**

a. Require the ASD to sustain its best efforts in the verification and reconciliation of the accounts, and after all the efforts have been exerted,

determine those deemed uncollectible for possible request for write-off, in accordance with COA Circular No. 97-001 on dormant accounts; and

b. Coordinate with the authorized officials of the concerned agencies for reconciliation of records and to facilitate collection of the receivables.

4.11 Management requested that the ASD, GMOD and Industry Services Department (ISD) be given more time to submit additional documents and reconcile the accounts with negative results of confirmation, and commented that:

a. On Due from NGAs, GOCCs and LGUs

a.1 ASD is coordinating with ISD, the Department handling these accounts, for documents to support the claims and possible collection of the long outstanding receivables from the Department of Agriculture, Bureau of Post Harvest Research, and National Anti-poverty Commission.

a.2 ASD coordinated with GMOD for the verification and confirmation of the unpaid marine insurance premium recorded as receivable from PITC. Demand letter to PITC will be issued as soon as verification of the account is completed.

a.3 Meeting will be arranged with QGFB and MIAA which confirmed NFA's accounts receivable to discuss immediate settlement of accounts.

a.4 ASD and ISD are working hand in hand in the retrieval of documents and reconciliation of the receivables from LGUs. Requests of LGUs to pay the principal amount only, with non-imposition of interest and penalties, will be looked into and appropriate action will be done to effect collection.

b. On Other receivables - ASD and GMOD are coordinating in collecting the receivables and locating documents pertaining to collectibles from the four foreign rice suppliers.

5. Due to Other NGAs and Due to Other GOCCs accounts totaling P707.925 million include 29.2 per cent or P206.623 million dormant accounts, 8.0 per cent or P56.293 million without supporting schedules and documents, and payables for some projects insufficiently backed up with cash amounting to P37.815 million or 5.3 per cent, all conditions rendered the payable accounts balance unreliable.

5.1 The Inter-Agency Payables accounts of Head Office (HO) have balances totaling P301.039 million as of December 31, 2013, of which a total of P206.623 million has been dormant for more than five years, as shown in Table 9.

5.2 While the percentage of dormant accounts of P206.623 million at the HO is 68.6 per cent of the HO's aggregate balance, these dormant accounts are equivalent to 29.2 per cent of the total Due to Other NGAs and Due to Other GOCCs as of year-end amounting to P707.925 million.

Table 9 - Inter-Agency Payable Accounts - HO

Account	Amount	Dormant	Percentage
Due to Other NGAs	P 287,258,328	P 195,041,727	67.9
Due to Other GOCCs	13,781,012	11,581,647	84.0
	P 301,039,340	P 206,623,374	68.6

5.3 Trust funds recorded in the Due to Other NGAs comprised the bulk of the dormant accounts. Most of these accounts have already been the subject of last year's audit. Management is still unable to fully reconcile, identify, and properly classify these accounts rendering the balances unreliable. The relatively small balances of several accounts also indicate improper liquidation of project funds as well as disposition of the excess fund, if any.

5.4 COA Circular No. 94-013, dated December 13, 1994, on Rules and Regulations in the Grant, Utilization and Liquidation of Funds Transferred to Implementing Agencies, Section 4.9 thereof specifically provides that the Implementing Agency (IA) shall return to the Source Agency (SA) any unused balance upon completion of the project. The non-return of the unutilized funds deprived the SAs of resources that could be put to better use in other activities.

5.5 On September 4, 2013, remittance to the Department of Agriculture (DA) was made in the amount of P1.168 million per Philippine National Bank (PNB) Check No. 168348, representing full liquidation of seven DA-Funded Projects.

5.6 All of the seven projects were recorded except for the Gintong Ani Program. What was recorded in the books is the Ginintuang Masaganang Ani with a balance of P3.244 million as of December 31, 2013. Based, however, on the DA's schedule of Due from GOCCs-NFA as of April 30, 2013, the Gintong Ani Program was in the list of projects with outstanding balances and not Masaganang Ani Program. Hence, the remittance for the Gintong Ani Program in the amount of P210,000 was deducted from the book balance of Ginintuang Masaganang Ani Program.

5.7 Furthermore, review of the subsidiary ledgers revealed that Shallow Tube Well (STW), even after September 4, 2013 remittance, still has an outstanding balance of P0.527 million. Since the amount paid for STW and Gintong Ani Program, according to DA represents full liquidation, the outstanding balance of P3.771 million of these accounts in the books cast doubt on the accuracy of the balances.

Payable accounts with insufficient cash back up

5.8 Cash back-up of payable accounts amounting to P140.721 million were insufficient by P37.815 million as shown in Table 10.

5.9 Review of the Financial Status Report of the Rapid Seed Supply Financing Project showed that unexpended balance was only P4.193 million. The difference of P7.848 million from the book balance of P12.041 million is significant that shows that there was improper recording of transactions that resulted in misstatement of the account.

Table 10 - Comparison of Bank Balance and Book Balance of Payable Accounts

Project	Depository Banks		Bank Balance 12.31.13	Book Balance 12.31.13	Liabilities not covered with Cash
Rapid Seed Supply Financing Project	PNB-CA RSF	416529-400029	P 5,000		
	PNB-SA RSF	416529-400011	10,864,655		
	PNB-SA RSFCA	419379-700017	1,102,136		
			11,971,791	P 12,041,070*	P 69,279
Philippine Rice Post- Production Consortium 2009 Despatch Held in Trust	PNB-CA PRP	1127-537-02382	343,780	344,780	1,000
	LBP* Dollar	0714-0042-98	90,590,406	128,335,293	37,744,887
			P 102,905,977	P 140,721,143	P 37,815,166

*LBP – Land Bank of the Philippines

5.10 The Despatch Held-in-Trust account, according to the concerned Accounting Department personnel, represents the amount of money payable/remitted by the rice suppliers for claims of NFA and cargo handlers whenever imported rice is loaded to its destination in less than the time allowed. Discrepancy in the balances between the book and bank accounts can be attributed to the unrecognized share of income of NFA from said remittance after payment of share of the cargo handlers.

Without supporting schedules and documents

5.11 Management's report revealed that trust funds booked under Due to Other NGAs account amounting to P56.293 million were accounted to Rice Collection Accounts (RCA) of P76.371 million as of December 31, 2013, as shown in Table 11.

Table 11 - Projects under RCA Account per Management Report

Project	Per Book	RCA Account	Per Bank
ASEAN Plus 3 Emergency Rice Research	P 793,349		
Donated Chinese Yellow Corn	11,078,610		
Donated Vietnam Rice	7,469,330	LBP-RCA SA No. 0712-	
DSWD Donated US Rice	14,680,017	1028-96	P 56,449,534
Office of the Civil Defense	21,003,251	PNB-RCA SA No.	
Office of the Vice President	760,000	1127-5370-2578	19,921,549
Philippine Charity Sweepstakes Office	446,250		
OP-Adviser on the Peace Process	62,500		
	P 56,293,307		P 76,371,083

5.12 Review of the Memoranda of Agreement (MOAs)/contracts of some of these accounts such as ASEAN Plus 3 and DSWD Donated US Rice revealed the amount recorded were rice donations, for certain projects/relief operations and not cash. Therefore, NFA's report on the bank accounts in RCA does not refer to the trust fund.

5.13 COA Circular No. 94-013, paragraph 6.3 thereof provides that the IA shall keep separate subsidiary records for the trust liability whether or not a separate bank account is maintained.

5.14 Exact amount of deposit for each project enumerated in Table 11 cannot be determined by Management due to the absence of documents to prove that the amounts were the actual balances in the bank accounts referred to. Failure to reconcile and support the substantial discrepancy of these accounts with the details supposedly available in the subsidiary ledgers rendered the amounts as reported significantly unreliable. Besides, the slow reconciliation process of these accounts may put to risk the

funds to possible misapplication or improper utilization that would result in misleading financial statements.

5.15 On the accounts that have remained dormant for more than five years now, we reiterated the following recommendations that Management:

a. Gather all the MOAs/Contracts, disbursement reports and other relevant documents pertaining to the dormant accounts and cause the thorough verification of the nature or purposes of these projects to determine the status whether already completed, discontinued or abandoned; and

b. Make the necessary adjustments in the books to determine unutilized balances and cause remittance to the National Government thru the Bureau of Treasury (BTr).

5.16 We likewise recommended that Management:

c. On projects with remaining balances in the books, coordinate with the source agencies to reconcile the NFA book balances with their records, and cause the preparation of the necessary correcting entries to arrive at the accurate balances of the Due to Other NGAs and Due to Other GOCCs;

d. Oblige the ASD to fast track the reconciliation of the balances of the Due to Other NGAs, Due to Other GOCCs and payable – Despatch Held-in-Trust accounts against relevant records, determine the actual existence and proper valuation of these accounts, ascertain and validate discrepancies between the recorded amounts and the actual existing balances and make appropriate adjustments to reflect the correct balances;

e. Require the ASD to maintain separate subsidiary ledgers for each of the projects recorded under the accounts Due to Other NGAs and Due to Other GOCCs and for each of the rice collection bank accounts, and regularly analyze and reconcile these subsidiary ledgers. In this way, unremitted balances awaiting reconciliation will not be mixed up with the general fund of the Agency, avoiding misuse of funds; and

f. Ensure that the ASD and the project implementing unit be guided by COA Circular No. 94-013, on Rules and Regulations in the Grant, Utilization and Liquidation of Funds Transferred to Implementing Agencies, in the implementation of projects under trust accounts.

5.17 Management explained that:

a. Account which had been dormant for more than five years are still for verification and reconciliation.

b. Total remittance amounting to P17.166 million was deposited on BTr - Agro-Industry Modernization Credit and Financing Program (AMCFP) last November 17, 2010. This was indicated in the summary of transactions of DA-

Shallow Tube Well Loan Program for the period November 14, 1996 to September 30, 2010. The balance of P0.527 million is still for reconciliation. Such shall be remitted after thorough verification. Liquidation/terminal report was already submitted to National Agricultural and Fishery Council (NAFC) for the return of unexpended balance amounting to P191,398. No documents pertaining to the said project were further retrieved.

c. The uncovered amount for Philippine Rice Post-production Consortium (PRPC) project amounting to P1,000 is for adjustment in June 2014. Rapid Seed Supply Financing Project is still under reconciliation. Unrecognized income from despatch earnings was recognized in the first quarter of 2014. The dollar account consists of NFA's share as well as supplier's share of despatch earnings.

d. As recommended by COA, NFA already opened an account with LBP named NFA Trust Accounts wherein the balances of the trust liability accounts shall be deposited.

6. The absence of documents to establish ownership of several lots with total value of P147.901 million; the variance of P46.218 million between the book balance and the established inventory count of Property, Plant and Equipment (PPE) account in the Head Office (HO) and National Capital Region (NCR); and the inclusion of "For Reconciliation" items in the total amount of P20.389 million, all cast doubt on the reliability of the PPE account with net book value of P2,422.752 million.

6.1 The PPE account is valued at cost in the amount of P5,176.753 million, as presented in Table 12. Of this amount, P894.225 million is at the HO and P4,282.528 million at the regional and provincial offices (ROs/POs).

Table 12 – Breakdown of PPE

	Balance, 12.31.2013
Land and land improvements, including leasehold improvements on land	P 769,550,867
Buildings and structures, including leasehold improvements on buildings	2,241,737,037
Furniture, fixtures, equipment, books	2,098,591,645
Construction in progress	66,873,671
	5,176,753,220
Less: Accumulated depreciation and adjustments	2,754,001,210
Net book value (NBV)	P 2,422,752,010

6.2 At present, ownership of several lots with a total book value of P147.901 million, which is 6.1 per cent of the PPE with NBV of P2,422.752 million, cannot be affirmed due to the absence of Transfer Certificates of Title (TCTs) and tax declarations. The absence of such necessary documents provides uncertainty on the rights of NFA over the properties, hence, the Agency is not protected against possible claims by original owners/donors and other interested claimants. The breakdown is shown in Table 13.

Table 13 - Recorded Lots without TCTs

Region	Location/ Improvement	Property Area	Date/Mode of Acquisition	Recorded Cost
I	Zone 11, Bantay, Ilocos Sur Fence Pavements	6,588 sq. meters	March 4, 1978, Deed of Donation	P 92,965
	Tagudin, Ilocos Sur	2,000 sq. meters	Deed of Donation	450,000
	Loakan, Benguet	15,000 sq. meters	Deed of Donation	15,000
II	Brgy Bonifacio, Diffun, Quirino NFA Satellite Grains Center	3,500 sq. meters with Improvements	January 12, 1987, Absolute donation from the Municipality of Diffun, Quirino	6,920,432
	Dotal St., Poblacion South, Lagawe, Ifugao	1,325 sq. meters	Deed of Donation	64,070
	Patilong Viewpoint, Banawe, Ifugao	241 sq. meters	Deed of Donation	4,340
	Namilangan, Alfonso Improvements: 1. FLGC Warehouse 2. Perimeter Fence	3,000 sq. meters	Deed of Donation executed by Dante S. Dirige	112,500
	Sta. Maria, Alfonso Lista, Ifugao	1,247 sq. meters	Reposessed	124,700
	NCR	Manila	3,200 sq. meters	Contract of Lease
XII	SPGC, Tacurong, Sultan Kudarat Industrial lot with various Buildings, Oil Refinery, Oil Extraction Plant	146,883 sq. meters	March 22, 1979 – Contract to Sell on Installment, was executed by NFA and DBP* for a consideration of P127 million, balance of P91.2M Payable to DBP as of April 30, 2008	127,000,000
				P 147,900,853

*DBP – Development Bank of the Philippines

6.3 Comparison was also made between the balances per books of the HO and NCR and the established physical count as of December 31, 2013 and it resulted in a net variance of P46.218 million, as shown in Table 14.

**Table 14 - Established Inventory Count of PPE
HO and NCR vs. book balances**

	Per Books	Established Inventory Count	Variance
HO			
Office Buildings	P 238,291,915	P 238,291,915	P -
Other Structures	341,707	341,707	-
IT Equipment & Software	100,079,026	79,901,593	20,177,433
Technical & Scientific Equipment	198,801,509	193,904,775	4,896,734
Communication Equipment	15,277,211	11,900,916	3,376,295
Motor Vehicles	73,818,050	71,238,346	2,579,704
Medical, Dental & Laboratory Equip.	3,562,006	1,150,757	2,411,249
Library Books	1,089,971	324,188	765,783
Other Transportation	714,826	-	714,826
Furniture & Fixtures	15,446,427	14,779,357	667,070
Sports Equipment	36,887	-	36,887
NCR - Various PPE, amount as adjusted	79,528,298	66,995,832	12,532,466
	726,987,833	678,829,386	48,158,447
HO			
Office Equipment	26,555,245	27,956,641	(1,401,396)
Other PPE	4,725,577	5,250,319	(524,742)
Machineries	6,743,331	6,756,794	(13,463)
Firefighting Equipment	94,754	95,032	(278)
	38,118,907	40,058,786	(1,939,879)
	P 765,106,740	P 718,888,172	P 46,218,568

6.4 From the preceding Table, it appeared that only the Office Buildings and Other Structures accounts have no variance. For the various equipment with greater book balances than the established physical inventory, it connotes that there could be missing items with a total value of P48.158 million. On the other hand, for those with lesser book balances than the inventory count, there could be items worth P1.940 million not properly documented, hence, not recorded. By offsetting the discrepancies, there is already a net variance of P46.218 million representing equipment with questionable existence. And this variance is the result only of the examination of selected PPE accounts in the HO and NCR.

6.5 The physical inventory count for NFA-HO was established by working forward from the result of the actual physical inventory as of July 31, 2013 and taking into consideration the acquisitions, transfers and reclassifications/adjustments from August 1, 2013 to December 31, 2013, as illustrated in Table 15.

**Table 15 - Computation of Balance of Physical Inventory - HO
as of December 31, 2013**

	Actual Physical Inventory as of July 31, 2013	Transactions from Aug. 1 to Dec. 31		Established Balance as of Dec. 31, 2013
		Add: Acquisitions/ Adjustments	Less: Transfers/ Reclassification	
Office Buildings	P 238,291,915	P -	P -	P 238,291,915
Other Structures	9,159,296	-	8,817,589	341,707
Office Equipment	24,967,492	3,284,089	294,940	27,956,641
Furniture & Fixtures	14,715,271	105,245	41,159	14,779,357
IT Equipment & Software	59,481,391	23,244,758	2,824,556	79,901,593
Library Books	645,883	-	321,695	324,188
Machineries	6,244,794	512,000	-	6,756,794
Communication Equipment	12,098,537	179,414	377,035	11,900,916
Firefighting Equipment	92,315	12,100	9,383	95,032
Medical, Dental & Laboratory Equipment	1,750,758	108,839	708,839	1,150,757
Technical & Scientific	185,748,295	9,334,499	1,178,019	193,904,775
Motor Vehicles	34,113,346	37,125,000	-	71,238,346
Other PPE	5,099,163	254,583	103,428	5,250,319
	P 592,408,456	P 74,160,527	P 14,676,643	P 651,892,340

6.6 The balances of the PPE also included items "For Reconciliation" in the total amount of P20.389 million that further rendered the account balances unreliable, as shown in Table 16.

Table 16 - PPE Items "For Reconciliation"

	Acquisition Cost
Office Equipment	P 37,830
Furniture & Fixtures	622,454
IT Equipment	12,745,533
Library Books	329,540
Machineries	7,141
Communication Equipment	1,991,826
Medical, Dental & Laboratory Equipment	1,691,459
Technical & Scientific	(7,098)
Motor Vehicles	2,964,690
Other PPE	5,708
	P 20,389,083

6.7 Variance between books and physical count of PPE has been a recurring audit observation, but it appeared that reconciliation between the accounting and property records had not been fully undertaken.

6.8 NFA SOP No. GS-PD19 dated March 24, 2003, on Revised SOP on Fixed Assets Inventory, Monitoring and Control System, was issued to monitor the movement and condition of the assets and update the documentation, reporting and accounting systems; and it provides, among others, that inventory count must be reconciled with the book balances.

6.9 Similarly, 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.

6.10 The inability to secure ownership over several lots, the unreconciled variance between books and established inventory count, and presence of PPE items for reconciliation cast doubt on the reliability, existence and completeness of the balance of PPE account.

6.11 We recommended that Management require the Accounting Services Department (ASD) and General Services Department (GSD) to conduct complete and thorough verification and reconciliation of the property and accounting records, including the PPE items "For Reconciliation," to determine the cause/s of discrepancies so that necessary corrections/adjustments can be effected in both records to arrive at corrected/reconciled balances.

6.12 We also reiterated our recommendation in previous year's audit that Management exhaust all means to secure all the documents needed 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.

6.13 Management informed that the ASD and the GSD are exerting all efforts to reconcile their respective records. The variance of P65.608 million for HO as of December 31, 2012 was reduced to P33.686 million as of December 31, 2013. To be able to determine the causes of the variances, ASD is in the process of an item per item reconciliation of the property records with the accounting records. As at audit date, the reconciliation is 80 per cent complete.

6.14 The ASD Manager also explained that there are problems with old accounts for reconciliation, the breakdown of which was difficult to determine. These are accounts which were separated when the Electronic-New Government Accounting System (e-NGAS) was implemented. The Manager added that the variance may include the cost of licenses of computer software which were installed in the computers, and assured that reconciliation is in process.

6.15 According to the Regional Management of NCR, the reconciliation of the PPE accounts is on-going. The NFA Administrator instructed the responsible offices to report to him the status of the reconciliation.

6.16 On donated land, Management explained that as a matter of policy, NFA resolved not to accept donation of land unless titled and will not construct warehouse on lands not titled under NFA.

7. The Other Liability - Other Payables account of P401.665 million as of December 31, 2013 cannot be relied upon because it includes a project fund with unliquidated balance of P30.288 million since April 2007, another project fund with balance that differed by P42.208 million from the reported Status of Financial Report and by P61.328 million when compared with the bank balance, and payables of P17.137 million that have been dormant for more than five years were closed to Prior Years' Adjustment without supporting documents.

Lingap Para sa Mahihirap

7.1 Pursuant to the provisions of Executive Order (EO) No. 92, providing for the General Guidelines and Institutional Arrangements for the Lingap Para sa Mahihirap Program Fund, NFA issued Special Order No. AO 99-05-006 dated May 3, 1999 for the creation of Project Coordinating and Monitoring Unit (PCMU) for the program and designated the former Assistant Administrator of NFA as the Executive Director.

7.2 The Lingap Para sa Mahihirap Program has a total funding of P400 million. As stated in the terminal report for the program, the fund was disbursed through programs classified as Unrestricted Funds for Legislators Identified Beneficiaries (LIBs) and the Restricted Funds for Priority Beneficiaries (PBs), in trust to NFA and taken up in the books under Other Liability - Other Payables account. Records of the ASD showed that the fund still has a balance amounting to P30.288 million as of December 31, 2013.

7.3 The review conducted by the Internal Audit Service Department (IASD) showed that in the implementation of the program, as stated in its Memorandum dated September 16, 2008 to Deputy Administrator, the total amount of P400.020 million was utilized, as shown in Table 17.

Table 17 – Funds utilized under the Lingap Para sa Mahihirap Projects

	Amount (in millions)
Emergency Relief Assistance Program	P 192.640
Erap Sari-Sari Store	119.050
Farmers Alleviation Project	35.820
Operating Expenses	28.081
Rice Subsidy Project	14.408
Information/Education/Communication	5.328
Administrative Expense	4.693
	P 400.020

7.4 As at audit date, however, the documents supporting the expenses incurred in the implementation of the projects that were requested from the Office of the Deputy Administrator, ASD and IASD, among others, as well as the result of the reconciliation of the program fund have not been submitted.

7.5 The assigned NFA Internal Auditor who conducted the review informed us that their audit report was submitted to a former IASD Manager, together with the pertinent documents and working papers. However, these working papers are no longer on file because these were not properly returned. The IASD, GMOD, Executive Offices and ASD at the HO and all the Field Offices concerned are exerting all best efforts to locate the documents/terminal reports as basis for the full liquidation of the Lingap Para sa Mahihirap Fund.

Unreconciled CDF financial reports, books and bank statements

7.6 The balance of the Corn Development Fund (CDF) per books of P96.113 million differed by P42.208 million from the balance of the fund of P138.321 million as reported in the CDF Financial Report by the CDF Committee Secretariat. This was one of the audit observations in the initial audit of the management of CDF which is discussed in paragraph Nos. 37 to 41 of this Report.

7.7 Among the functions of the CDF Secretariat as provided for in Section III.A.2 of NFA SOP No. TS-ES22 is the preparation of the CDF Fund Annual Report and the Monthly CDF Financial Reports. While there was annual report as of December 31, 2013, there were no corresponding monthly financial reports for CY 2013.

7.8 The balance of the CDF per books as of December 31, 2013 amounting to P96.113 million was also less by P61.328 million when compared with the balance per bank account totaling P157.441 million.

7.9 The ASD explained that the difference of P61.328 million resulted from unrecorded transactions such as interest income, taxes withheld, grants and loans, erroneous entry, and mispostings in the ledger. They will continue to reconcile and prepare necessary adjustments to come up with accurate and reliable balances.

Adjustment of P17.137 million without analysis and supporting documents

7.10 In NFA-HO, the payable to Presidential Commission on Good Government (PCGG) in the amount of P17.137 million was closed to Prior Years' Adjustment without analysis and supporting documents. The adjustment made was a debit to Other Payables and credit to Prior Years' Adjustment.

7.11 The payable account has been dormant since/prior to April 2007. Original entries can no longer be traced because of the absence of contract/MOA or any supporting documents/records. Based on interview with the ASD personnel, this account pertains to the sequestered flour by the PCGG entrusted to NFA for disposal, but Management cannot provide the status of these stocks. Considering the number of years that this

account remained dormant, the entrusted flour stocks are most likely no longer physically existing.

Return of funds without supporting documents

7.12 In the previous year audit, it was observed that the P350,656 balance of the Accelerated Agricultural Production Project (AAPP) was not supported with pertinent documents in connection with the disbursement of the project fund. In spite of this, said balance was returned to the Department of Agriculture (DA) on August 29, 2013, thereby closing the account. However, confirmation made with DA disclosed that the account still has an outstanding balance of P519,246 in their books as of December 31, 2013.

7.13 The lack of supporting documents, unreconciled variances, and preparation of adjusting/closing entries without appropriate analysis rendered the Other Liability - Other Payables account with a year-end balance of P401.665 million unreliable.

7.14 We recommended that Management:

a. For the Lingap Para sa Mahihirap Program Fund, require the ASD and the IASD to reconcile their records to reflect the correct balance and cause the liquidation of the remaining balance, if any;

b. For the CDF, instruct the ASD to conduct reconciliation of the Other Payables - CDF with the records being maintained by the CDF Secretariat and with bank records, and cause the preparation of the annual report and the monthly financial reports required in NFA SOP No. TS-ES22; and

c. On dormant Payable to PCGG, coordinate with the concerned agency to determine the exact beneficiary of the sale of flour. Since transactions involved unpaid obligations, thorough analysis, reconciliation and review of this account are necessary. Closing entries to clean the financial statements without scrutiny may not uncover whether there were previous irregular transactions.

7.15 Management replied that the field offices and HO are still in the process of reconciling all accounts in preparation of the implementation of the E-IFOMIS. Adjustment from three ROs in the total amount of P5.004 million will be taken up in March 2014 for the Lingap Para sa Mahihirap Project.

7.16 Relative to the PCGG account, Management informed that since the earlier sent confirmation letter has no reply, another one was sent on June 13, 2014.

8. Deferred Credits account with a balance of P458.637 million includes, among others, P3.582 million abnormal balance; erroneous recording of P2.939 million in the depreciation expenses of assets donated to NFA-HO; and non-issuance of advice memoranda for stocks amounting to P6.060 million in Albay, which affect the reliability of the account. Likewise, the account includes 19.9 per

cent or P91.441 million advance payments received for rice stocks from 2005 to 2009 but delivery/withdrawal remained not completed as at audit date.

8.1 Deferred Credits account refers to advance payment made by various government and non-government agencies for the purchase of rice. Upon withdrawal of stocks at the ROs/POs of NFA, the Deferred Credits account is debited. Outstanding balance under this account indicates either unwithdrawn stocks by or undelivered stocks to the clients.

8.2 The breakdown of the balances of the Deferred Credits account as of December 31, 2013 is shown in Table 18.

Table 18 - Deferred Credits to Income

	Amount	Advances from 2005 to 2009	Observations
Advance Payments			
Government Agencies	P 101,605,481	P 71,228,712	Includes accounts from the Department of Education (DepEd), National Disaster Coordinating Center (NDCC), Philippine Army EO88.
Non-Government Organizations	20,061,184	8,000,000	
Legislators and Party List Representatives	14,187,497	12,212,125	
Retailers	74,851,851	-	
Millers, Contractors and Operators	7,561,140	-	
Other Deferred Credits (Donated assets)	56,491,170	-	Includes donations from National Meat Inspection Service (NMIS). Donations from UNU-KIRIN Project and R. Dino General Services-RO6AQE totalling P64,121 were without supporting documents.
Negative Balances	(3,581,850)	-	General Head Quarters EO88, Philippine Air Force EO88 and Philippine Navy EO88.
Overages (Branches)	187,460,484	-	Accountabilities not yet established.
	P 458,636,957	P 91,440,837	

8.3 Of the total balance of P458.637 million, 19.9 per cent or P91.441 million represents advance payments for undelivered/unwithdrawn rice stocks from various sources, which have accumulated from 2005 to 2009.

8.4 Further, review of the related Memoranda of Agreement (MOA) revealed that delivery/withdrawal of the paid rice stocks should have been completed already, considering that the latest date for said delivery/withdrawal was as of December 2009, as shown in Table 19.

Table 19 - List of MOAs for transactions recorded under Deferred Credits

MOA/Letter/Date	Program	Amount	Duration/ Expected Date of Completion
DepEd MOA 1 1/7/2005	Food for School Program (Grades I and II pupils of Manila, Quezon City, Caloocan, Bulacan, Cavite and Rizal)	P 118,000,000	5 months upon signing of MOA unless extended by both parties
DepEd MOA 2 12/1/2005	Rice through School Program (Grade I pupils)	193,500,000	Until March 31, 2006, unless extended by both parties
DepEd MOA 3 3/28/2007	Food for School Program (Grade I pupils)	617,539,200	Until end of December 2007 upon signing of the MOA
Addendum DepEd MOA 3 6/8/2007	Food for School Program (Grade I pupils)	40,176,800	Until end of June 2007 or until all commodities are delivered
DepEd MOA 4 10/1/2007	Food for School Program (pre-schoolers and Grades I-VI pupils)	950,272,840	Until end of December 2007
DepEd MOA 5 10/10/2008	Food for School Program SY 2008-2009	222,927,120	Until end of December 2008; Per memorandum dated October 24, 2008, program is 13 days rice allocation
DepEd MOA 6 3/19/2009	Food for School Program SY 2009-2010	480,106,640	Until end of December 2009; for 13 days rice allocation, Phase II

8.5 NFA NCR-Central District Office (CDO) has a total Deferred Credits of P25.002 million. Of this amount, a total of P10.257 million was unwithdrawn stocks paid through CDO and those paid through NCR. The unwithdrawn stocks paid in 2009 to 2012 in the amount of P2.309 million were stocks for various retailers, DSWD and legislators, but the quality of the stocks may have already deteriorated as the shelf life of rice is up to six months only. The CDO is also incurring costly warehouse rentals and pest control expenses for these stocks. The storage fees are collected from private retailers only, but none from DSWD and the legislators.

Erroneous recording of depreciation for donated assets amounting to P2.939 million

8.6 The Other Deferred Credits - Donated Assets account includes receipt by NFA-Food Development Center (NFA-FDC) of laboratory equipment from NMIS with a book value of P32.340 million. The equipment was recorded by debiting appropriate property account and crediting Other Deferred Credit-NMIS. The depreciation expense for this property amounting to P2.939 million was recorded by debiting Other Deferred Credits, thus, reducing the account, and crediting Income from Grants and Donations.

8.7 Section C.1 of the MOA executed between the NFA and the NMIS stated that the cost of equipment shall be considered as advance payment for future laboratory testing services to be performed by NFA-FDC. It was agreed that the Other Deferred Credits account is to be debited/reduced and Income account is to be credited/recognized only for the amount of service NFA-FDC rendered to NMIS, and not when the depreciation of the asset is recognized.

8.8 However, based on the interview with the Accountant of NFA-FDC, there has been no laboratory service rendered to NMIS for 2013. Thus, the Other Deferred Credits account was understated by P2.939 million and the Income from Grants and Donations account was overstated by the same amount.

Non-issuance of advice memoranda for stocks amounting to P6.060 million

8.9 It is the accounting practice of NFA POs to record payments for sales received at their end by debiting Cash and crediting Sales. At a certain period, if the stocks are not yet withdrawn by retailers and other government agencies, the recorded sales are debited and Deferred Credits is credited. When these are later withdrawn by retailers, Deferred Credits account is debited and Sales is credited. However, when these are withdrawn by retailers from a different PO, per wire authority received from RO, the collecting PO debits Deferred Credits account and credits Due to Operating Units. While the issuing PO debits Due from Operating Units and credits Deferred Credits and/or Sales account.

8.10 In NFA Albay PO, verification of the sales of stocks of rice showed that there were regular retailers and government agencies that have purchased in advance. Majority of the payments were from government agencies and paid at the Albay PO, even the sales are intended for issuance of stocks that are located in other provinces of the Bicol Region. The Cashier collects payments of sales but the quantity allocation to concerned agencies that availed of the stocks is determined by the RO.

8.11 As of December 31, 2013, P6.060 million worth of stock inventories purchased by the DSWD, DA, LGU Tabaco, Bureau of Jail Management and Penology (BJMP), and certain J. Del Castillo were already issued by other provinces in 2011, 2012 and November 2013. The documents to support said transactions and to effect adjustments in the books, however, were not provided by the RO V to the Accounting Unit of Albay PO. Thus, the non-adjustments of the said issuances overstated the Deferred Credits account as of December 31, 2013.

8.12 The Deferred Credits account also includes overages of P187.460 million. The accountabilities of warehouse accountable officers are not yet established pending completion of stock examinations and computation of tolerable allowances (TOLA). An overage is determined as the variance between the semi-annual physical count of stocks and the stock records of the accountable officer. However, the final accountability on stocks is determined (whether there is really overage or shortage) after the conduct of stock examination and computation of TOLA. Stock examination and computation of TOLA have not been conducted for these overages.

8.13 **We, therefore, recommended that Management:**

- a. **In NFA HO, require the ASD to adjust the Other Deferred Credits account and the income from grants and donation for the total amount of accumulated depreciation for the assets received by NFA-FDC from NMIS;**
- b. **Submit documents to support the donations from UNU-KIRIN and R. Dino General Services-R06AQE;**
- c. **In NFA Albay PO, closely coordinate with RO V regarding the documentation of the distribution of stocks sold to other provinces to enable recording of the actual stocks issued and come up with accurate**

balance of the advance payments for sale recorded under the Deferred Credits account;

d. In NFA CDO, strictly monitor the unwithdrawn stocks and exert all efforts to oblige the retailers to immediately withdraw their stocks. Consider increasing the storage fees for long unwithdrawn stocks to compel immediate withdrawal;

e. Coordinate with DSWD and the legislators for the immediate withdrawal of their stocks so that the space in the warehouses could be utilized for NFA stocks, to prevent decline of the quality of rice stocks and their possible spoilage and wastage due to long period of storage and to avoid incurring costly expenses by CDO for warehouse rentals and pest controls. Also, consider collecting storage fees from concerned government agencies and legislators for long unwithdrawn stocks;

f. Conduct reconciliation of the accounts belonging/allocated to other district offices and make the necessary adjustments to arrive at the correct balance of the Deferred credits account of CDO; and

g. Expedite the examination of stocks and computation of TOLA to establish the accountabilities of warehouse accountable officers with overages, and provide timelines in the conduct of stocks examination and TOLA computation.

8.14 In reply, Management submitted the following comments:

a. For HO accounts

a.1 DepEd and NDCC – payment collected at HO. Out of the P66.537 million balance as of December 31, 2013 for DepEd, P46.147 million was reconciled in April 2014 from the issuances of the field offices' outstanding receivable accounts. Reconciliation is still ongoing in various field offices before transferring payment to HO.

a.2 Federation of Filipino Chinese Chamber – A letter was sent informing the federation regarding the availability of P8.00 million for rice issuance.

a.3 Party List Representative – The concerned party list representative was informed regarding their unwithdrawn rice. Still waiting for reply.

a.4 Philippine Army EO88 – For distribution/payment to various field offices. The negative balance of P3.582 million was adjusted in April 2014 per Journal Entry Voucher (JEV) No. 2014-04-009445.

a.5 Various Legislators – Reconciliation of these accounts is taking time due to the difficulty of locating and retrieving documents for the rice issuances in field offices since these transactions occurred in 2003 to 2005.

a.6 Adjustment for Income from Grants and Donations account for the equipment received from NMIS was made in June 2014 amounting to P7.474 million per JEV No. 2014-06-009398.

a.7 As for the General Headquarters (EO88), Philippine Air force (EO88) and Philippine Navy (EO88), reconciliation of these accounts is still ongoing due to difficulty in locating/retrieving various documents. Initial finding disclosed that the negative balances were due to misposting, wrong classification of accounts and interbranch transaction accounts.

a.8 For the Other deferred credits - donated assets, the accounts are for adjustments after further verification.

b. For NFA Albay PO, Management admitted that they are burdened by the reconciliation of the advance payments recorded under Deferred Credits account and suggested that the sales be recorded in the RO in as much as it is the RO that authorizes the withdrawal of stocks at the different provinces within the region. The Accountant also suggested that the sales transactions (stocks withdrawn outside the province but payments made at Albay PO) be recorded by the RO. The Chief Accountant of RO V, however, would not agree and explained that the RO does not record sales transactions.

8.15 During the audit exit conference, the Administrator suggested the possibility of offsetting the Deferred Credits account balances from the same agencies/entities with recorded receivables to minimize the unreconciled balances.

8.16 Management committed to exert their best efforts to reconcile Prior Years' Deferred Credits during CY 2014.

9. The intra-agency receivable and payable accounts were not yet zeroed out as at reporting date due to timing difference in the recording of transactions and the non-reconciliation of these reciprocal accounts, which affected other accounts such as cash, inventories and expenses, among others.

9.1 Table 20 shows the balances of intra-agency receivables and payables balances as of December 31, 2013.

9.2 The NFA adopts inter-branch accounting and uses reciprocal accounts to record intra-agency transactions in accordance with NFA SOP No. FS-GP13 dated April 21, 1997, which provides that a schedule of inter-branch transactions shall be prepared twice a month indicating the inter-branch transactions for the month. These schedules shall serve as basis for confirmation and reconciliation on any variance that may arise within the reporting period.

9.3 The reciprocal accounts should have the same balances at the end of the accounting period. Intra-agency accounts are maintained only to serve the temporary purpose of monitoring and recording intra-agency transactions such as transfer of cash, equipment, supplies, stocks and expenses chargeable from and to different

district/regional/provincial offices during an accounting period for convenience in setting up and offsetting internal transactions.

Table 20 - Intra-Agency Receivables and Payables

Intra-agency Receivables/ Due from Accounts		Amount	Intra-agency Payable/ Due to Accounts		Amount	Variance
Head Office (HO)			Any Regional Office (RO)/ Provincial Office (PO)			
Due from Regional Office (FOA)		P 57,559,476,401				
Due from Operating Units (FOA)		130,563,901,816				
		188,123,378,217	Due to Central Office (HOA)		P 193,977,008,934	P (5,853,630,717)
			HO, RO/PO outside the region, and RO/PO within the region			
			Due to Regional Office (FOA)		7,269,319,425	
			Due to Operating Units (FOA)		126,611,514,466	
Due from Central Office (HOA)		138,876,364,103			133,880,833,891	4,995,530,212
Due from Regional Office (ROTA)		2,897,135,127	Due to Operating Units (BOTA)		4,556,764,452	(1,659,629,325)
Due from Operating Units (BOTA)		21,426,254,757	Due to Regional Office (ROTA)		18,439,204,672	2,987,050,085
Due from Operating Units (ROCA)		16,712,030,953	Due to Operating Units (ROCA)		16,244,500,996	467,529,957
Due from Operating Units (HOCA)		18,440,455,928	Due to Operating Units (HOCA)		19,467,239,953	(1,026,784,025)
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 (ROA)		4,807,822,408	Due to Operating Units (POA)		5,362,836,729	(555,014,321)
Due from Operating Units (POA)		6,485,981,177	Due to Regional Office (ROA)		5,788,296,269	697,684,908
Due from Regional Office (BOCA)		2,847,049,332	Due to Regional Office (BOCA)		-	2,847,049,332
TOTAL		P 421,608,847,245			P 421,610,163,651	P 1,316,406

9.4 NFA SOP No. FS-GP13 further provides that the clearing offices shall prepare reconciliation statements to determine the variances that may arise between reciprocal accounts and eventually inform the concerned offices to effect the necessary adjustments.

9.5 In the report of the NFA Central District Office (CDO) on the Inter/Intra-Agency Payables, transactions amounting to P212.440 million recorded to Due to Operating Units account remained unreconciled as at year end.

9.6 In NFA North District Office (NDO), verification of various reports and entries affecting inter-branch accounts revealed the following:

- a. An entry to close Due to account-Cabanatuan, Nueva Ecija was erroneously closed to Due from account amounting to P15.652 million, resulting in a negative balance as of year-end;
- b. The amount to close the Due from account from provinces particularly Cavite, Nueva Vizcaya and Bulacan POs were more than the outstanding balances in NDO books, resulting in unreconciled and negative balance of P7.200 million;
- c. The entry made to close Due to Cabanatuan, Nueva Ecija was overstated by P3.0 million with reference to the advice issued by the concerned province;
- d. Verification of receipts from stock reports revealed that the total recorded receipt of rice stocks from Cabanatuan, Nueva Ecija was overstated by 944,650 net kilograms (nkgs); thus, overstating the inter-branch account and Merchandise Inventory in the amount of P28.130 million. Further, an adjustment made to correct the cost of transferred stocks resulted in overstatement of the total Loss to Spillages by P0.859 million due to error in computation;
- e. An entry to correct quantity received in 499,254 nkgs of Local Rice was erroneously closed to Imported Rice account affecting the unit cost of the inventories used for transactions after December 31, 2013;
- f. Handling costs of P57,280 was not provided for inventories dispersed; and
- g. Some advices from issuing/receiving offices to record inter-branch transactions were not attached to the JEVs to support the entries made. These advices were already verbally requested but not all advices requested were submitted.

9.7 The NDO Accounting Section informed the audit team that the account balances consisted mostly of prior years' transactions, wherein reconciliation is still on-going. Transactions from prior years' up to current year were coordinated with concerned provinces and efforts are being exerted to reconcile remaining variances especially those which have been long outstanding.

9.8 NFA RO IV Management commented that during the year, they were able to reconcile and close to Government Equity P3.998 billion and P3.884 billion or 44.2 and 50.5 per cent, respectively, of the total accumulated balances of accounts - Due from/Due to HO and Due from/Due to Operating Units (OUs) outside the regional and provincial offices of NFA RO IV for transactions covering the period July 2012 to June 2013 and part of previous years. The remaining unreconciled balances of P5.042 billion and P3.800 billion represent 95.4 and 84.4 per cent of the total receivables and payables, respectively, as of December 31, 2013. These include old balances of Due from and Due to Central Office (CO) of P691.0 million and P1.029 billion, respectively, previously classified under Government Equity, which were recorded in the RO and have been non-moving for years because pertinent documents were missing. They also explained that they were able to reconcile and close to Government Equity part of the transactions of Due from and Due to CO pertaining to April 1995 to December 2013.

9.9 Management uses temporary entries on current inter-branch transactions purposely to eliminate the variances; however, it still resulted in significant differences. Results of confirmation and verification made by NFA Regional Auditors from NCR, ROs I, II, III, IV and VI showed substantial amount of variances that affected the accounts in the financial statements. These were due to delayed/absence of responses to advices from one unit to another, erroneous recording of intra-agency transactions, which could have been timely corrected and prevented from accumulating to staggering amounts had reconciliation been done on a monthly basis, in coordination with the various offices concerned, as required.

9.10 The accumulation of variances is a manifestation of non-compliance with the guidelines and procedures on inter-branch accounting by responsible personnel over the years, resulting in long existing overstatement and understatement of affected accounts carried over in the current balances. The situation continuously affects the reliability of the reported balances of the accounts such as Cash, Supplies, Inventory, and Expenses. Instead, the unreconciled balances of intra-agency receivables are presented as deduction from the equity account while the unreconciled balances of intra-agency payables are presented as an addition to the equity account. Despite the existence of NFA SOP No. FS-GP13, unreconciled balances still exist and even increased for the current year.

9.11 We, therefore, reiterated our recommendations in 2012 audit that Management:

- a. Require regional and provincial Accountants to promptly and religiously 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 of any variance that may arise within the reporting period;**
- b. Instruct the Accountants of the NFA-HO and the ROs 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, to inform the concerned offices of those variances; and**
- c. Strictly enforce the sanction provided in the last paragraph of NFA SOP No. FS-GP13 on the responsible officials and employees who failed to act immediately or send necessary information to minimize and if possible eliminate the variances of the intra-agency accounts.**

9.12 Management gave the following comments:

- a. The reconciling items at the end of the month/year are religiously maintained and reconciliation statements are prepared both by the CO/RO (clearing office). The ROs/POs are provided with a copy of the reconciliation statement for their appropriate action.
- b. Variances are attributable to the temporary entries made at the HO for the Intra-agency accounts, misuse/misclassification of account codes and

adjustments made at the HO for the RO. In addition, the variance per Regional Consolidated Financial Statements and Provincial Offices' Financial Statements is attributable to the temporary entries at the ROs being the clearing office.

c. The provincial and district offices prepare the trial balances and financial statements which are submitted to the ROs then to the HO for consolidation. Supposedly, the Inter-branch accounts should zero out at the end of the reporting period, but since business is continuing, variance cannot be avoided due to the timing of recording.

d. The NFA SOP No. FS-GP13 dated April 21, 1997 – Revised SOP on Inter-branch Accounting System is in the process of review, and amendment shall be made per joint recommendation by the Field COA Auditors and Local Management, specifically on Item Letter F – Report of Inter-branch Transaction-Preparation of Reconciliation Statements. The statements shall be prepared monthly and submitted quarterly instead of bi-monthly.

9.13 The Administrator, however, agreed on the need for immediate reconciliation of accounts and gave instructions to the ASD Manager, to come up with a list of reconciling items, and to schedule meetings with concerned Regional and Provincial Accountants and Directors.

9.14 As a rejoinder, we acknowledge that timing difference in recording transactions could cause discrepancies, but it is expected that it will be corrected in the subsequent reporting period. However, we still observe that variances continuously increase each year. Some transactions that already existed for over 10 years were still not adjusted as at audit date. Therefore, **we further recommend that Management consider in the amendment of existing SOP to include strategies to facilitate timely detection and correction of variances brought about by errors and timing difference of recording transactions.**

PERFORMANCE

Rice Importation

10. **The estimated marketing costs per metric ton (MT) as reference price of the 2013 rice importation still included losses from spillage and shortlandings allowances; hence, defeating the purpose of the shift from Cost and Freight Free Out (CFR-FO) to Cost, Insurance, Freight-Delivered, Duties Unpaid (CIF-DDU) terms. Under the CIF-DDU terms, the buyer, like NFA, accepts and pays only stocks in good condition.**

10.1 CIF-DDU is a transaction in international trade where the seller bears the risks and costs associated with the delivery of goods to a named destination or warehouse, while the buyer is responsible for paying the duty and all customs clearing expenses. Under CIF-DDU terms only stocks in good condition are accepted and paid by the agency/buyer; while under the CFR-FO terms, losses due to various causes, such as damaged stocks, spillages and shortlanded volumes, are absorbed by the buyer since the responsibility of the seller ends at disport.

10.2 NFA, in compliance to its mandate of ensuring national food security and stable supply and price of rice, undertook importation of 205,700 MT and 500,000 MT of rice on April 3, 2013 and November 26, 2013, respectively, under the Government to Government (G to G) mode of procurement. Both supply contracts were under the CIF-DDU terms.

10.3 For April 3, 2013 importation, NFA sent Letters of Invitation to Thailand and Vietnam to sell and deliver 187,000 MT with 10 per cent more or less (MOLSO) in volume of rice. At that time, these two countries were the only members of Association of Southeast Asian Nations (ASEAN) with existing Memorandum of Agreement (MOA) with the Philippines for the sale and delivery of rice. Thailand and Vietnam, through their authorized representatives, presented respective Letters of Authority and Price offers as shown in Table 21.

Table 21 - Abstract of Offers (April 3, 2013)

Source/ origin	Minimum Volume Offered (MT)	Quoted Price per MT	Maximum Volume Offered (MT)	Quoted Price per MT
Thailand	100,000	\$568.00	187,000	\$568.00
Vietnam	187,000	\$459.75	187,000	\$459.75

10.4 For November 26, 2013 rice importation, NFA also sent Letters of Invitation to sell and deliver 500,000 MT to Thailand, Vietnam and Cambodia on November 15, 2013 (Cambodia was invited since the Philippines has entered into a MOA for sale and delivery of rice with the Royal Government of Cambodia signed on April 4, 2013 by Philippine Ambassador to Phnom Penh and Cambodia's Minister of Commerce). However, Cambodia did not send representative to submit its price offer. Table 22 shows the price offers submitted by Thailand and Vietnam through their authorized representatives.

Table 22 – Abstract of Offers (November 26, 2013)

Source/ origin	Minimum Volume Offered (MT)	Quoted Price per MT	Maximum Volume Offered (MT)	Quoted Price per MT
Thailand	10,000	\$475.00	500,000	\$475.00
Vietnam	500,000	\$462.25	500,000	\$462.25

10.5 Initial review of the documents revealed that there was no breakdown of the quoted price. Upon request, this was provided, including the detailed costs of acquisition which included freight, insurance and other charges that were incorporated in the price offers of the two countries. NFA did not even disclose the reference price as basis for the determination of the reasonableness of price offers.

10.6 Further verification revealed that Management's non-disclosure of reference price and breakdown of the estimated marketing cost to the bidders of the 2013 rice importations was mainly not to influence their offers considering the nature of rice as a political commodity in the world market. The estimated reference price, as shown in Table 23, could serve as basis for acceptance and/or negotiation to achieve advantageous terms and also as reference for our audit.

**Table 23 – Estimated Marketing Cost of Imported Rice
in CIF-DDU Terms per MT**

Item No.	Cost items	Quotes from Oryza and TRT*	
		April 3, 2013	Nov. 26, 2013
1	FOB Price	\$ 365.000	\$ 375.000
2	Freight	30.000	30.000
3	Premium Cost	10.000	10.000
4	Cost of surveyor	0.067	0.067
5	Unloading Expenses	32.193	32.193
6	Cost to First Warehouse	19.865	19.865
7	Sub-total	457.125	467.125
8	Spillage Allowance	3.885	3.980
9	Short landed Allowance	2.025	2.080
10	Total Cost (Computed CIF-DDU Price)	463.035	473.185
11	Less: Average World Market Price	365.000	375.000
12	Estimated expenses incurred in bringing the rice from port of loading to NFA designated warehouses (Item 10 – Item 11)	98.035	98.185
13	NFA contract price in CIF- DDU	459.750	462.250
14	Estimated Actual FOB Cost (Item 13 - Item 12)	\$ 361.715	\$ 364.065

Oryza - a site where one can get information on the latest global price quotes on rice.

TRT - The Rice Trader

FOB - Freight on Board

10.7 In our inquiry of the price components, we gathered that the freight expenses of \$30.0 per MT (Item 2, Table 23) was determined only through phone calls from shipping agents, while the cost of surveyor in the amount of \$0.067 per MT (Item 4, Table 23), was based on historical costs. However, no document was submitted for verification and other audit purposes.

10.8 The breakdown still included allowances for spillages and shortlanded deliveries (Items 8 and 9, Table 23) totaling \$5.91 per MT for April 2013 and \$6.06 per MT for November 2013 importations. Computation of its peso equivalent is shown in Table 24.

Table 24 – Estimated Spillages and Shortlanded Allowances

Date of Importation	Volume in MT	Estimated Spillage and Shortlandings in US\$	Total Cost In US\$	Average FX* rate for the month	Equivalent
April 3, 2013	205,700	5.91	1,215,687	P 41.142	P 50,015,794
Nov. 26, 2013	500,000	6.06	3,030,000	43.555	131,971,650
					P 181,987,444

FX – Foreign Exchange

10.9 Even if the contract price on April 3, 2013 importation was lower than the computed CIF-DDU price, wherein the allowances for spillages and shortlanded deliveries were included, it was still higher than the reference price, net of the allowances, showing that spillages and shortlanded deliveries were partly imputed in the cost of importation, as shown in Table 25.

10.10 For November 26, 2013 importation, the contract price was lower by \$4.875 per MT than the reference price even without the allowances for spillages and shortlanded deliveries of \$6.06 per MT. The estimated cost was only \$463.035 per MT without the

increment. However, if NFA did not include the price increment of \$10.00 per MT in the estimated CIF-DDU price, the contract price would be higher by \$5.275 per MT than the reference price due to the imputed allowances for spillages and shortlandings, which may have resulted in overpriced importation.

Table 25 –Unapplied/(Imputed) Allowances for Spillages/Shortlanding in the Contract Cost (per MT)

	April 3, 2013	November 26, 2013	
		w/ \$10 increment	w/o \$10 increment
Estimated Cost, CIF- DDU Price	\$ 463.035	\$ 473.185	\$ 463.035
Allowances for spillages/short landed	5.910	6.060	6.060
Reference price, net of allowances	457.125	467.125	456.975
Contract Price	459.750	462.250	462.250
Unapplied/(Imputed) allowances for spillages/shortlandings in the contract cost	\$ (2.625)	\$ 4.875	\$ (5.275)

10.11 It can be recalled that in our 2011 Annual Audit Report (AAR), NFA reported losses totaling P796.128 million from spillages and shortlanded deliveries for four years from 2008 to 2011 detailed in Table 26.

Table 26 – Spillages and Shortlandings for the Years 2008 - 2011

	Shortlandings and Spillages in net kilograms (nkgs)	Amount
2008	8,303,736.93	P 225,725,764
2009	7,790,083.98	255,510,847
2010	10,495,558.18	302,663,864
2011	550,915.03	12,227,169
	27,140,294.12	P 796,127,644

10.12 The value of shortlandings and losses from spillages in prior years was included in the cost of Merchandise Inventories, which formed part of the operating expenses of NFA, thus increased the total expenditures and subsequently contributed to the losses of the Corporation.

10.13 As also stated in the 2011 AAR, it was recommended that Management should institute additional control measures to minimize losses due to spillages and shortlandings, including the amendment of purchase/supply contract to charge the suppliers for the losses.

10.14 NFA considered this recommendation as one of the reasons for shifting from CFR-FO terms of procurement to CIF-DDU terms with the intention that it would be able to do away with losses from spillages and shortlandings. However, analysis of the estimated marketing cost of imported rice proved otherwise. Supposedly, there were no longer losses in the 2013 importation under the CIF-DDU terms since NFA paid only for stocks in good condition, but because of the inclusion of the losses from spillages and shortlandings in the reference price, NFA still assumed these losses.

10.15 We recommended that Management exclude the allowances for spillages and shortlanded deliveries from the computation of NFA reference price considering the shift to CIF-DDU terms in order to come up with a cost that is

more advantageous to the government. We also recommended that the breakdown of costs be properly documented to support the computation of the estimated reference price.

10.16 Management submitted the following comments:

a. In the CIF-DDU terms, only stocks in good condition were accepted and paid by the Agency. Bad orders or damaged stocks received at the warehouses were not paid by NFA because these will be charged to the supplier's account, unlike in CFR-FO wherein losses due to various causes, such as damaged stocks, spillages and shortlanded volumes, were absorbed by the Agency.

b. As regards the recommendation to exclude spillages and shortlanded allowances, these are losses that cannot be avoided during transit and were given equivalent value and imputed in the computation of the basic cost of the seller.

10.17 As a rejoinder, it may be recalled that the reason for the shift in the terms of procurement from CFR-FO to CIF-DDU was to do away with the losses incurred from spillages and shortlanded allowance. If the equivalent values of these losses are still included in the basic cost for every MT of good stocks, then in effect NFA would be paying the cost of the stocks that included the allowances for spillages and shortlandings, which would contribute to further losses in operations.

Tax Subsidy

Examination was made on the duties/tariffs paid by NFA for the G to G rice importations, specifically the 205,700 MT on April 3, 2013 and those paid for under the 500,000 MT importation undertaken on November 26, 2013. These duties were settled through Tax Subsidy granted by the National Government (NG) to NFA. Our audit was based on the available data and documents provided by NFA and the Bureau of Customs (BOC).

The General Appropriations Act (GAA) authorizes the Fiscal Incentives Review Board (FIRB) of the Department of Finance (DOF) to grant tax subsidy to GOCCs such as the NFA. One of the requirements for the availment of tax subsidy is the submission of a certification that the subsidy sought shall be used exclusively in the pursuit of the mandated functions, as stated in the charter and/or enabling law or a specified project. NFA submitted the application together with all the supporting documents prior to the opening of bids for its 2013 rice importations.

The DOF through the FIRB, after evaluating the application of NFA for tax subsidy, issued Resolution Nos. 3-13 and 7-13 to cover duties for the 187,000 MT and the 10 per cent MOLSO or 18,700 MT, approving the tax subsidy amounting to P1.571 billion and P55.814 million, for a total of P1.627 billion for the whole 205,700 MT. The BOC issued Statements of Account on various dates in the total amount of P1.303 billion. Certificate of Entitlement to Subsidy No. 142 was also issued on August 30, 2013 by the FIRB for the same amount. On October 4, 2013, the Department of Budget and Management (DBM) issued the Special Allotment Release Order (SARO) and Advice of SARO also for the same amount.

For the targeted arrival of 300,000 MT before December 31, 2013 under the November 26, 2013 importation, the FIRB issued Resolution No. 9-13 approving the tax subsidy of P2.624 billion.

Our audit disclosed the following observation:

11. The shift in rice importation terms from CFR-FO to CIF-DDU was not considered in the determination of declared dutiable cost for purposes of computation of customs duties by the Bureau of Customs (BOC), thereby resulted in overvaluation of customs duties for the 205,700 MT of imported rice in the total amount of P233.527 million.

11.1 The estimated costs of acquisition which included freight, insurance and other charges were incorporated in the price offers of Thailand and Vietnam.

11.2 Historically, NFA has imported rice on CFR-FO basis, which means that the assessed customs duties were based on FOB cost, freight charges and insurance, in compliance with Section 3.2.4 of BOC Memorandum No. 22-2007 dated September 6, 2007, on the Guidelines in the Determination of Cost of Insurance and Freight Charges as component of Dutiable Value. For the April 3, 2013 rice importation under the CIF-DDU terms, the dutiable cost consists of estimated FOB cost of \$361.715 per MT, freight charges of \$30.00 per MT and insurance premium of 0.275 per cent of the total FOB cost. However, NFA did not consider the shift in importation terms and submitted the whole contracted cost of \$459.75 per MT, instead of \$392.71 per MT, which included the estimated expenses in bringing the rice from port of loading to NFA designated warehouses as dutiable value. The non-consideration of the shift in terms of importation resulted in the over computation of customs duties for the 205,700 MT in the amount of P233.527 million as shown in Table 27.

Table 27 – Tax Subsidy vis-à-vis customs duties on rice importation

FIRB-DOF	P 1,626,613,890
Per Audit of 205,700 MT*	1,354,864,711
Excess of Tax Subsidy granted by FIRB-DOF	P 271,749,179
Per MOUs	P 1,588,391,646
Per Audit of 205,700 MT*	1,354,864,711
Over computation of customs duties on rice importation	P 233,526,935

* Details in Annex A - Recomputation of Customs Duties on Rice Importation for 205,700 MT

11.3 Our audit also disclosed that the total customs duties, based on the dutiable cost of the 205,700 MT, amounted to only P1.355 billion [based on 40 per cent duty rate on the computed dutiable value (Cost + Insurance + Freight)], while the total tax subsidy requested and granted by the FIRB-DOF amounted to P1.627 billion, thus, resulting in P271.749 million difference. Summary of the Memoranda of Understanding (MOUs) submitted by NFA to the BOC showed a total of P1.588 billion which was also higher than the audited amount.

11.4 Further, in the computation of customs duties on the 168,600 MT, which is part of the 205,700 MT, there was a difference of P199.929 million in customs duties between

the BOC billing and as recomputed for the 168,600 MT of rice importation that arrived at various disports in the country. BOC billed the NFA in the amount of P1,302.795 million which was settled through tax subsidy, while our audit revealed that only P1,102.866 million should have been charged to tax subsidy. The amount of P199.929 million represents overcharging of customs duties, the details of which are in Annex B (Comparison of Customs Duties as Billed by BOC vis-à-vis Audit) of this report.

11.5 No comparison of customs duties were made for the 37,100 MT being part of the 205,700 MT because the BOC did not issue Statements of Account (SOA) for said shipments as shown in Table 28.

Table 28 – Shipments per bill of ladings without SOAs

Disport	Marine Vessel	in MT
Cebu	MV Ha Tien	6,700
	MV Asian Fair II	6,600
	MV Vien Dong 5	6,000
Cagayan de Oro	MV Vin Hoa	7,000
General Santos	MV Truong Minh Sun	4,800
	MV My Hung	6,000
		37,100

11.6 The BOC issued only four billing statements out of the 17 shipments covering partial delivery of the November 26, 2013 importation. NFA has requested issuance of Certificate of Entitlement to Subsidy from the FIRB but the request has not been acted upon as at audit date. Owing to the insufficiency of documents, we were not able to pursue our audit of customs duties for the said importation.

11.7 We recommended that Management:

- a. Perform independent review of the computation of the dutiable value of importation before the submission of the Memorandum of Undertaking to BOC with consideration on the contract terms to ensure the accuracy of customs duties granted as tax subsidy to NFA; and**
- b. Coordinate with the BOC on the difference in the computation of the dutiable cost and resulting customs duties in 2013 importations, for appropriate adjustment, recording and reporting purposes.**

11.8 Management commented the following:

- a. In order to prevent a repeat of the previous error, the Office of the Assistant Administrator for Marketing and Operations and Office of the Deputy Administrator for Marketing and Operations (ODAMO) have been conducting strict review of the MOU prior to submission of the same to the BOC;
- b. A meeting with BOC Deputy Commissioner was held on January 17, 2014 wherein the significant impact of the error on the financial transactions of BOC, DOF and DBM was discussed. The DBM requested NFA to submit duly audited reports on the customs duties declared by NFA; and

- c. With the results of the audit, they will coordinate with BOC for appropriate adjustments.

Palay Procurement

As one of the strategies in maintaining the required levels of buffer stock in line with its function of stabilizing consumer price levels and assuring an adequate and continuous supply of rice, NFA procures palay from farmers and farmers' organizations at government support price of P17.00 per kilogram (kg.) plus P0.20 per kg. for delivery, P0.20 per kg. for drying incentive and grant of P0.30 per kg. as Cooperative Development Incentive Fund (CDIF) for farmers' organizations. This program is also aimed to provide market for the farmers' produce with fair return on investment in production costs.

In the evaluation of the accomplishment of the NFA's major final outputs (MFOs) in 2013, we observed the following:

Cereal Procurement Fund (CPF)

12. The CPF in 2013 of P7.890 billion was not fully maximized for the procurement of palay of which the unutilized amount of P1.019 billion or 12.9 per cent of the total available funds could have been used to procure 1.172 million bags of palay for the buffer stock of NFA. This condition resulted from the shortfall of 415,779 MT or 53.3 per cent of the targeted volume of procurement and the setting of very low procurement target compared to the palay production of more or less 368,788,120 bags or 18,439,406 MT.

12.1 The CPF was intended mainly for the procurement of palay from the farmers/ farmers' organizations. For the year, the NFA-Head Office (HO) released P6.979 billion CPF to its regional and provincial offices (ROs/POs) for the 15 regions. As reported in the national trial balance, the CPF has a consolidated balance of P518.479 million as of December 31, 2013 maintained in various Cash in Bank accounts, as well as in the custody of the accountable officers.

12.2 As gathered by the audit teams from 13 NFA ROs (excluding NCR and RO X), the total receipts, utilization and balances of the CPF are presented in Table 29.

Table 29 – Receipts, Utilization and Balances of the CPF in 13 NFA ROs

Balance, January 1, 2013	P 391,092,372
Add: Remittances from HO	5,832,931,991
Receipts from other sources	1,665,816,691
Total funds available for procurement	7,889,841,054
Less: Funds transferred to POs	1,839,829,584
Funds utilized for procurement	4,726,462,857
Funds returned to HO	1,019,220,911
Funds utilized for other purposes	11,923,681
	7,597,437,033
Balance, December 31, 2013	P 292,404,021

12.3 As shown in Table 29, with the 2013 releases/remittances from the NFA-HO in addition to the beginning balance of the funds at the ROs and POs, the total CPF that was available for procurement was P7.890 billion. However, only P4.726 billion or 59.9 per cent was utilized for procurement while P1.019 billion or 12.9 per cent was returned to HO. The P7.890 billion could have procured an approximate 9,068,783 bags of palay [(P7,889,841,054/P17.40 per kg.)/50 kgs. per bag], which would be about 58.1 per cent of the total targeted volume of 780,000 MT or 15,600,000 bags. With the available funds for procurement, NFA could have attained higher rate of accomplishment than the overall 46.7 per cent actual procurement in all the ROs/POs in 2013.

Low Accomplishment versus Targets

12.4 From the 2013 report of the Grains Marketing and Operations Department (GMOD), NFA procured a total of 364,221.5 MT of palay or 7,284,430 bags at 50 kgs. per bag.

12.5 As one of the major final outputs (MFOs) in operations in 2013, as submitted to the Governance Commission for GOCCs (GCG), NFA targeted to procure 780,000 MT or 15,600,000 bags of palay. The Grains Situationer Report, however, shows that 15 ROs had only procured 46.7 per cent of the total target or 364,221.5 MT, which is equivalent to 7,284,430 bags, hence, a significant shortfall of 53.3 per cent or 415,778.5 MT equivalent to 8,315,570 bags.

12.6 Table 30 shows the verified procurement data from 13 of the 15 NFA ROs.

Table 30 - Procurement of Palay in 13 ROs

Region	Target (in bags of 50 kgs.)	Actual (in bags of 50 kgs.)	Percentage of Actual vs. Target	Palay Production (in bags of 50 kgs.)	Absorption Rate (%)	Percentage of Target vs. Production
I	1,558,000	435,157	27.9	36,524,889	1.2	4.3
II	2,069,500	1,002,401	48.4	55,922,393	1.8	3.7
III	2,113,805	1,569,869	74.3	68,119,197	2.3	3.1
IV	2,948,800	2,291,121	77.7	28,331,172	8.1	10.4
V	1,154,000	597,642	51.8	21,694,488	2.8	5.3
VI	1,125,000	354,950	31.6	46,207,760	0.8	2.4
VII	7,240	7,331	101.3	6,953,940	0.1	0.1
VIII	78,000	149,330	191.4	19,805,700	0.8	0.4
IX	317,200	99,242	31.3	12,811,220	0.8	2.5
X	551,700	72,567	13.2	12,517,300	0.6	4.4
XI	633,400	291,814	46.1	9,736,644	3.0	6.5
XII	387,200	202,805	52.4	21,847,801	0.9	1.8
CARAGA	279,300	177,638	63.6	11,676,760	1.5	2.4
CY 2013	13,223,145	7,251,867	54.8	352,149,264	2.1	3.8
CY 2012	12,015,414	7,510,155	62.5	334,965,044	2.2	3.6
Inc./(Dec.)	1,207,731	(258,288)	(7.7)	17,184,220	(0.1)	0.2

Above data exclude those from ARMM and Metro Manila-(Cavite and Batanes POs)

12.7 From Table 30, actual accomplishment in the procurement of palay in 13 ROs compared to target in 2013 was 54.8 per cent, with a decrease of 258,288 bags from 7,510,155 bags in 2012 to 7,251,867 bags in 2013. ROs I, II, VI, IX, X and XI, where the actual procurement was below 50 per cent of the targeted volume in 2013, contributed to the shortfall in target.

12.8 On the contrary, however, it may be noted that while ROs I, II, VI and X had procurement rates below 50 per cent, they were among those ROs that received big amounts of CPF, as shown in Table 31.

Table 31 - Accomplishment vs. CPF Releases

	% of Accomplishment vs. Target	CPF Releases
RO I	27.9	P 497,248,480
RO II	48.4	977,627,000
RO VI	31.6	343,069,083
RO X	13.2	179,607,240
RO XI	46.1	158,480,800
RO IX	31.3	90,772,000
		P 2,246,804,603

12.9 Achieving or even exceeding the targeted volume of procurement would have not only added to the buffer stock for food security requirement of the government but would have also encouraged farmers to produce more and eventually minimize the need to import rice which utilizes foreign exchange reserve that eventually result in foreign or domestic borrowings for NFA.

Low Absorption Rate and Percentage of Target vs. Palay Production

12.10 As also shown in Table 30, the overall absorption rate or the rate of actual procurement vis-a-vis the palay production was only 2.1 per cent with very slight decrease of 0.1 per cent from 2012, which demonstrates that with the available produce of 352,149,264 bags of palay in 2013, NFA was able to procure only 7,251,867 bags from farmers/farmers' organizations. Moreover, comparing the total target of 13,223,145 bags against the palay production showed a low rate of 3.8 per cent indicating that NFA had set a modest share from the produce of the farmers.

12.11 Even with the actual procurement of 7,284,430 bags as indicated in the accomplishment report of GMOD, the absorption rate was only around 2.0 per cent since the palay production for the period totaled to 368,788,120 bags as reported by the Bureau of the Agricultural Statistics. Meanwhile, the percentage of target to production was only 4.2 per cent (15,600,000 bags/368,788,120 bags).

12.12 Inasmuch as funds totaling P7.890 billion was available, and with high palay production for the period, NFA could have considered higher target and set appropriate threshold that could have driven more efforts to increase the procurement of palay; attained a higher absorption rate on palay production; and contributed more in the buffer stock requirement of the Agency.

12.13 Some of the main causes of the low procurement of palay, as gathered from the ROs/POs, are summarized in Table 32.

Table 32 - Causes of Low Palay Procurement

		Causes
RO III-	Nueva Ecija PO	<ul style="list-style-type: none"> • Weak procurement campaign; • Absence of NFA representatives in the vicinity; and • Active participation of the private traders in palay procurement and the higher buying price that they offered to farmers.
RO IV	(Mamburao and Calapan, Oriental Mindoro)	<p>Buying strategies of private traders, include among others:</p> <ul style="list-style-type: none"> • Commission of P10 per bag to tricycle drivers; • Free trucking; • High buying prices ranging from P19.50 to P21 per kg.; and • Classification of palay is not so strict with regards to moisture content.
RO V –	Albay	<ul style="list-style-type: none"> • High ex-farm price offered by the private traders proved to be more advantageous to farmers.
RO VI-	Negros Occidental	<ul style="list-style-type: none"> • Traders/millers offered higher ex-farm prices.
RO X		<ul style="list-style-type: none"> • Local rice trader's buying price ranging from P18 to P22 per kg. on palay from the thresher against NFA's buying price of P17.40 per kg.
RO XII		<ul style="list-style-type: none"> • High prevailing palay ex-farm prices in the area (averaging from P17.08 to P18.15 per kg.), the highest price reached P20.36 per kg.; • Traders provide farmers with cash advances for non-farm needs (i.e. cash for marketing, educational, and medical needs); • Traders provide the farmers with farm inputs, MTS and other farm products needed from planting to harvesting; and • Traders from neighboring regions aggressively procure palay stocks.

12.14 The NFA buying price for palay of P17.40 per kg. was set in year 2009, which is already five years ago. Since the buying price was not updated, NFA could hardly compete with the current price in the locality; hence, more farmers are not encouraged to sell their palay to NFA.

12.15 We recommended that Management:

- a. Review the setting of procurement targets considering the established data on palay production to maximize the utilization of available funds to be able to maintain the mandated buffer stock of NFA;**
- b. Assess the low NFA buying price in order to determine the appropriate increase and additional incentives that can level up or compete with local traders;**

- c. Evaluate the procurement performance of the ROs/POs with low accomplishments to determine the necessary assistance and measures needed to improve the implementation of the procurement program;**
- d. Formulate strategies to increase the procurement of palay and encourage participation from farmers, among others:**
 - d.1 Intensify information dissemination on palay procurement before the start of main crop season to encourage farmers to sell their produce to NFA;**
 - d.2 Deploy more procurement teams in areas where harvesting season is ongoing. Put in place the early preparation of palay procurement logistics plan that include the pre-positioning of equipment and personnel both in stationary buying stations and mobile procurement teams in their respective service areas with early harvest schedule;**
 - d.3 Ensure that NFA's assistance are accessible to farmers like the post-harvest facilities that they can use to minimize post-harvest losses; and**
 - d.4 Regularly monitor extent of utilization of available funds based on the palay production during the period to meet or even exceed the targeted palay procurement.**

12.16 Management submitted the following explanations:

- a. On the setting of procurement target
 - a.1 There are parameters to be considered, such as the estimated production figures of the Philippine Statistics Authority (PSA) formerly the Bureau of Agricultural Statistics, historical data on actual procurement and the farm gate prices, current and previous years' market situation vis-à-vis the effect on the prevailing ex-farm and commercial prices of palay and rice, and policies such as Strategic Rice Reserve (SRR) wherein NFA shall maintain an SRR of 15 days at any given time and 30 days, including the SRR of 15 days, by the end of June on the national level. These levels are the policy pronouncement from the Legislative and Executive Development Advisory Council (LEDAC) emanating after the rice crisis of CY 1995.
 - a.2 The National Government approves a limited amount as subsidy for the procurement of palay only, while the rest of NFA's operational and financial requirements are sourced from bank borrowings that entail high interest charges.
 - a.3 The 2013 procurement performance of NFA shows that it exceeded its monthly target by more than 100 per cent for the months of January to April with ex-farm prices lower than NFA's buying price of P17.00/kg. The

subsequent months of May to August, considered as the lean months, reflect high ex-farm prices indicating minimal production during these months. Worth noting, however, are the high ex-farm prices in the last quarter of 2013 which is the main cropping season of the year. Traditionally, ex-farm prices drop during the last months of the year when supply is abundant. But NFA was able to buy only at a low range of 3.8 per cent to 34.7 per cent during the months of October to December. Traders were observed to be very aggressive in their buying activities which can be attributed to their being fully aware that NFA's existing inventory during this period was at a record low. This strategy was employed as the traders took it as an opportunity to buy high and sell the stocks later at equivalent high prices knowing well that NFA does not have the stocks to flood the market. Contributing to NFA's stock depletion at this time was the sales for relief operation as a result of the severe damage from Typhoon Yolanda.

b. On NFA buying price

b.1 The government buying price for palay is primarily intended to boost prices of palay at farm gate for the farmers' benefit, especially when private traders are buying at low levels. In setting the support price, one of the major considerations is the cost of production (COP) for palay taking into account the farmers' profitability in their farming activities. The level by which it is set is for the farmers to earn reasonable margins thereby making them financially viable. Based on the latest figures from the PSA, the COP for palay is P11.05 per kg. Equating the level of COP with NFA's current buying price shows that the level of return on investment (ROI) for the farmers is significant at over 60.0 per cent. The change of current support price will have to allow for the consequential impact on the prices of rice. Following the "rule of thumb" of times two, a kilogram of palay bought at, say, P18.00 or P20.00 per kg. will give a price of P36.00 or P40.00 per kg. for milled rice. Private traders may just simply adjust upwards their buying price, if only to compete with the government in cornering a sizable volume of the local farmers' produce.

b.2 Other ways of granting assistance to the farmers through cash or non-cash incentives will be taken into consideration without necessarily increasing the support price.

c. On the procurement performance, information campaign, and assistance to farmers, directives were made reminding the POs on logistics, manpower and funding. Strategies on procurement have been devised like setting up of mobile or stationary procurement teams, identifying areas of concentration, relaxing of requirements for farmers applying for passbooks and coordination with other stakeholders aside from the farmers' group.

d. On monitoring of the CPF, regular monitoring of the utilization of the CPF is always done. GMOD ensures that requests for procurement funds from the field offices are immediately endorsed to the Budget, Treasury and Fund Management Department for the immediate remittance of funds to the requesting office.

12.17 Overall, COA's recommendations were well taken. Management will determine if there is a need to recommend for the adjustment in the current buying price of P17.70 per kg. for palay, if only to boost palay procurement activities to the farmers' benefit.

Cash Advances for Cereal/Palay Procurement

13. Cash ranging from P100,000 to P1.500 million per day were carried by Special Disbursing Officers (SDOs) of NFA Camarines Sur and Camarines Norte to various NFA buying stations for the purchase of palay under the cereal procurement program, endangering their lives and exposing government funds to possible loss.

13.1 Under NFA SOP No. FS-CS05 dated June 1, 1988, providing for the Agency's Cereal Procurement Campaign Program Imprest Fund Scheme, SDOs are assigned for fieldwork in various buying stations to procure palay from farmers, which they are required to carry cash with them.

13.2 Analysis of the Cereal Procurement Fund (CPF) disbursement transactions at NFA Camarines Sur from March to June 2013 showed that eight SDOs were assigned to various NFA buying stations. Evaluation of various cash advances and liquidations which totaled P14.970 million and P14.950 million, respectively, as of June 30, 2013, revealed that the SDOs carried from P500,000 and above in cash every day when they proceed to the various buying stations to procure palay. The advances and liquidations of the said SDOs are shown in Table 33.

**Table 33 - Schedule of Cash Advance, Liquidation and Balance - CPF
As of June 30, 2013**

Name of SDO	Position	Daily Cash Accountability	Total CA* March - June	Total Liquidation	Balance
A. H. Portillo	Cashier II	P 750,000	P 2,500,000	P 2,500,000	P -
E. L. Eloreta	Cashier II	1,500,000	2,000,000	2,000,000	-
J. B. Brijuaga	RLO Aide	750,000	2,000,000	2,000,000	-
M. M. Olivan	GOO I	750,000	1,000,000	990,000	10,000
R. P. Dairo	Driver	1,000,000	2,980,000	2,970,000	10,000
Ma. S. O. Villegas	UW II	1,500,000	2,490,000	2,490,000	-
P. O. Tolop	Acting SDO (HO)	500,000	1,000,000	1,000,000	-
R. Marfil	Secretary	1,500,000	1,000,000	1,000,000	-
			P 14,970,000	P 14,950,000	P 20,000

*CA – Cash Advance

13.3 Likewise, analysis of the transactions at Camarines Norte from March to May 2013 also showed that four SDOs were assigned in various NFA buying stations for the same program. They carried with them from P100,000 to P300,000 in cash every day when they go to these various buying stations. The cash advances and liquidations, which totaled P9.375 million and P9.277 million, respectively, as of May 31, 2013 are shown in Table 34.

**Table 34 - Schedule of Cash Advance, Liquidation and Balance-CPF
As of May 31, 2013**

Name of SDO	Position	Cash Accountability	Total CA March - May	Total Liquidation	Balance
J. M. Baraquiel	AO III	P 300,000	P 4,709,930	P 4,611,735	P 98,195
F. B. San Miguel	Clerk III	100,000	829,448	829,448	-
R. A. Sarcedo	MPO III	200,000	827,931	827,931	-
JP C. Molato	Clerk III	300,000	3,007,632	3,007,632	-
			P 9,374,941	P 9,276,746	P 98,195

13.4 The volume of palay procured has resulted from this scheme, with the issuances of NFA Central Office Memo 2012-A0-2K12-05-019 dated May 23, 2012, on the Operational Policy Directions on aggressive palay procurement, and NFA Administrator's Office Memo 2K12-E-032 dated May 23, 2012 that emphasizes the need to procure palay. These issuances provided that implementation of the full cash payment may be done in less risk areas at the discretion of the Regional Director. However, risk on the road is everywhere especially with the presence of people with evil intentions.

13.5 These bonded SDOs replenishes their cash advances every day after submitting supporting documents such as Statement of Individual Deliveries, Barangay Captain Certification, Purchase Request, Warehouse Stocks Receipts, and Abstract of Cereal Purchase; hence, their cash accountability everyday remains the same. Carrying such large amounts of money, however, is dangerous, risky and might result in loss of life and government funds.

13.6 Under Item 2.E.5 of NFA SOP No. FS CS05, it shall be the responsibility of the Provincial Managers to negotiate with a drawee bank and rural bank (with Central Bank clearance) accredited under the NFA-Philippine National Bank (PNB)/Land Bank of the Philippines (LBP) check payment tie-up regarding the implementation of the Imprest Fund and encashment of CPF checks issued by the Procuring Disbursing Officers.

13.7 The POs explained that they had already coordinated with PNB and Development Bank of the Philippines (DBP) regarding the application of the check payment system so that farmers can encash their checks at the nearest bank.

13.8 We recommended that Management closely monitor the implementation of the NFA Administrator's Office Memo 2K12-E-032 which provided that full cash payment may only be done in less risk areas at the discretion of the Regional Director, and Item 2. E.5 of NFA SOP No. FS CS05 to minimize the risks in carrying large amount of cash during procurement activities, not only in NFA Camarines Sur and Camarines Norte, but also in all NFA POs.

13.9 Management commented that on payment of palay in cash, GMOD has wired all ROs reminding them on the proper implementation of NFA Administrator's Office Memo 2K12-E-032, particularly on the implementation of the full cash payment scheme.

Institutionalized Procurement Program (IPP)

The IPP is a complete package program that provides management, marketing and financial assistance to responsive farmers' associations/organizations. It was initially implemented in areas where the Farmers Group Marketing Councils (FGMCs) exist and/or in areas where the NFA RO had determined farmers' group to be organized and active.

Section 5 of the IPP dated May 1, 1987 states that xxx at Provincial Office Level, the Marketing Operations Section shall assume the function of accrediting/screening of participating farmer groups (FGs) to the IPP. All other necessary functional support for the efficient and effective implementation of the IPP shall be extended to the implementing sections.

Likewise, Section 2.2 of the Revised NFA SOP Guidelines on the Total Revalidation and Accreditation of Farmer-Organizations, Farmer Cooperatives and Farmers Associations for Grains Procurement Program (Institutionalized and Individual) states, among others, that *xxx the NFA Provincial Office thru the Provincial Industry Service Officer (PISO) and Provincial Information Officer (PIO) shall intensify its campaign on the conduct of accreditation of new and interested individual farmers and farmer-organizations/cooperatives/associations for NFA accreditation and issuance of corresponding NFA Grains Procurement Passbook more especially before the start of procurement season every year.*

An evaluation of the participation of farmers and farmer-organizations in these programs was conducted in the provinces of Albay and Sorsogon and the following was observed:

14. The benefits intended for farmers' cooperatives in Albay and Sorsogon such as technical and financial assistance were not duly availed of because only two out of the four programs under the Institutionalized Procurement Program (IPP) were participated in by them due to various reasons which include low buying price of NFA.

14.1 The IPP provides management, marketing and financial assistance to responsive farmers' associations/organizations. This is implemented under four programs, namely: Cooperative Development Incentive Fund, the Farmers' Incentive Rice Purchase Program, the Palay Marketing Assistance for Legislators and Local Government Units, and the Farmers' Option to Buy Back.

Cooperative Development Incentive Fund (CDIF)

14.2 Under the IPP, the farmers' organizations (FOs) can avail of the CDIF at P0.30 per kilogram as an incentive for every Equivalent Net Weight (ENW) or net kilogram of palay procured by NFA. To illustrate, for the total volume of palay delivered to NFA Albay of 1,552,701 ENW by the two FOs as of December 31, 2013, the total CDIF which could be availed of by these FOs would be P465,810 (1,552,701 x P0.30) representing the incentive fee to be given after complete delivery of palay in the previous year. This incentive could be converted to rice that can be availed within a given period and can be withdrawn upon presentation of complete purchase receipts and other documents such

as application form for withdrawal, etc. No withdrawal can be availed of by an FO if it has been inactive for two years prior to the procurement period.

14.3 There were at least 10 FOs in the Province of Albay composed of 2,856 farmer-members that were entitled to avail of the CDIF in the amount of P0.576 million as of December 31, 2013. The FOs could avail of this incentive by converting the amount to rice at P1,250 per sack beginning July 2013. However, no FO has availed of the incentive as of the end of the year.

14.4 Verification and validation of the existence/status of the FOs/cooperatives in the Province of Albay disclosed that to date, 7 out of the 17 are now inactive.

14.5 In Sorsogon, the audit team noted that the incentive granted totaling P256,300 as of December 31, 2013 availed by 16 FOs with 1,294 farmer-members was 32.0 per cent lower than the previous year because the number of bags of palay sold by farmers to NFA in 2013 was lower since they preferred to sell their produce to private entities that offered higher price than the NFA's buying price.

14.6 During CY 2013, only 102 out of 714 accredited individual-palay farmers in Albay actively sold their palay to NFA. In Sorsogon, only 112 accredited individual palay farmers were active in selling their palay to NFA because, they say that the NFA buying price of clean and dry palay which is P17.40 per kg. was lower compared to the P20.00 per kg. offered by other private individual-farmers or businesses in the locality.

Farmers' Incentive Rice Purchase Program (FAIR)

14.7 The FAIR is NFA's procurement incentive designed to encourage farmers to sell a larger portion of their produce and to support NFA's buffer-stock-building mandate in the face of rising ex-farm prices of palay while the procurement price remains static and at times uncompetitive. The program is applicable to accredited FOs that are Master Passbook holders and sell palay to NFA. They are entitled to buy up to 25 per cent of the rice-form equivalent of the palay they sold to NFA for the previous year, computed based on the equivalent net weight, with a 65 per cent milling recovery.

14.8 As of December 31, 2013, a total of 13 FOs in Albay were entitled to rice allocations of 3,562 bags. However, only six FOs had actually purchased rice allocations totaling 3,466 bags, leaving a balance of 96 bags. A comparison of the active and inactive FOs in years 2012 and 2013 showed a decrease in the participating farmers' cooperatives from 13 to 9, although the net kilograms (nkgs) delivered increased by 76.5 per cent from 1,108,078.59 nkgs in CY 2012 to 1,955,865.18 nkgs in CY 2013.

14.9 It was also observed in Sorsogon that the rice allocation for the FOs for CY 2013 totaled 2,540 bags with 16 participating FOs. Comparison of the active and inactive FOs in years 2012 and 2013 showed an increase in the participating FOs cooperatives from 10 to 16. However, rice allocations of 2,540 bags with 16 participating FOs for the year showed a decrease in volume by 34.3 per cent from 1,255,566.26 nkgs in 2012 to 824,851.98 nkgs in 2013.

Palay Marketing Assistance for Legislators and Local Government Units (PALLGU) and Farmers' Option to Buy Back (FOBB)

14.10 The PALLGU aims to enable palay farmers, thru the legislators and LGUs in sourcing their palay requirements intended for their constituents, to maximize their income. It is a marketing agreement between NFA and LGU wherein the latter buys palay from individual farmers and FOs with an additional price/premium on top of NFA-support price. The farmers/FOs shall execute a Special Power of Attorney (SPA) authorizing the Legislators/LGUs to buy back the palay stocks they sold to NFA after six months. In case they fail to buy back within the stated period, the stocks shall become part of NFA inventory.

14.11 Another program is the FOBB that allows farmers to buy back the stocks they previously sold to NFA, net of shrinkages, within a maximum period of six months for one cropping cycle and also when palay prices in the market increase significantly above government support price.

14.12 For the past two years, Individual-Farmers and/or FOs/Farmers' Cooperatives in NFA Albay and Sorsogon did not participate in the PALLGU and FOBB programs.

14.13 We recommended that the Provincial Managers of NFA Albay and Sorsogon:

a. Review the viability of the IPP considering the decreasing participation of farmers' associations/cooperatives in CDIF and FAIR, and strengthen the accreditation campaign to attract more FOs/cooperatives in the procurement programs. Conduct dialogues with FOs/cooperatives on a regular basis to thresh out other difficulties encountered in the implementation of the programs; and

b. Adopt other measures such as conducting seminars or dialogues with accredited palay farmers and FOs to introduce or make them aware of the other programs such as the PALLGU and the FOBB, and to encourage them to participate and avail of the procurement program incentives.

14.14 We further recommended that similar and even more substantive evaluation of the participation of farmers and FOs in the IPP be conducted in other NFA ROs/POs to identify the common areas for improvement and determine the appropriate measures to be implemented so that the intent of the program would be fully achieved.

14.15 The NFA concerned POs commented as follows:

a. In Albay, the procurement programs has been crafted to prop farm gate prices so as not to disadvantage the farmers, and to provide alternative market for the peasants, and means to buffer stock development. The primary factor of the program is better price for the farmers when prices being offered by the

traders and “viajeros” drop to unprofitable level and that the program is hinged on current levels of palay prices.

b. There were strings of programs designed to invite and encourage participation by farmers like, the FOBB and the PALLGU. However, each program had a determinant or a condition whereby farmers could participate, i.e., for the FOBB, the determinant is the price while in PALLGU, the determinant is the government. Palay seed growers/farmers availed only of the program if it will be beneficial to them. But with the optimum prices now at the market for seed and inbred varieties, farmers chose to sell outright to the traders, hence, the observed non-participation. The FOs/Farmers’ Cooperatives that were unable to comply with the documentary requirements were delisted which resulted in the decrease of participation of FOs/Farmers’ Cooperatives in the program.

c. Advocacy activities are regularly undertaken where the said programs were detailed and explained, and the farmers were also regular participants to forum and discussion groups initiated by allied agencies in the network of the agriculture industry. They, however, are still keen for further enhancements.

d. In Sorsogon, the Provincial Manager said that their advocacy on palay procurement is a regular activity of the province and is conducted before the start of the procurement season through “Ugnayan” with farmers and FOs, media, other government agencies and LGUs.

e. The Provincial Manager further explained that the palay procurement during the year decreased as compared to 2012 due to competitive buying prices offered by the local palay traders and those from neighboring provinces of Albay, Camarines Sur and Northern Samar, particularly during the second semester of 2013 where the buying price reached as high as P19.00 per kg. for fresh or newly harvested rice resulting in the decrease in the availment of the IPP. The Provincial Manager added that LGUs in coordination with NFA and different FOs/farmers’ cooperatives, are still evaluating the PALLGU and FOBB.

14.16 During the audit exit conference, the Deputy Administrator for Marketing mentioned that NFA is conducting evaluation of these programs and will provide data to COA.

Cooperative Development Incentive Fund (CDIF)

As previously discussed, CDIF is a monetary incentive granted to FOs whenever they sell their produce, like palay and corn, to NFA. It is currently pegged at P0.30 per kilogram. The fund is taken from the General Operating Expenses (GOE) fund and recorded under Other Payables - Cooperative Development Incentive Fund.

This incentive can also be used by the FOs in the acquisition/rental of post-harvest facilities (PHF), as a subsidy for training expenses, purchase of farm inputs, as payment of loans, to fund entrepreneurial and development programs of FOs and for other purposes, subject to the approval of the NFA.

Verification of the CDIF disclosed the following deficiencies:

Inactive accounts

15. The Cooperative Development Incentive Fund (CDIF) amounting to P10.657 million remained inactive/unutilized for more than two years, indicating that the FOs have not availed of the incentive granted by NFA, thus affecting the attainment of the fund’s objectives of promoting membership of farmers in FOs and providing them with financial and technical assistance.

15.1 Item E.1 of NFA SOP No. TS-ES24 dated June 19, 2012 provides that if there are no transactions, either granting or withdrawal of fund, for a period of two years, the balance is considered inactive/dormant and for forfeiture in favor of NFA. The same provision is stated in the Memorandum of Agreement (MOA) of the FO with NFA. The Notice for Inactive CDIF shall be sent through registered mail to the concerned avalees three months prior to the forfeiture. If there is no response or action on the notice within two weeks, a Notice of CDIF Forfeiture shall be sent through the same manner. The Accounting Section shall prepare a journal entry to take up the amount of forfeited CDIF.

15.2 The Aging Schedule of the CDIF prepared by the Accounting Services Department (ASD) amounting to P54.843 million is shown in Table 35.

15.3 Of the total balance of P54.843 million, 19.4 per cent or P10.657 million are already aged two years and above, of which significant balances amounting to P6.856 million or 64.3 per cent involved Regions IV, V, VI and X.

**Table 35– Aging of Balances of CDIF
As of December 31, 2013**

Region	Balances	Less than 1 year	Less than 2 years	2 years and above
I	P 5,387,767	P 2,746,742	P 2,117,226	P 523,799
II	2,989,555	1,608,365	699,046	682,144
III	4,336,853	3,106,208	659,932	570,713
IV	21,077,947	18,466,722	843,230	1,767,995
V	3,194,773	1,210,491	721,033	1,263,249
VI	6,385,889	3,513,930	500,998	2,370,961
VII	65,588	12,874	-	52,714
VIII	277,858	167,868	5,189	104,801
IX	396,183	200,736	35,603	159,844
X	3,368,017	1,910,455	3,848	1,453,714
XI	1,579,419	916,979	131,686	530,754
XII	4,572,486	3,505,678	370,093	696,715
CARAGA	1,210,713	719,959	11,154	479,600
	P 54,843,048	P 38,087,007	P 6,099,038	P 10,657,003
	100.0%	69.5%	11.1%	19.4%

15.4 The Assistant Administrator for Marketing Operations, in his letter dated April 22, 2014, provided us the results of the inquiry from field offices on 455 FOs. The results showed that the balances were considered dormant mainly because the 264 FOs or 58.0 per cent have no transactions with the NFA for the last two or more years, while 18 FOs representing 4.0 per cent were already dissolved. There was no feedback on the remaining 173 FOs or 38.0 per cent.

15.5 Verification of Exhibit 8 attached to the CDIF Status Report dated February 10, 2014 of the Industry Services Department under the Office of the NFA Administrator showed that the amount of P2.828 million were issued with Notices of CDIF Forfeiture and reported forfeited, while P1.052 million is already nearing forfeiture. However, the aging schedule shows bigger amount of P10.657 million, which have already been dormant for two years and above.

15.6 The significant amount of inactive balances suggests the decreasing participation of the farmers/FOs in NFA cereal/palay procurement program; hence, the benefits of the program have only been enjoyed by limited targeted beneficiaries.

15.7 **We recommended that Management:**

a. **Conduct further verification and evaluation of the operational status of the concerned FOs with inactive accounts especially in NFA ROs IV, V, VI and X to determine the reasons thereof and identify the needed improvement in the implementation of the procurement programs; and**

b. **Implement the forfeiture of the inactive CDIF balances in all the NFA ROs/POs by sending Notice for Inactive CDIF and Notice of CDIF Forfeiture to the concerned FOs in accordance with the procedures provided in NFA SOP No. TS-ES24 and in the MOA between the NFA and FOs. Henceforth, require the POs' Industry Services Section (ISS) to periodically check with the Accounting Section the CDIF accounts nearing forfeiture, for monitoring, appropriate action and reconciliation of records.**

15.8 Management explained that they have updated the monitoring system and the reports on CDIF to maximize the farmers' utilization of benefits. They have also sent Notices of Inactive CDIF to the farmers' cooperatives/associations and have coordinated with the CDA and NIA on the status of operations of the cooperatives involved. In the books of some Field Offices, they have already reclassified the forfeited amounts to Prior Year Income account in accordance with the procedures.

Incomplete Documentation for Accreditation

16. **The La Union, Ilocos Sur, Ilocos Norte, and Abra POs in Region I granted CDIF totaling P2.737 million to 69 FCs/FOs; however, 68 of them were unable to complete the documentary requirements, hence, their legal juridical personalities and operational standing were not assured which affected the propriety of their entitlement to the fund.**

16.1 Only FOs such as Farmers' Cooperatives (FCs) or Farmers' Associations (FAs) that have legal juridical personalities, and are registered as active and/or operational with any of the following government agencies shall be granted the incentives:

a. Cooperative Development Authority (CDA) for FCs

b. For other FOs: Securities and Exchange Commission (SEC), Department of Labor and Employment – Bureau of Rural Workers (DOLE – BRW), National

Irrigation Administration (NIA), National Tobacco Administration (NTA) and Department of Agrarian Reform (DAR).

16.2 The Certificate of Good Standing issued by CDA for FCs and renewed Certificate of Continued Existence issued by SEC or any of the government agencies mentioned above for other FOs are *prerequisites* to be categorized as active and/or operational. The certification is valid only for the current year the CDIF is requested for withdrawal.

16.3 Validation of compliance with the documentary requirements contained in NFA SOP No. TS-ES24 or the Revised SOP on CDIF showed that, out of the 69 FCs and FOs registered and granted CDIF in the four POs in Region I, only one had complied with all the requirements. Although the 68 FCs/FOs have not submitted the requirements such as the Certificate of Good Standing or their Certificate of Continued Existence and their MOAs on the Grant and Utilization of CDIF, they were still granted the CDIF. The breakdown is shown in Table 36.

Table 36 - CDIF Granted in Region I

PO	Amount	Total FCs/FOs validated	No. of non-compliant FCs/FOs
La Union	P 1,180,192	28	28
Ilocos Sur	1,008,530	17	17
Ilocos Norte	529,605	20	20
Abra	18,193	4	3
	P 2,736,520	69	68

16.4 The grant of CDIF to FCs and FOs with incomplete documentary requirements showed that these cooperatives and organizations were accredited even if their legal juridical personalities and operational standing were not assured; hence, their entitlement to the CDIF is questionable.

16.5 **We recommended that the POs concerned:**

- a. Explain the reasons for the non-compliance with the documentary requirements of the FCs/FOs that were granted CDIF; and**
- b. Strictly enforce NFA SOP No. TS-ES24 or the Revised SOP on the granting of CDIF to ensure that only those FCs/FOs which have legal juridical personalities and are registered as active and/or operational are granted the CDIF.**

16.6 RO I Management commented that they will strictly comply with the requirements of NFA SOP No. TS-ES24 or the Revised SOP on the Granting of CDIF.

16.7 As a rejoinder, **we further recommend that Management, as set forth in NFA SOP No. TS-ES24, require the FCs/FOs to immediately comply with the documentary requirements, otherwise this may constitute a ground for issuance of Notice of Suspension on the grant of CDIF.**

Absence of Statement of Utilization of Previously Withdrawn CDIF

17. Withdrawal from the CDIF in Negros Occidental PO was not supported with Statement of Utilization of Previously Withdrawn CDIF; hence, conformity with the intent of the fund withdrawal for the amount utilized from previously withdrawn fund could not be assessed.

17.1 Section II.C, Item 1.b of NFA SOP No. TS-ES24 states the following:

C. WITHDRAWAL FROM THE CDIF

Xxxx

1. FOs shall be required to file an Application for CDIF Withdrawal for every withdrawal from the CDIF. The application shall be supported by the following documents:

a. Xxx;

b. Statement of Utilization of Previously Withdrawn CDIF supported by photocopy of Certificates certifying that the amount previously withdrawn was utilized in accordance with the purpose for its withdrawal; xxxx

17.2 In addition, Section 4(6) of Presidential Decree (PD) No. 1445 provides that, *[C]laims against government funds shall be supported with complete documentation.*

17.3 Examination of disbursement of the CDIF under Disbursement Voucher No. 2013-01-112 covered by Check No. 2833511 dated January 30, 2013 amounting to P150,005 for the purchase of 148.38 bags of fertilizers revealed that Statement of Utilization of Previously Withdrawn CDIF was not submitted during the withdrawal of CDIF by the United Negros Occidental Rice Retailers Multi-Purpose Cooperative (UNORRMPC). Without such statement and the supporting certificates on the use of funds, conformity with the purpose of the fund vis-à-vis utilization of the previous withdrawal could not be assessed.

17.4 We recommended that Management:

a. Require all POs to ensure that the required Statement of Utilization of Previously Withdrawn CDIF and certificates on the utilization of funds be always attached to the Disbursement Vouchers to ensure that the transactions are properly substantiated and that FOs had properly utilized their incentives in accordance with the program's objectives as required in NFA SOP No. TS-ES24; and

b. Instruct all ROs/POs to strictly enforce compliance with the documentary requirements both in the grant and utilization of the CDIF to ensure that the Fund is granted and utilized in accordance with the purpose for which it was established.

17.5 Management later submitted machine copy of the Statement of Utilization of Previously Withdrawn CDIF. They commented, however, that Project Approved was erroneously filled out as fertilizer purchase when it should be for NFA rice purchase.

17.6 As further audit action, the team will verify the submitted Statement of Utilization of Previously Withdrawn CDIF to assess whether UNORRMPC has fully complied with rules on the utilization of the CDIF as stated in NFA SOP No. TS-ES24.

Dispersal of Stocks

In NFA transactions, dispersal is the movement of stocks (palay, rice and corn) from one province/warehouse to another province/warehouse of the same or different region, either by land or sea. Since this transaction involves physical transfer of stocks, adequate internal controls over the stocks during transfers, as well as in recording and reporting of the transfers, should be implemented to ensure that the stocks are safeguarded against losses.

In accordance with the CIF-DDU term and Documents against Payment, the Certificate of Complete Delivery and Receipt (CCDR) is the basis of NFA in their payment to supplier of the imported rice.

The following deficiencies were noted in the audit of dispersal of stocks in 2013:

Unaccounted imported rice after dispersal

18. There were unaccounted 565 bags of imported rice with approximate cost of P0.700 million after dispersal from Albay warehouses to the different NFA provincial warehouses which consequently contributed to inventory losses.

18.1 For 2013, under wire RO5-OPNS-G No.118 dated July 17, 2013, the allocation of imported rice to five provinces in Bicol Region totaled to 120,000 bags, but the actual stocks unloaded were only 119,960 bags or a difference of 40 bags, which is still within the 10 per cent more or less (MOLSO) term of the contract with the supplier. Meanwhile, verification of various reports on the dispersals of these stocks to different warehouses in Bicol Region and NCR disclosed that there were unaccounted 565 bags of imported rice or equivalent to P699,752, as shown in Table 37.

Table 37 – Unaccounted Stocks between Receipts and Issued

	No. of bags
Stocks received per CCDR, net of sweepings of 153 bags	119,807
Stocks dispersed per Monthly Grains Dispersal Report	116,000
Balance	3,807
Per Summary of Weekly Receipts, Issuances and Balances as of October 31, 2013	3,242
Unaccounted bags	565
Amount (565 bags x 49.54 kgs. per bag x P25 per kilo)	P 699,752

18.2 The 565 bags of imported rice amounting to P0.700 million were not reported or could not be accounted as of December 31, 2013, thereby resulting in losses.

18.3 We recommended that Management conduct a thorough investigation of the unaccounted stocks to establish accountability and pinpoint responsibility; and thereafter, hold the responsible personnel accountable for the lost stocks.

18.4 The Provincial Manager concerned explained that the variance of 3,807 bags included the losses from the in-warehouse transactions such as rebagging and the variance incurred in the transfer of stocks, which had a maximum tolerable allowance of 0.28 per cent per SOP, and that losses beyond the tolerable allowance is assumed by the contracted hauler and subsequently deducted from its claims. On the other hand, the NFA-GMOD sent wire advice to NFA RO V to account for the discrepancy, provide reasons for its occurrence and to inform the former of the action taken by the latter.

18.5 As a rejoinder, the Audit Team would like to emphasize that there should have been 3,807 bags of imported rice left after transfers and dispersals, instead of the ending balance indicated in the inventory report of 3,242 bags. The difference of 565 bags, though may be covered by TOLA, must be looked into and accounted for in order to establish the accountability for the inventory losses. It is noteworthy to mention that during the audit exit conference, the Administrator and Deputy Administrator for Marketing agreed that inventory losses should be looked into because the actual physical loss of bags of rice is a more serious problem than the loss from difference in weight.

Absence of Dispersal Committee

19. Variances in the transfer of stocks in Regions VII and XII which reached 142,672.22 and 6,084.40 kilos of rice, respectively, were not immediately resolved due to the absence of Dispersal Committee during dispersal activities.

19.1 The dispersal policy requires the creation of a Dispersal Committee as provided in NFA SOP No. GM-DL03.C, which is an amendment/addendum to Dispersal Policies and Procedures dated July 7, 2000, as follows:

1. *All Provincial Managers shall create a Dispersal Committee in their provinces with the Assistant Provincial Manager (APM)/Provincial Operations Officer (POO) as Chairman. The composition of the Dispersal Committee shall be left to the discretion of the Provincial Manager but only permanent employees can be made as members. The total number of members of the Committee shall be no less than seven (7) excluding the Chairman.*
2. *Xxx*
3. *Xxx*
4. *The Provincial Managers of both the issuing and receiving provinces shall always convene the Dispersal Committee during intra-regional and inter-regional stock transfers and not only when significant variances are observed. In no case should there be a dispersal activity without the*

presence of the Dispersal Committee. The Provincial Managers shall give utmost importance to the job of the Dispersal Committee and shall act on its report immediately.

19.2 The Dispersal Committee is tasked to administer the dispersal activities of NFA. Its functions are well defined and its responsibilities are fixed and enumerated in Paragraph 6 of the addendum to NFA SOP No. GM-DL03.C. These functions are important in strengthening the internal controls in the dispersal activities.

19.3 However, the Provincial Manager as well as the Regional Director in Region VII did not create a Dispersal Committee as required by the said policy. Instead, the dispersal function of the issuing province was handled by the Operations Section headed by the Assistant Provincial Manager. The receiving POs, as well, did not create their own Dispersal Committee to receive the stocks accordingly.

19.4 Sans any Dispersal Committee on both the sending and receiving POs, the dispersal activities were not properly supervised and guided by dispersal policies. Among the observed weaknesses in the actual practices are as follows:

- a. Lack of independent witness or observer other than sending warehouse or receiving warehouse personnel, on the different facets of dispersal such as weighing which affects the reliability of data;
- b. The sealing of vessel hatches using ordinary wires which are vulnerable to tampering; and
- c. No reporting mechanism to determine and resolve losses from variances on stocks during dispersal.

19.5 The absence of a duly organized Dispersal Committee in Region VII contributed to the significant variances in the transfer of stocks between provinces. In 2013, inter-province transfer losses totalled 142,672.22 kilos of rice valued at P3.200 million as shown in Table 38.

Table 38 – Variance between Dispersal from NFA Cebu PO and Receiving Provinces

Receiving Offices	Stocks Dispersed per Cebu Provincial Office Report		Stocks Received per Provincial Offices Reports		Variance	
	No. of bags	Net kilos	No. of bags	Net kilos	Net kilos	Amount
Bohol	220,500	11,004,355	220,885	10,871,005.02	133,349.98	P 2,993,061
Negros Oriental	126,226	6,294,748	126,565	6,291,953.80	2,794.20	66,108
Siquijor	21,500	1,073,760	21,542	1,067,231.96	6,528.04	141,307
	368,226	18,372,863	368,992	18,230,190.78	142,672.22	P 3,200,476

Notes: Number of bags accepted was more than the bags dispersed due to the inclusion of bagged/sacked sweepings. Amounts are based on Standard Transfer Cost.

19.6 The above variances were booked as losses on dispersal, but no action was taken or was there any person held accountable as required by NFA SOP.

19.7 The absence of a Dispersal Committee was also observed in the POs in Region XII. During dispersal of 100,000 bags of imported rice in 2013, a total variance of 6,084.40 kilos or 0.12 per cent was noted between the number of kilos reported in the Warehouse Stocks Issues (WSI) and Warehouse Stocks Receipts (WSR), as presented in Table 39.

Table 39- Dispersal Report of Imported Rice in Region XII

PO	No. of bags	Net kilos		Variance	
		Per WSI*	Per WSR**	No. of kilos	Percentage
Sultan Kudarat	60,000	2,996,164.40	2,993,055.00	3,109.40	0.10
North Cotabato	20,000	999,660.00	998,720.00	940.00	0.09
South Cotabato	20,000	999,025.00	996,990.00	2,035.00	0.20
	100,000	4,994,849.40	4,988,765.00	6,084.40	0.12

*WSI – warehouse document evidencing all the stocks issued and is prepared by the Warehouse Assistant and certified correct by the Warehouse Supervisor.

**WSR – warehouse document evidencing all stocks received by the Warehouse Supervisor to form part of his accountability and is also prepared by the Warehouse Assistant and certified correct by the Warehouse Supervisor.

19.8 We recommended that Management instruct all the Provincial Managers to create Dispersal Committee in accordance with NFA SOP on Dispersal Policies and Procedures, and to immediately resolve the variances and other related problems so that the dispersal activities are properly supervised.

19.9 The concerned ROs explained that one big contributory factor that caused the variance in any transfer (intra-regional in this case) is the different types of weighing scales used by the source and destination POs. Spillage is another normal occurrence in the course of stock transfers which also contributes to the variance in weight between source and destination. In recognition of this natural eventuality, Management has set a tolerable allowance of 0.28 per cent granted to truckers/haulers for shortages/losses based on weight at origin per Item 10 of NFA SOP No. GM-DL03.C. Moreover, with the susceptibility of stocks to pilferages while in transit by sea, “escorts for sea transfers shall be compulsory.” Moreover, the vessels shall be sealed in the presence of the NFA’s representative(s) and the Contactor’s representative(s) per Item VI.7 of Memorandum AO-2K11-No. 05-038 dated April 7, 2011.

19.10 Meanwhile, Management acknowledged the responsibilities of the Dispersal Committee in stock dispersal; thus, an Office Order for the creation of the Dispersal Committee in each PO was issued in compliance with the audit recommendation.

Absence of Provisions for Limit and Accountability for Sea Dispersals Losses

20. Losses from stock dispersal by sea amounting to P218,097 were all charged to expense of the Palawan PO due to the absence of provisions in the NFA SOP No. GM-DL03.C for tolerable limit on sea dispersal. Likewise, the amount of P3.200 million in NFA RO VII was also booked as dispersal losses because the concerned RO could not charged the shipper since this was not provided in the Voyage Charter Contract.

20.1 NFA SOP No. GM-DL03.C dated May 31, 2000 provides the additional guidelines on dispersal activities either by land or by sea. The dispersal by land includes, among others, a 0.28 per cent tolerable allowance granted to private-hauler contractor for shortages/losses based on weight at origin. Variances in excess of the tolerable limit shall be computed, and to be paid by the hauler based on replacement cost on a per truck basis. However, there is no tolerable allowance set for transfer by sea; thus, all dispersal losses are charged to operations.

20.2 During the year, the POs of Batangas and Occidental Mindoro transferred by sea dispersal a total of 24,500 bags or 1,216,242.500 net kilograms (nkgs) of rice to the PO of Palawan. However, although the records of Palawan warehouses showed the same number of bags, these weighed only 1,208,793.375 nkgs or a variance of 7,449.125 nkgs which is equivalent to P218,097. The amount of the variance was treated as NFA Operational Expenses.

20.3 In Region VII POs, variances in dispersal amounting to P3.200 million were booked as dispersal losses because the liability of the shipper on these losses could not be established due to the absence of such provision in the Voyage Charter Contract.

20.4 We recommended that Management consider including provision/s in NFA policy and in the Voyage Charter Contract, the tolerable limit and liability of the shipper on sea dispersal losses.

20.5 The Palawan PO commented that there are various considerations and factors affecting the incurrence of dispersal losses, such as, but not limited to the distance between the issuing and destination province and the number of movements made from source warehouse to receiving warehouse. The absence of provisions regarding tolerable limit on sea dispersal under NFA SOP does not prevent them from doing all the necessary and stringent measures to minimize losses on sea dispersal. The vessel is securely sealed at source and an escort is always provided as internal control measure.

20.6 NFA RO VII Management committed to relay to top Management the recommendation to incorporate in the Voyage Charter Contract the liability of the shipper on the losses.

20.7 Further, the Director of NFA GMOD explained that it has not been the practice in the maritime industry for the shipper under the Voyage Charter Contract to have any liability in cases where there are shortages/variances incurred in weight in terms of the number of bags during shipment if the seals are not broken/tampered and if there are escorts in the subject shipment. Still, they shall look into the possibility of including the liability of the shipper under the circumstance, even if NFA might find difficulty in securing shipping contractors for their dispersal activities.

20.8 As a rejoinder, while considering the causes and factors for the dispersal losses mentioned by Management as very useful inputs in the audit of dispersal activities, the variances in sea dispersal activities that are charged to operations, if without limit as to how much would be the tolerable losses that NFA and the shipper can absorb, will continue to contribute to NFA's losses. Thus, we stand with our audit recommendation.

**Absence of Acknowledgement Receipts
for the Transfers of Stocks**

21. Stocks transferred from Region II to various NFA warehouses were not supported with the acknowledgement receipts by the receiving units to validate the occurrence of the transactions. Hence, there was no assurance that the receivable account recorded by the issuing PO has a corresponding payable account recorded by the receiving PO.

21.1 The audit teams verified the monthly dispersal reports of the POs in NFA RO II and the supporting wire authorities for transfers, as presented in Table 40. However, it was observed that these transfers were recorded in the books of the issuing POs, but the receipts of the stocks were not supported with acknowledgement receipts by the receiving POs/warehouses.

21.2 The transfers of stocks are recorded as intra-agency transactions using Due from Operating Units (OUs) account by the issuing POs, and Due to OU account by the receiving POs. Without the acknowledgement of receipts of stocks, there is no assurance that the receivable account recorded by the issuing POs has the corresponding reciprocal payable account recorded by the receiving POs. As such, the accuracy and completeness of intra-agency accounts Due from/to OUs are affected.

Table 40 – Dispersal Reports of POs in RO II

Issuing PO/Warehouse	Date of Transfer	Stocks (in bags)	Receiving PO/Warehouse
Kalinga			
Duplex, Tabuk City	May, July, August 2013	3,400 rice	Cavite
Farm Level Grains Center (FLGC) Rizal, Cagayan	August, October, November 2013	9,050 palay	Nueva Vizcaya – RO III
Northwestern Cagayan - Apayao Matucay Duplex		36,000 rice	Cabanatuan City – RO III Kingwood, Baesa, Quezon City Visayas Warehouses, Quezon City
Ifugao GID Lagawe	January 29 & 31, 2013	185 palay	Cimbria Dryer House, Isabela

21.3 The audit teams requested for the documents acknowledging the receipts by the receiving POs of the stocks; however, these were not presented during the audit.

21.4 We recommended that the responsible officers of the issuing POs coordinate with and request the officials concerned from the receiving POs to furnish them the acknowledgement receipts or equivalent documents to confirm the receipts of stocks and facilitate the reconciliation of recorded transactions between OUs.

21.5 Management informed that the Director of the GMOD sent wire advice to NFA ROs II and III, to explain the cause/s for the non-issuance of acknowledgement receipts of stocks transferred, to validate the occurrence of the transaction and to inform GMOD of their action taken on the observation.

Unreconciled Stocks between Books and Inventory Report

22. The causes of the total variance of 449,696.58 net kilograms (nkgs), with equivalent value of P11.170 million, between the stocks (rice) received by six POs of NFA RO VIII of 28,213,880.47 nkgs as reported in the stock records and accounting records of 28,663,577.05 nkgs remained not detected due to non-preparation of the Monthly Reconciliation Statement of the Stock Reports against the Stock Book and Physical Inventory Report, rendering the quantities reported unreliable.

22.1 The accounting records showed that in 2013, the six POs of NFA RO VIII received a total of 573,050 bags with equivalent net kilograms of 28,663,577.05 of imported and local rice from Cebu, Iloilo, Surigao del Norte and National Capital Region (NCR), as summarized in Table 41. Tracing of the stock receipt reports submitted by the Senior Grains Operations Officers (SGOOs) and Warehouse Supervisors of every PO, as supported with Bills of Lading, showed a total of only 565,864 bags or 28,213,880.47 nkgs, thus a total variance of 7,186 bags equivalent to 449,696.58 nkgs valued at P11.170 million.

Table 41 – Discrepancies in Quantity Received in Region VIII POs

	Quantity in bags	Weight in nkgs
Northern Leyte	136,050	6,811,131.00
<i>NFA Cebu- Imported Rice</i>	100,000	5,011,360.00
<i>NFA Iloilo- Local Rice</i>	36,050	1,799,771.00
Biliran	20,000	998,860.00
<i>NFA Cebu- Imported Rice</i>	20,000	998,860.00
Southern Leyte	105,000	5,247,038.04
<i>NFA Cebu –Imported Rice</i>	95,000	4,745,287.00
<i>NFA Surigao del Norte – Imported Rice</i>	10,000	501,751.04
Western Samar	164,500	8,228,160.01
<i>NFA Cebu- Imported Rice</i>	121,500	6,087,640.00
<i>NFA NCR</i>	43,000	2,140,520.01
Eastern Samar	40,000	2,001,590.00
<i>NFA Cebu</i>	40,000	2,001,590.00
Northern Samar	107,500	5,376,798.00
<i>NFA Iloilo</i>	21,500	1,080,508.00
<i>NFA Cebu</i>	86,000	4,296,290.00
Per Accounting Records - Total	573,050	28,663,577.05
Per Stock Receipts/Reports	565,864	28,213,880.47
Difference	7,186	449,696.58

22.2 The discrepancies can be attributed to the basis of recording of stocks received in the accounting records of the receiving POs pending receipt of the advice for the standard transfer cost from the issuing/source POs. The inaccurate and incomplete stock records could also be a factor in the noted variances.

22.3 Further, the non-preparation of the monthly reconciliation statement of the stock reports vis-à-vis the Stock Book (an accounting record) and Physical Inventory Report hindered the early detection of the variance. Thus, because of the noted variance, the

reported quantities on dispersal of stocks and the Inventory and Dispersal losses accounts could not be relied upon.

22.4 We recommended that Management:

- a. Require the SGOOs and Accountant to perform the reconciliation of the stocks received during dispersal from concerned NFA offices as reported in the stock records with those taken up in accounting records to determine the causes of discrepancies so that necessary adjustments can be made where appropriate;**
- b. Require the Stock Examination Committee of the Provincial Office to immediately conduct the examination on the concerned SGOOs/Warehouse Supervisors to establish accountability for the variances;**
- c. Require all the Dispersal Committees to conduct monitoring of dispersal activities to ensure that similar weaknesses are acted upon; and**
- d. Include in the policies on dispersal, the regular reconciliation between records of the issuing and receiving offices and prepare a quarterly reconciliation report for submission to the Provincial Manager so that solutions to problems can be timely instituted to ensure that balances reported are accurate.**

22.5 The Director of GMOD informed that a wire advice was already sent requiring: NFA RO VIII to submit the action taken on the noted discrepancies in reported stocks between the accounting records and the stock receipts reports of SGOOs and Warehouse Supervisors, to report on the cause/s of the discrepancies, and if appropriate, to establish the accountability for the said variances.

22.6 Likewise, Management commented that they are already in the process of reconciling the variance of the stock inventory per books and stock report, and assured that necessary adjustments will be prepared to arrive at a reconciled balance.

Distribution of stocks

Rice distribution is part of NFA's strategy towards market stabilization in response to the ever changing prices and volume of grain supply and demand. It involves selling rice directly to institutions or through licensed and accredited retailers/wholesalers at the government set release price.

Among the NFA's distribution programs are the following:

- a. Market-Based Outlets
 - Accredited Individual Retailers Inside Markets
 - Accredited Individual Retailers Outside Markets

b. Disaster Response to Calamity and/or Emergency Purposes thru MOA with the following:

- Department of Social Welfare and Development (DSWD)
- Philippine National Red Cross (PNRC)
- National Disaster and Risk Reduction Management Council (NDRRMC)
- Local Government Units (LGUs)
- Other Government Institutions/Agencies

c. Institutionalized Farmers as Distributors of NFA Rice (IFAD) Program wherein Farmers' Organizations (FOs) are allowed to directly participate in the distribution of imported rice subject to certain rules and regulations.

As one of its MFOs in 2013, NFA set the target distribution volume of 557,145 MT of rice. The actual distribution was reported at 758,163 MT or 15,163,260 bags of rice, which was 36.1 per cent higher than the target. The high percentage of actual distribution could be attributed to the high demand for NFA rice in the market due to the high-priced commercial rice, and the releases to the calamity stricken areas that was reported at approximately 64,306 MT. Table 42 shows the summary of the 2013 NFA Rice Distribution.

Table 42 – 2013 GMOD Report on NFA Rice Distribution dated March 6, 2014

		Total (in MT)
XIII	Metro Manila	176,872
IV	Southern Tagalog	118,626
III	Central Luzon	66,987
I	Ilocos Region	62,120
VII	Central Visayas	54,616
XI	Southern Mindanao	46,122
V	Bicol Region	41,186
VIII	Eastern Visayas	37,158
VI	Western Visayas	35,043
IX	Western Mindanao	27,841
II	Cagayan Valley	22,681
XIV	Autonomous Region in Muslim Mindanao (ARMM)	20,985
X	Northern Mindanao	20,960
XV	CARAGA	15,315
XII	Central Mindanao	11,651
		758,163

As a result of the verification of the distribution of rice, the following are the observations:

Market-Based Outlets

23. Same individuals appeared to have withdrawn and received rice on behalf of several retailers of NCR - Central District Office (CDO) and North District Office (NDO), as evidenced by similar signatures in the Warehouse Stock Issues (WSIs). In NCR - Cavite PO and NDO, payments were made by various accredited NFA

retailers using checks drawn from a common bank and branch with almost continuous series of personal and Manager's/Cashier's check number, thereby casting doubt on whether the intention of the allocation system on rice to be purchased on a per retailer basis was served.

23.1 The NFA SOP No. GM-DN08 dated June 1, 1993, on Rice and Corngrits Distribution and Retailing Policies and Procedures, provides the following:

D. Allocation System

1.1 As basis for determining the quantity that shall be sold to retailers, a weekly allocation per retailer shall be set. Xxx.

Xxxx

1.3 As a general rule, the maximum quantity of stocks that a retailer can buy shall be equal to his weekly allocation except for periods when the volume of NFA stocks is low. Under such situations, the volume of stocks shall be allocated in proportion to each retailer's allocation.

23.2 In 2013, the demand for NFA rice increased due to volatility of commercial prices. As such, the NCR-CDO Management implemented the following distribution schemes:

- a. Major markets were allowed to replenish stocks as needed to augment their inventories;
- b. Commonwealth market catered to not only Quezon City but also to nearby municipalities/provinces; hence, accredited outlets were privileged to buy their allocation on a day-to-day basis or as needed;
- c. More frequent replenishment of stocks in major/minor markets and hotspot/depressed areas of Manila and Quezon City due to influx of buyers preferring NFA rice; and
- d. Increased market intervention from 5 to 21 per cent to arrest spiralling of commercial price of rice in the market.

23.3 The intention of both the abovementioned allocation system and distribution schemes was for every accredited retailer to be allocated with a number of bags, whether through regular (weekly) allocation or during periods when NFA stocks are low or as the need arises in order to carry out the market intervention function of NFA for price and supply stabilization.

23.4 In the verification of the distribution of stocks to the retailers, we noted that some buyers with the same signatures (with no printed names) have withdrawn and received rice allocations on behalf of a number of retailers of NCR-CDO as seen in the WSI. There were also no authorization letters for the rice withdrawals by said recipients.

23.5 NFA SOP No. FS-CS07 dated August 1, 1996, on Revised SOP on Cash Collections and Deposits permitted the use of personal check issued by the NFA customer or personal check of another person with the NFA customer as the payee, with endorsement, as payment for the rice to wit:

4.1 Personal or Company checks

In addition to the regular conditions covering check collections, the following should also be complied with:

a) They should be paid by NFA regular clientele like retailers, hog and poultry raisers, flour millers, feed millers, business registrants and other NFA registered/licensed clients or NFA personnel (regular, casual, contractual employees and employees of other government agencies who are officially assigned/detailed at the NFA like NFA based COA personnel).

4.2 Indorsed Checks and Warrants

A Collecting Officer may accept payments in the form of checks and warrants issued in payment of government obligations upon proper endorsement and identification of the payee subject to the conditions set herein:

a) The payee of the check/warrant should be the same person who has to pay NFA.

b) The payee is limited to NFA registered/licensed clients, NFA personnel (regular, casual or contractual employees), and employees of other government agencies who are officially assigned/detailed at the NFA like NFA based COA personnel upon recommendation of the head of office to which they are assigned.

23.6 In NFA NCR-Cavite PO, the stocks withdrawn by several NFA accredited retailers were paid using almost continuous series of personal checks as shown in Table 43. The checks were drawn from a common bank and branch; thus, it appeared that the purchases and payments were made by a single and not by various buyers/retailers.

Table 43 – Samples of Payments thru personal checks – NCR – Cavite PO

Bank/ Branch	No. of Retailers	No. of bags	Amount	No. of checks Issued	Series of Check Nos.	
					From	To
BDO Bacoor	20	990	P 1,400,000	20	14352	14379
BDO GTC	82	4,078	5,708,000	82	484	581
PSBank GMA	54	1,122	1,572,000	54	249	304
BM Tanza	29	761	1,068,250	30	5539	6004
MBTC GTC	15	968	1,400,000	15	354004121	354004135
	200	7,919	P 11,148,250	201		

BDO - Banco de Oro
 PSB - Philippine Savings Bank
 BM - Bangko Mabuhay
 MBTC - Metropolitan Bank and Trust Company

23.7 Furthermore, verification of WSIs of NCR-NDO revealed that the signature of individual who received the stocks appeared to be the same for various retailers.

23.8 Withdrawal and payment of rice by a single or few individuals on behalf of numerous retailers could defeat the purpose of the allocation system/distribution scheme. There was no assurance that the rice allocation was truly availed of by the concerned accredited retailer/s and not sold or lent to other grain businessmen.

23.9 **We recommended that Management:**

a. Require the Enforcement and Investigation Section (EIS) to conduct investigation to determine whether the checks that were endorsed as payment for the withdrawals of rice were made by legitimate or authorized representatives. If they are not, devise procedures or impose sanctions to avoid occurrence of the same, to ensure that the objective of the allocation of stocks to retailers is not defeated; and

b. Require the personnel responsible in the release of stocks to request the recipients to present documents for proper identification and have the authorized recipients affix their signatures over their printed names in the appropriate boxes of the WSI, to ensure that only legitimate recipients received the stocks.

23.10 NCR-CDO Management explained that withdrawals of rice retailers were made by legitimate truckers licensed by NCR-CDO and legally authorized by legitimate recipients holding necessary documents such as authorization letter, Official Receipt (OR) and Authority to Issue (AI). The Warehouse Supervisor allows only authorized truckers to withdraw stocks upon coordination with the retailers through presentation of waybill, who (the retailers) would in turn distribute NFA rice in various markets. What is prevalent is that the retailers authorized the truckers (trucks with plate number) through text which would be verified by the Warehouse Supervisor through phone calls to the respective retailers before loading the stocks. However, Management will remind the Warehouse Supervisors to implement the conventional way of requiring black and white authority from the retailers in adherence to existing NFA SOPs and to COA's recommendations.

23.11 NCR-Cavite PO Management commented that all accredited retailers and others, such as millers and NFA personnel availing NFA rice are required either to pay in the form of Manager's/Cashier's check or directly deposit their payment to NFA account maintained at LBP for security reasons. Checks presented are being verified by the Cashier from the issuing bank through telephone prior to acceptance. Also, most of the retailers do not have existing bank account and therefore they request their co-retailers with bank account to apply for them in exchange of their cash.

23.12 NCR-NDO Management informed the audit team that copy of the list of retailers' issued checks covering the period January to May 8, 2014 was already furnished to EIS on May 9, 2014, for EIS investigation starting May 12, 2014. They, however, said that the check issuances of retailers in consecutive series on the same dates and drawn from the same bank branches are beyond the control of the NCR-NDO's cashier since these

transactions transpire between the retailers and the bank authorized representative/s. The bank actually confirmed that they are reserving these Manager's Checks for NFA accredited retailers for they are the only regular clients purchasing such.

Indications of Diversion of Stocks

24. Unusual depletion of stocks of rice retailers in NCR-NDO could result in diversion of NFA stocks which is prohibited under Regulation XV, Section 1 of the revised Rules and Regulations on Grains Business (RRGB), since this could affect the NFA's mandate of stabilizing supply and price of rice in the market. In NCR-Cavite PO, there were stocks loaded in the same truck delivered to various business locations of buying retailers that could also result in diversion of NFA stocks to commercial rice and or selling or lending government stocks to other grains businessmen.

24.1 Regulation XV, Section 1 of RRGB provides the following:

Prohibition G.

Diversion of government stocks by retailers authorized to sell government stock. Diversion shall be any of the following circumstances:

- i. Unreasonable depletion of stocks;*
- ii. Selling or lending government stocks to another grains businessmen;*
- iii. Selling or offering to sell the government stocks beyond the maximum quantity allowed by the NFA;*
- iv. Storing and/or selling the government stocks in other places/stalls, other than duly authorized by law.*

24.2 Regulation XVII, on Administrative Disciplinary Rules on Grains Industry Cases of the RRGB, includes, among others, the imposition of sanctions from suspension/cancellation of licenses and imposition of fines from P1,000 to P4,000, for any violation of PD No. 4, and other laws, orders, circulars, instructions, rules and regulations.

24.3 In NCR-NDO, verification of the Monitoring Reports for the period May to August 2013 of selected accredited retailers disclosed abrupt depletion of stocks, but no penalty was imposed to the retailers. Some dates that appeared on the report were not the latest dates of withdrawal prior to the inspection. But further validation performed against Stock Reports of the stock withdrawals of retailers with zero and low stock inventory revealed that the stocks were just withdrawn one day prior the inspection.

24.4 Abrupt depletion of stocks may have been caused by extremely high demand of rice, but the possibility that the retailer might have sold his rice allocation to other grain

businessmen or re-bagged, displayed and sold as commercial rice especially that NFA rice are now comparable with commercial rice is not remote.

24.5 We further noted in the Monitoring Reports that some of the names appearing in the list of payments, in consecutive series of check with the same signatures, are retailers with no store occupied in their registered addresses or the store is occupied, but by other businessman. Notwithstanding this situation, there were continuous withdrawals of rice allocations. Suspension of rice allocation of these retailers should have been imposed pending further investigation or validation on the real status of the retailers, i.e. if they had changed address or still operating. Inquiry with the NFA Licensing and Registration Office disclosed that only during revalidation in the first quarter of 2014 that this condition was discovered.

24.6 The aforecited circumstances suggest the possibility that allocation of various retailers might have been sold or lent to others or re-bagged and sold as commercial rice, thus, controlling the NFA stocks that could affect the stability of price and supply of rice in the market, and preventing NFA from accomplishing its mandated function.

24.7 In NCR-Cavite PO, there were trucks that loaded stocks of NFA rice allocation purchased by various retailers with different and distant destinations as indicated in the guards' logbook and Warehouse Stock Issue (WSI). The portion provided for the name of recipient and driver in the WSI were not filled out, but the signatures of both recipient and driver were identical. One driver was noticed carrying numerous sets of WSI to receive stocks.

24.8 The pooling of transport by using one delivery truck by several buyers/retailers may minimize the costs of transportation on their part as they could share the hauling costs. However, the trucks had multiple destinations in one day, and delivery to the different locations of the buyers could take more hours considering that only an average from 26 to 80 bags were purchased per buyer. A sample is shown in Table 44.

Table 44 – Samples of trucks loaded with stocks for delivery to different business locations

Date	Plate No.	No. of NFA Retailers	No. of destinations	No. of bags	Ave. No. of bags per retailer
12/12/13	CTK 234	12	10	600	50
12/13/13	ZEV 318	9	7	450	50
12/17/13	UTV 335	15	7	580	39
12/20/13	BBC 599	16	8	450	28
12/20/13	RJH 152	10	8	490	49
12/23/13	RHU 259	15	10	500	33
12/20/13	RNK 199	21	12	550	26
12/26/13	RHU 259	16	6	1,000	63
12/27/13	REL 857	6	5	480	80
12/27/13	RJH 152	7	6	520	74

24.9 We recommended that the NCR-NDO and NCR-Cavite PO Management:

a. Require the EIS to conduct in-depth investigation on the probability that one or few individuals are behind the possible diversion of rice allocation under the name of several retailers, and strictly impose penalties in accordance with existing rules; and

b. Closely monitor the distribution activities to accredited retailers, and establish effective controls, such as:

b.1 Account for the owners of frequently used delivery trucks, and determine if the driver is properly authorized to receive stocks in behalf of various retailers; and

b.2 Validate/confirm if the stocks, under similar circumstances, were indeed bought by accredited retailers and delivered to their registered business locations and made available for sale as NFA rice to the consumers.

24.10 NCR-NDO Management assured that they will look deeper into the possibility that only few individuals are behind the possible diversion of allocation under the names of several retailers and will take appropriate action thereon. Also, the following actions taken were presented:

a. Accreditation/revalidation of applicants for existing NFA rice outlets particularly for the period May to June 2013 in preparation for the lean months from July to September was undertaken by the EIS. At the same time, instruction was given by the Regional Director to conduct the inventory taking of NFA rice stocks of accredited retailers. This task was assigned to the Price Monitoring Teams of the Economics Section, which performs the survey/monitoring of commercial rice prices and inventory.

b. As to the accredited retailers reported as “no stores” or no store occupied in their registered addresses per initial monitoring report of assigned personnel, same were found to actually have stores/inventories based on succeeding reports of same monitoring personnel. Furthermore, it was revealed through the revalidation of existing accredited retailers during the first quarter of 2014, that the subject retailers have transferred locations/stalls. Accordingly, said retailers were ordered by NCR-NDO Management to apply for change in address before they could be allowed to purchase their allocation.

24.11 Management also assured that rules and regulations on grains business have been strictly implemented. Penalties on erring businessmen including unreasonable depletion of stocks were strictly imposed as evident in the submitted List of Apprehended Businessmen for the months of February, March and April 2014. This was also in compliance with the instructions from the Office of Deputy Administrator for Marketing Operations to sustain the deployment of teams to conduct market inspection and monitoring to ensure that violations such as diversion of NFA rice, depletion of weekly rice allocation, overpricing, among others, are not happening.

24.12 NCR-Cavite PO Management explained that not all accredited retailers have their own truck to pick up their rice allocation at the warehouse and, therefore, they appoint somebody or the driver to be their authorized representative through Special Power of Attorney.

24.13 The NFA Administrator expressed concern that, with the allocation of NFA stocks to only a few people, NFA is not reaching out to the customers, and agreed that there was really a very big temptation to divert the stocks. Management committed to act on the possible diversion of stocks.

25. In NFA Zamboanga City PO, several retailers were allowed to exceed their weekly allocation of 20 bags per outlet from as much as 500 to 545 per cent during the months of June and July 2013, which did not conform to the NFA SOP on Revised Rice and Corngrits Distribution and Retailing Policies and Procedures, thereby defeating the purpose for which the allocation system is established.

25.1 In NFA Zamboanga City PO, results of verification made on the rice issuances to the retailers for the sample months of June to July for the years 2012 and 2013, showed that retailers were allowed to withdraw rice in excess of the established weekly allocation, as shown in Table 45.

Table 45 – Excess Allocation to Retailers

	2012		2013	
	June	July	June	July
Number of retailers	6	10	20	28
Bags withdrawn	5,586	11,450	9,588	14,458
Average withdrawals per retailer per week*	233	286	120	129
Weekly allocation	20	20	20	20
Excess	213	266	100	109
Percentage of excess over weekly allocation	1,065%	1,330%	500%	545%

*Bags withdrawn per retailer for 4 weeks = bags withdrawn/number of retailers/4 weeks

25.2 These stocks withdrawn by a limited number of retailers are equivalent to 61.6 per cent (41,082/66,712) of the total rice issued of 66,712 bags for the months of June and July for the years 2012 and 2013. Furthermore, the Retailers Information Sheets for the Application for Renewal of License of these retailers were signed by the same representatives.

25.3 In addition, validation of various related reports disclosed the following:

- a. Retailers were allowed to withdraw stocks almost on a daily basis, particularly in July 2013;
- b. Retailers who were allowed to withdraw stocks in excess of their allocation are family-related with same business address;
- c. Details/basic data required on the License Registration Form submitted by the retailers were lacking, such as, middle name, birth date, Tax Identification

Number, name of spouse and/or children;

d. Retailers were able to purchase a significant volume of 6,085 bags covering four months or an average of 1,521 bags per month intended for distribution to Barangay Calabasa, Zamboanga City, with only 2,685 population as of 2010;

e. Per Register/Master list of NFA Retailers as of April 2013, a retailer was allowed to withdraw stocks amounting to P240,000, which was P100,000 below its declared capital;

f. Retailers who were issued with Retailers Passbook (RP) in the Master list of Register of Retailers were not found in the List of Accredited NFA Retailers as of May 2014; and

g. Rice Allocation Cards (RACs) or any index card that contain transaction details are not maintained by the PO. Also, not all mutilated or filled-up RPs were retained.

25.4 We recommended that the NFA Zamboanga City PO Management discontinue the practice of selling rice to retailers in excess of the prescribed weekly allocation and selling big volume to areas with small population size and to strictly comply with existing policies and procedures.

25.5 NFA Zamboanga City PO Management gave the following comments:

a. The rice inflow from different provinces started to come in February 2012 in order to augment the low rice inventory of Zamboanga City. Both local and imported rice varieties were sourced and transferred from different provinces within the region. The stocks transferred, however, were from 2010 importation of IMR varieties. These stocks were already two years of age and deterioration was eminent. Local rice transferred from Molave had excessive percentage of fermentation and it had to be downgraded into inferior variety. Efforts to preserve the stocks were unsuccessful due to the age of the stocks.

b. In order not to inflict more damages, it was resolved to monetize the stocks instead of letting it deteriorate in the warehouse, or subject it to Sales thru Market Determined Prices (SMDP) where unit price is far below the existing Selling Price Bulletin. Management decided to dispose the stocks immediately thru the accredited retailers; but, because of the deteriorating stocks, most of the retailers were adamant that they could still sell their allocations in the market. This prompted Management to seek the help of the retailers with bigger capitalization to dispose the 2010 rice stocks and those downgraded stocks from Molave. However, disposal of old stocks was done with tie-up with new stocks from Cebu City since the retailers were not keen to withdrawing old stocks without the tie up with new ones.

c. Disposal of old stocks was also in compliance with the instruction of the Administrator in July 2013; hence, in order to dispose these stocks, the weekly allocation was disregarded to allow interested retailers to buy based on their

capitalization. But, as a control measure, the local government unit (LGU) is notified of the arrival of rice at certain times of the week to minimize diversion. This practice is at the discretion of the Provincial Manager, which NFA is reconsidering to set the parameters and prevent the abuse of authority.

25.6 As a rejoinder, further verification showed that retailers with excess allocations were not tied up with new Imported Rice (IMR) arrival. **We further recommend that in addition to the instruction of the Administrator to dispose the old stocks, Management determine the revised allocation for increased volume that accredited retailers could avail.**

Institutionalized Farmers as Distributors

26. Only five representatives/assignees of farmers' organizations/cooperatives withdrew and received a total of 38,893 bags of NFA rice amounting to P40.060 million thru Institutionalized Farmers as Distributors (IFAD) program in 2012, which might have resulted in giving control of NFA rice to only few individuals, thereby defeating the purpose of the IFAD program to give farmers' organizations/cooperatives the opportunity to participate in rice distribution.

26.1 The purpose of the IFAD program was to have as many farmers as partners in the implementation of the food security and stabilization program of the government and give them the opportunity to have additional income. The farmers were allowed to buy and undertake the distribution of NFA rice, subject to certain NFA rules and regulations.

26.2 There was no distribution of NFA rice under the IFAD in 2013 while the documents on the issuances of NFA rice to IFAD participants in 2012 were only submitted for audit purposes in February 2014; thus, the inclusion of the following observations in this report as regards the audit of 2012 IFAD program as inputs in Management's decisions:

a. There were 79 farmers' organizations/cooperatives (FOs/FCs) that availed a total of 38,893 bags of rice amounting to P40.060 million from January to June 2012. However, only five representatives/assignees withdrew and received the rice stocks using Special Powers of Attorney and Deeds of Assignment.

b. The name of the representative/assignee given the authority to withdraw and receive 18,029 bags of rice was not indicated in the special powers of attorney and deeds of assignment (only signatures of the assignee appeared without the printed name) but was nevertheless authorized to withdraw the rice stocks under Authority No. NCR-OCM-12-A-432.

26.3 With the above circumstances, there was no assurance that the withdrawn rice allocations actually reached the concerned IFAD participants and the possibility of control over rice allocations by few FOs/FCs, and or diversion of stocks cannot be discounted.

26.4 We recommended that the NCR-CDO Management make representation with the NFA-HO to revisit the implementation of the IFAD program particularly on the manner of using special powers of attorney and deeds of assignment in the payment, withdrawal and sale of stocks allocation of IFAD participants, to ensure that the existing arrangements are not resulting in monopoly in rice distribution by few FOs/FCs, and that the purpose of the program of giving equal opportunities to all qualified FOs/FCs to participate in the distribution of NFA rice may not be defeated.

26.5 NCR-CDO Management committed to make representation with NFA-HO regarding COA's observation on the practice of assigning one individual to withdraw on behalf of numerous FCs. In so far as their District is concerned, all representatives assigned by the FOs/FCs were duly authorized. Management further explained that at present, IFAD participants are required to appear at NFA GMOD to nominate their representatives who will be transacting business for and on their behalf. At the district level, only their representatives will be allowed to withdraw their stocks.

26.6 The Director of GMOD informed that the following remedial/corrective measures in the 2013 implementation of IFAD to prevent the occurrence of similar situation in 2012, and to achieve the objective of the program, which is to give opportunities to all interested FOs to participate in the distribution of NFA rice were undertaken:

- a. The Special Power of Attorney is no longer allowed in the withdrawal of stocks; and
- b. The endorsement portion at the back of the IFAD Certificates was already deleted/omitted. As such, only the assigned representative of the FO could pay and withdraw the organization's allocation.

26.7 Management also clarified during the audit exit conference that technically the rice involved in IFAD becomes commercial rice so that there were no restrictions as to the sale of these stocks of rice to interested parties. This is in support to farmers/cooperatives as an incentive because they are the ones affected whenever NFA imports rice.

26.8 As rejoinder, **we further recommend that an evaluation be made on the extent of participation by the accredited FOs/FCs in the IFAD program to determine whether the opportunity to participate in the distribution of NFA rice is widely availed of, and that the benefits eventually trickle down to the farmers in terms of additional income.**

Disaster Risk Reduction and Management

Distribution of Rice and other Response to Calamity/Emergency

Pursuant to COA Office Order No. 013-035 dated December 4, 2013, we have conducted an audit of the NFA transactions on the relief operations and post disaster response to calamity brought about by Typhoon Yolanda for the period from November 8

to December 31, 2013. The audit was conducted in compliance with the Audit Instructions under COA Resolution No. 2013-024 dated November 20, 2013.

The audit focused on the dispersal/transfer of stocks from/to the NFA regional, provincial/district offices and warehouses for relief operations; distribution to other government agencies and private organization for relief operations; and post-disaster transactions of NFA.

The audit was aimed to:

- a. Determine whether NFA has sufficient buffer stocks and able to meet the supply requirement for relief operations.
- b. Determine whether all issuance/releases of stocks for relief operations were covered by Memorandum of Agreement (MOA)/Deeds of Undertaking, and authorized by proper NFA officials.
- c. Determine whether adequate controls are in place to safeguard the stocks in the process of delivery from one warehouse/province to another warehouse/province.
- d. Determine whether issuance/releases of rice for relief operations are duly acknowledged by recipients, and accurately, completely and properly documented, reported and recorded.
- e. Determine whether issuance/releases are accurately and completely billed and accounts are monitored for immediate collection of receivables. Determine if the terms of payments for sales on credit as indicated in the MOAs/Deeds of Undertaking are complied with.

The following were observed during the audit:

Levels of Stocks

27. Levels of rice inventories of the NFA-CDO immediately before and after the onslaught of Typhoon Yolanda were only good from 7.958 to 10.861 days consumption, instead of the required 15 to 30-day buffer stock levels, which could have affected the accomplishment of its mandated function to timely respond to rice requirements especially during calamities.

27.1 The NFA-CDO, as with other districts/provincial offices of NFA, is mandated to ensure national food security and stabilize the supply and price of rice and corn through buffer stocking. It should be able to contribute to maintaining a minimum of 15-day buffer stocking year round, taking a 48-hour response time to rice and cereal requirements in times of calamities, and restore/maintain a two-week rice and staple cereal supply and prices at levels prior to a calamity or emergency.

27.2 Since 20,920 bags of rice are consumed daily by consumers of CDO (with jurisdiction including Manila, San Juan and Quezon City) based on the Daily Consumption Requirement and NFA Food Security Stocks for 2013, as revised, 15-day

buffer stock equivalent to 313,800 bags (20,920 bags x 15 days) should have been maintained at any given time from January to June 2013. But starting July of the year, in preparation for the lean months, CDO was tasked to maintain a 30-day buffer stock (inclusive of the 15-day buffer stock) equivalent to 627,600 (20,920 x 30 days) bags as buffer stock at any given time for its Food Security Stocks (FSS).

27.3 The NFA-NCR, including the CDO, is the depot or terminal point that supplies rice to other regions. It should therefore maintain buffer stocks able to provide for regions especially in times of calamities and emergencies.

27.4 The levels of rice inventories that CDO had immediately before and after the onslaught of Typhoon Yolanda on November 8, 2013 were below the minimum 15-day and/or 30-day buffer stock levels. The inventories in the pile layouts (as inventoried by the Quality Assurance Officers or QAOs) of the five out of the ten warehouses as of October 31 and November 15 and 30, 2013 with rice inventory levels shown in Table 46 are equivalent only to 10.861 days, 7.958 days and 5.706 days, respectively.

Table 46 - Rice Inventory Levels of Buffer Stock at CDO

Warehouse	No. of Bags		
	As of October 31, 2013	As of November 15, 2013	As of November 30, 2013
Kingswood 8/9	18,502	10,160	-
Kingswood E/F	55,486	55,206	40,690
Kingswood K	772	-	-
Minprocor	20,115	19,717	1,133
Visayas	132,328	81,404	77,552
Inventory level	227,203	166,487	119,375
Equivalent number of days	10.861	7.958	5.706

27.5 These inventory levels were way below the minimum 15-day and/or 30-day buffer stock levels of 313,800 bags and 627,600 bags, respectively, that CDO should maintain at any given time. Table 47 shows the receipts of rice by CDO before Typhoon Yolanda and during and after the relief operations.

Table 47 - Receipts of Rice by CDO

Receipts of Rice	No. of Bags
Importation of rice - June and July 2013	314,634
Dispersals of rice to CDO-	
June 2013	91,150
July 2013	59,832
August 2013	20,130
September 2013	86,850
October 2013	48,632
November 2013	45,000
Importation of rice - December 2013	190,158
	856,386

27.6 Even if CDO received 314,634 bags of imported rice during the period from June to July 2013, Management narrated that inventory level of rice stocks as of October 31,

2013 was low due to the distribution of rice for relief operations on typhoon/calamity victims before Typhoon Yolanda, distribution to accredited retailers and Sale of Stocks through Market Determined Pricing (SMDP) done from August to October 2013.

27.7 After Typhoon Maring in August 2013, rice inventory balances on August 31 and September 30, 2013 were 516,307 bags and 311,173 bags, respectively. Dispersals/transfers of rice from other regions/provinces to CDO of 86,850 bags and 48,632 bags or a total of 135,482 bags were made in September and October 2013, respectively. However, despite these transfers to CDO, inventory level was still down at only 227,203 bags on October 31, 2013, when it should be 627,600 bags equivalent to 30-day buffer stock maintained at any given time.

27.8 The distribution of 84,172 bags for the Typhoon Yolanda relief operations and the distribution/sale to regular accredited retailers further lowered the inventory level to 119,375 bags as at the end of November 2013.

27.9 Said low inventory level was also noted even with the transfer/dispersal of 45,000 bags of rice to CDO from Region III from November 16 to 25, 2013. The dispersal was not sufficient to bring the inventories to the 15-day and/or 30-day buffer stock levels. This was also not consistent with the NFA's mandate that a two-week rice and staple rice and cereal supply be restored or maintained at levels prior to a calamity or emergency.

27.10 There was rice importation in December 2013 to replenish the stocks which were almost depleted mainly due to the relief operations for victims of Typhoon Yolanda and other calamities which occurred before said typhoon. A total of 190,158 bags of imported rice were delivered to CDO warehouses from December 19 to 31, 2013 which, after sales of rice stocks during same month, contributed to bringing the rice inventory level to 229,909 bags as at year end, which was still below the required 15-day and/or 30-day buffer stock levels.

27.11 In NFA RO V, not all the authorized stocks for issuance to the areas affected by Typhoon Yolanda in Region VIII were actually issued by the NFA Albay indicating inadequate stocks to meet the required volume.

27.12 Audit of the quantity of procured and paid stocks of rice by LGUs, other Institutions, and the DSWD in Region V showed that based on the approved wire authorities, the NFA Albay PO was not able to issue the authorized stock allocation that resulted in the unserved purchase orders of the DSWD and LGUs. Table 48 shows the difference between quantity authorized under wire authority and that reported in the Warehouse Stock Issues (WSI).

Table 48 - Quantity Authorized and Issued (in no. of bags)

	Issuances per AI	Issuances per WSI	Actual Paid per OR	Unserved (AI - WSI)	(Over)/Under Paid (WSI - OR)
DSWD, Reg. V, Legazpi City	16,206	15,236	13,936	970	1,300
Provincial Government of Albay	8,950	7,900	10,000	1,050	(2,100)

27.13 DSWD was allowed to withdraw 16,206 bags per Authority to Issue (AI), but the actual withdrawal per WSI was 15,236 only, leaving unserved 970 bags. Further, out of

the actual withdrawal, the collections were only for 13,936 bags totaling P17.420 million, leaving 1,300 bags or P1.625 million unpaid withdrawals. On the other hand, LGU Provincial Government of Albay paid stocks equivalent to 10,000 bags amounting P12.500 million; however, the actual stocks withdrawn per WSI were only 7,900 bags, showing overpayment for 2,100 bags amounting to P1.680 million.

27.14 In sum, the approved quantities in wire authorities even in AIs were not all issued to the areas affected by Typhoon Yolanda that suggest the inability of NFA-Albay to respond to the needed supply of rice during calamity indicating that stocks might be inadequate to serve the authorized quantities.

27.15 The incapability to serve and maintain the required buffer stock levels affected the accomplishment of the Agency's mandate in ensuring the food security of the country and responding immediately to rice demand especially during time of calamities.

27.16 We recommended to Management that the monitoring of the levels of stock be strengthened to ensure at all times the required 15-day and/or 30-day buffer stock levels for the NFA to accomplish its mandate to respond within 48 hours to rice requirements during calamities; restore rice supply at levels prior to a calamity; and achieve national food security through stabilized supply and price of rice.

27.17 The CDO Management commented that:

a. In as much as they wanted to maintain at all times 15-day/30-day buffer stock levels to accomplish their mandate, last year's event, however, proved that they were able to respond within 48 hours during calamities. Even at its low level of inventory, they prioritized the distribution schemes, first and foremost was for relief operations for typhoon stricken provinces through DSWD.

b. They were not remiss in requesting the Regional/Central Office to replenish their stocks issued for relief operations. They had continuously followed up their request and at the same time tried to find solutions to the operational problems encountered.

c. At present, their revised marketing plan for the months of May to December 2014 strictly specifies the estimated inventory ending December 31, 2014 be set at 15 days Daily Consumption Requirement (DCR) for high estimates and 30 days DCR for low estimates. This would serve as the basis for needed stocks to be received, whether from importation or local dispersal, and stocks to be issued to retailers, DSWD, LGUs and others on a monthly basis by the concerned district.

27.18 On the other hand, the NFA RO V Management explained that:

a. For the months of November and December 2013, the monthly ending inventory of the province was 59,335 and 67,854 bags of IMR/Local rice, respectively (as reported in their Monthly Performance Evaluation Report); Hence, Albay's inventory was adequate to meet the requested volume for relief operations.

b. They claimed that NFA's stock during the relief operations for Typhoon Yolanda was sufficient to cover the request of the relief agencies saying that during calamities, the food agency automatically activates the OPCEN, which means that the office is open for 24 hours to serve the rice requirement of relief agencies. In like manner, LGUs with existing MOA with NFA were also allowed to purchase rice on credit.

c. All the approved Purchase Orders and authorized volume were served except for the 970 bags, which DSWD-RO V requested per letter dated January 8, 2014 to withdraw on staggered basis because of inadequate storage facility of DSWD and absence of request for distribution.

d. They admitted though that RO5-OPCEN-K-40, the wire authority issued by the NFA Regional Office was not fully served and that the original quantity of 10,000 bags was later reduced to 5,000 bags. There was no discrepancy in the amount paid by DSWD for cash transaction. For credit sales, there was a discrepancy in the amount because of price adjustment.

e. The actual quantity paid by Albay Provincial Government was 10,000 bags covered by three Purchase Orders. Purchase Order No. 13-06-709 was approved in September 2013 way before the relief operations for Typhoon Yolanda, but part of the issuances was for disaster preparedness and based on their reconciliation, NFA Albay had no unserved volume for Albay Provincial Government.

27.19 Management explained that the low level of stocks is situational particularly in Region VIII. NFA had sufficient stocks which were withdrawn by DSWD from warehouses in Northern Leyte and Eastern Samar. Dispersal became a problem due to unavailability of ports which were destroyed by typhoon. Much as they wanted to meet the 15-day rice requirements, there were problems beyond NFA's control.

27.20 As further audit action in 2014 of the audit team of NFA RO V, verification/validation will be made with regard to the justification of Management that there was no unserved volume for Albay Provincial Government.

Control Procedures in the releases to relief operations

28. Control procedures or activities on complete documentation and proper authorization in the distribution of rice for the Typhoon Yolanda relief operations were not adequately implemented at NFA-CDO and NFA-SDO which could result in possible losses to NFA.

28.1 Control procedures or activities include the proper execution and appropriate documentation of transactions. Transactions shall be authorized and executed only by authorized persons. These are the vital means of assessing that only valid transactions to exchange, transfer, use or commit resources are initiated or entered into. All transactions need to be properly and sufficiently documented and the documentation should be readily available for examination.

28.2 The district/provincial offices of NFA-NCR distributed on credit and in cash sales 219,390 bags and 11,402 bags or a total of 230,792 bags of rice to the Department of Social Welfare and Development (DSWD) and to other government agencies/local government units (LGUs)/private institutions, respectively, for their relief operations for Typhoon Yolanda victims, as shown in Table 49.

Table 49 – Distributed bags of rice for the Typhoon Yolanda relief operations

District/Provincial Office	DSWD	Other Govt. Agencies/ Private Institutions
Central District Office (CDO)	77,840	6,332
North District Office (NDO)	85,500	1,260
South District Office (SDO)	56,050	3,400
East District Office (EDO)	-	400
Cavite Provincial Office (CPO)	-	10
	219,390	11,402

28.3 In the above distribution/sales of rice stocks for the relief operations of CDO and SDO, control procedures were not strictly and adequately implemented on the following:

- a. There were no contracts on the sales on credit to DSWD and other government agencies submitted for review or there could be no contract at all. The CDO and SDO only received authorities from the NFA-Central Office and NCR Regional Director on the allocated number of bags of rice to be distributed to DSWD and other government agencies for their relief operations. With no contracts submitted, the terms of payments on said credit sales could not be verified; or if there were no contracts executed at all, CDO and SDO might encounter difficulty in the collection of sales proceeds. We observed that no payments on said credit sales were received yet as at year-end.
- b. Some authorizations to CDO on the distribution to certain DSWD delivery points/repacking centers were either not submitted and/or did not specify the allocated number of bags to be delivered to said centers. Likewise, some warehouse stock issues (WSIs) indicated that the stocks were to be issued at DSWD Pasay City but were instead delivered/diverted to another delivery point without the necessary authorization. Further, deliveries to a particular delivery center exceeded the quantities authorized to be delivered to that center.
- c. Complete delivery reports were not submitted by CDO and SDO to the audit team to facilitate verification of the withdrawals of stocks. On some delivery reports and on the spaces provided for recipients in the WSIs, recipients cannot be identified as only their signatures were affixed without their printed names. The rice stocks were also allowed to be received by the recipients without the necessary authorizations from the concerned agency/institution.
- d. The practice of issuing stocks to persons without appropriate authority and/or not requiring recipients to print their names and affix their signatures in the WSIs or delivery reports even pose great risk that might result in more losses for the NFA, in the event that the rice deliveries are not acknowledged by the concerned agencies. Nobody can be held accountable/liable if recipients cannot be identified from the WSIs or delivery reports. Confirmations were made on the

receipt of the rice deliveries to the concerned agencies, but most of the responses are yet to be received.

e. On the distribution/cash sales of CDO and SDO to private institutions relative to relief operations, some documents, such as deeds of undertaking by said private institutions, purchase orders and approvals according to volume and levels of authority as provided for in NFA SOP No. GM-DN08 dated June 1, 1993 and NFA SOP No. GM-DN09-A dated November 20, 2006, were not provided by the HO to CDO/SDO. At the CDO, the list of the representatives authorized to receive the stocks and delivery reports were not also submitted.

f. Most of the documents pertaining to Typhoon Yolanda relief operations were not immediately made available to the CDO audit team while other documents are still not submitted, thus causing the delay in the verification of the same.

28.4 We recommended that the CDO and SDO Management see to it that the control procedures on complete documentation and proper authorization in the delivery of stocks for relief operations are properly implemented by enjoining the responsible officials and personnel to:

a. Prepare the contracts on credit sales for DSWD's conforme on the actual issuances based on WSIs and DRs; and, thereafter, immediately bill and/or promptly reconcile with their records, as appropriate, to enable immediate collection;

b. Obtain the approval of concerned officials before diverting stocks to other delivery points/repacking centers and before the delivery of stocks in excess of the authorized quantities;

c. Avoid delivery of rice stocks to persons without appropriate authorizations to receive them to avoid possible losses if and when deliveries are not acknowledged by the concerned agencies;

d. Coordinate beforehand with DSWD and the other agencies/institutions to provide NFA with their lists of authorized representatives to receive the stocks;

e. Require the persons who receive the stocks, including NFA delivery men and escorts, to legibly print their names, sign and/or place the names of their office/s on the WSIs and delivery reports to identify responsibilities/liabilities in case of loss of stocks during deliveries; and

f. Always maintain complete records supporting stock releases and make the documents readily available for verification and examination to facilitate timely and substantiated reporting of the rice distribution.

28.5 The CDO Management represented that:

a. All billing statements related to the Typhoon Yolanda relief operations were

already submitted to DSWD/DND. Three billings amounting to P32.450 million out of the five billings totalling P88.505 million were already settled;

b. They had already submitted to DSWD the required documents pertaining to stocks issuances for Typhoon Yolanda relief operations including the Terminal Report. They see to it that they undertake the appropriate documentations which are freely available for verification and examination by COA;

c. In cases of emergency operations, there are instances wherein stocks were diverted to other delivery points and they are bound to perform within a narrow period of time. Flexibility in their operation allows them to achieve their task effectively and efficiently;

d. Control measures are implemented in the issuance of rice stocks. Only authorized person/s acknowledged by the recipient are allowed to receive stocks;

e. In times of fortuitous events as typhoons, their priority is to be able to respond within 24 hours from the occurrence. Coordination with relief institutions is always in place to ensure proper flow of transaction; and

f. They strictly require persons who receive the stocks to legibly print their names as well as fill in the required information clearly on the WSIs and delivery reports.

28.6 Management explained that documents were really difficult to produce during that time. However, NFA personnel gave their best effort to do what was right given the situation. In Region VIII, everything was documented; acknowledgement receipts were issued instead of Official Receipts and Promissory Notes were accepted as payments for rice issuances to concerned agencies. Even IDs of Mayors were accepted and photocopied although at that time photocopying was also a problem due to power shortage. At that time a state of calamity was also declared by the President.

28.7 As a rejoinder, it is recognized that in pursuance of its mandate, NFA needs to immediately respond to calamity/emergency. However, to safeguard government resources such as stocks of rice which are badly needed in relief operations, there should be a balance between the need to deliver the goods on time and the necessity to implement control procedures during the relief operations. Since the NFA is mandated to respond to calamities and emergencies, and the country experiences calamities year in and year out, **we further recommend that Management device appropriate procedures on the manner of documentation regarding authorization and rice releases during calamity/emergency that allow flexibility to facilitate quick response, but at the same time, safeguard NFA resources.**

Report on Distribution

29. **The reliability and accuracy of the 1,173,268 bags of rice with estimated value of P1,466.585 million that were reported as distributed to government agencies and private institutions for Typhoon Yolanda relief operations**

cannot be ascertained due to the variance of 236,426 bags caused by, among others, erroneous/unrecorded/unreported issuances, and inclusion of issuances for other purposes.

29.1 The verified consolidated reports of the Agency showed rice distribution from November 8, 2013 up to December 2013 a total of 936,842 bags to the Department of Social Welfare and Development (DSWD), Philippine National Red Cross (PNRC), local government units (LGUs) and other government agencies/private institutions for their relief operations for Typhoon Yolanda victims. This is significantly different from the published official report of the NFA Grains Marketing Operations Department (GMOD) - HO on the actual rice releases in the district, regional and provincial offices in the total quantity of 1,173,268 bags of rice, thereby showing a difference of 236,426 bags, as shown in Table 50. At a cost of about P1,250 per bag for cash sales, the variance has a net estimated value of P295.532 million.

**Table 50 – Comparison of Rice Releases for Relief Operations
(in bags of rice)**

Region	Official Report	Per Audit	Net Variance	Causes of Discrepancy
Region IV-A	11,359	2,061	9,298	It included rice issuances to DSWD for the Supplementary Feeding Program for Day Care Children in day care centres.
Region IV-B	11,761	20,313	(8,552)	The net variance is for six provinces. It included a significant difference of 11,538 bags which were paid in full by the Provincial Government of Palawan for NGOs and private institutions but were not included in the official report since 7,211 bags were still not withdrawn. In Marinduque, the variance of 240 bags was actually issued on September 29, 2011 to DWSD-Hapag Asa project. Those in Occidental Mindoro of 687 bags were released to NFA Batangas Regional Office.
Region V	40,314	40,288	26	For reconciliation/further verification
Region VI	79,148	78,874	274	It included regular sales to private individuals or organizations and not only the sales for Typhoon Yolanda relief operations.
Region VII	161,957	119,913	42,044	Erroneous/double recording, unrecorded issuances, and issuances other than for Typhoon Yolanda relief operations.
Region VIII	267,221	225,136	42,085	For reconciliation/further verification
Region X	102,076	106,426	(4,350)	Additional rice issuances to DSWD which were not reported to GMOD.
Region XI	101,919	101,919	-	
CARAGA	13,094	11,120	1,974	The net variance is from four provinces. It included 5,255 bags in Agusan del Norte that pertained to those issued to DSWD but 5,000 bags were for the victims of Typhoon Agaton.
NCR	384,419	230,792	153,627	Refers to variance on issuances between the authorized and actual issuances of rice of CDO, SDO and NDO to DSWD alone
Total	1,173,268	936,842	236,426	

NGO-Non-Governmental Organization

29.2 Total rice releases of 146,620 bags to DSWD, LGUs and other government agencies and private institutions by NCR – North District Office (NDO), South District Office (SDO), East District Office (EDO) and Cavite Provincial Office were all accounted for except Central District Office (CDO). The published official report showed that CDO released a total of 237,799 bags of rice with 231,000 bags for DSWD and 6,799 bags for Warehouse Stock Issues (WSIs), CDO distributed only a total of 84,172 bags with 77,780 bags for DSWD and 6,392 bags for other entities to government agencies and private institutions for their relief operations for the victims of Typhoon Yolanda.

29.3 The unreconciled data rendered the balances of the stocks in stock records and books unreliable, and which could mislead users of the official report, such as the National Disaster Risk Reduction and Management (NDRRM), Office of the President, Department of Agriculture, DSWD and other concerned government agencies and private institutions, in their decision-making.

29.4 The information on NFA rice releases for relief operations are very useful in monitoring and evaluation of NFA’s response and government’s action on the calamity/emergency that beset the country. Thus, the accuracy and completeness of the report is very important.

29.5 We recommended that Management put in place an effective monitoring and review mechanism on the releases of the authorized stock issuances so that the public, concerned agencies, and users of the report are informed of the actual releases of NFA rice during relief operations, and as reference and inputs in assessing NFA’s response to the disaster. Moreover, the significant difference of 153,627 bags between the reported releases of NCR and the actual releases should be looked into, including the discrepancies in the rest of the regions, to establish accountability for the unaccounted stocks.

29.6 The CDO Management clarified that:

a. NFA-CDO could not have possibly released the total of 237,799 bags of rice to DSWD because they did not have that quantity of rice inventory at the time, and the authority was for NFA-NCR (specifically CDO, NDO and SDO) to release a total of 227,500 bags for the relief operations as indicated in Authority No. NCR-OCM-2K13-K-224 dated November 24, 2013.

b. NFA GMOD issued the following authorities to the NCR to issue a total of 231,000 bags to DSWD, as follows:

GMOD-IMD-2K13-K-09	11-08-13	3,000 bags	NCR-CDO
AO-2K13-K-016	11-11-13	10,000 bags	NCR
AO-2K13-K-021	11-12-13	20,000 bags	NCR-CDO
AO-2K13-K-026	11-18-13	198,000 bags	NCR-CDO/SDO
		231,000 bags	

c. Even if the wire authorities specified CDO and SDO as the District Offices where the releases should come from, NCR Management instructed other district

offices like the NDO to also issue stocks to the drop off points where NFA's warehouses are more accessible and at the same time have sufficient inventory to serve not only DSWD's requirements but also the consumers' demand through its accredited retailers.

29.7 As a rejoinder, the audit team maintains that based on the WSIs, CDO, SDO and NDO released a total of 219,330 bags of rice to DSWD for the Typhoon Yolanda relief operations instead of 372,550 bags as authorized by Management, thus an unreleased stock of 153,220 bags, breakdown of which is shown in Table 51. **We, therefore, further recommend that Management verify the difference noted in audit and a report thereon be submitted to the team for validation.**

Table 51 - Rice Releases of CDO, SDO and NDO to DSWD

Authority Nos./ Releasing District Office	Authorized No. of Bags	No. of Bags Released	Difference
CDO			
GMOD-IMD-2K13-K-009	3,000	3,000	-
AO-2K13-K-016	10,000	-	10,000
AO-2K13-K-021	20,000	18,800	1,200
AO-2K13-K-026	198,000	2,100	195,900
NCR-OCM-2K13-K-141	-	34,630	(34,630)
Authority number not indicated	-	18,350	(18,350)
NCR-OCM-2K13-J-248	-	300	(300)
NCR-OCM-2K13-K-30	-	600	(600)
	231,000*	77,780	153,220
SDO			
	56,050	56,050	-
NDO			
	85,500	85,500	-
	372,550	219,330	153,220

*-The same as the published report

29.8 Management further clarified that the published reports on releases for Typhoon Yolanda were prepared from the reports received from the field offices on a daily basis based on WSIs and Purchase Orders, and are subject to adjustments based on the terminal reports to be submitted at the end of the relief operations. Management also informed that authority to issue emanates from the Head Office, and gave assurance that all issuances were covered by Purchase Orders.

Reconciliation of Distribution/Sale Transactions

30. The discrepancy of 602 bags of rice releases amounting to P0.753 million between the Index Cards and Grains Marketing Operation Section (GMOS) Report, with lacking details of the issuances, and the non-preparation of monthly sales reconciliation as required in NFA SOP No. FS-FA11 rendered the monitoring and reporting of the results of the relief operations incomplete, inaccurate and unreliable.

30.1 The summary report of rice issuances to relief centers, which emanated from the Grains Marketing Operations Section (GMOS) in the ROs/POs, was the basis of the summary report of the GMOD. However, the report lacked the necessary details or breakdown of the reported issuances, hence, could not be compared with the relief operations report. The person in charge of the relief operations report in the GMOS in Iloilo PO said that it was based on the rice issuances data on the Authorities to Issue (AIs) to various agencies and institutions as logged in the index cards.

30.2 Review and verification of the various reports revealed that the summary report submitted by the GMOS to the GMOD was based on the authorized number or quantity and not on actual issuances. The report was unreliable and incomplete due to the absence of necessary data on the actual issuances. Validation of the index cards of rice issuances for relief operations, which were said to be the source of the GMOS report, disclosed a total discrepancy of 602 bags amounting to P0.753 million, as presented in Table 52.

**Table 52 – Rice Releases Per GMOS Report and Index Cards
As of February 7, 2014
(in bags of rice)**

Relief Centers	GMOS Report	Source (Index Cards)	Difference
DSWD	32,808	32,808	-
LGUs	12,177	12,135	42
Private institutions	7,964	7,498	466
Accredited retailers	4,254	4,110	144
Office of Civil Defense (OCD)	1,485	1,535	(50)
Philippine National Red Cross (PNRC)	500	500	-
Government agencies	1,144	1,144	-
	60,332	59,730	602

30.3 We also found out that the provincial office Management did not perform monthly sales reconciliation for CY 2013 despite being required in NFA SOP No. FS-FA11, on the Revised SOP on Cost Accounting for Sales dated June 15, 1999.

30.4 The practice of preparing and maintaining a report for such was stopped for a number of years already, citing lack of manpower as the main reason. The necessity and importance of proper accounting and reconciliation of sales transactions had been highlighted in the audit of the NFA relief operations. Monthly sales reconciliation is an effective tool in monitoring and reporting not only during relief operation activities but also the results of operations in general. The significant data needed to facilitate a timely, accurate, and detailed report during crucial times like typhoon could have been readily made had reconciliation been regularly undertaken.

30.5 We recommended that the NFA Iloilo PO Management require the GMOS to provide the necessary details/breakdown of the actual issuances in the summary report of rice issuances to relief centers and perform monthly reconciliation of sales transactions and the report thereon, in accordance with NFA SOP No. FS-FA11, even during the period of relief operations to ensure accuracy and reliability of reports.

30.6 This matter was referred to the Directorate for Accounting Services to require the Iloilo PO to submit the Reconciliation of Sale Transactions to the audit team for verification.

Unpaid and Underpaid Rice Releases

31. Despite the issuance of billing statements, a total of 37,765 bags of rice worth P50.983 million out of the 225,136 bags released by Region VIII to various government agencies and private institutions for relief operations to the victims of super Typhoon Yolanda remained unpaid as of year-end. Moreover, there were rice releases not supported with Memorandum of Agreement (MOA), Deed of Undertaking and Purchase Orders, while a total of 800 bags of rice purchased by two LGUs from Eastern Samar remained not withdrawn as of December 31, 2013.

31.1 Verification of records disclosed that as early as November 7, 2013, various LGUs and the DSWD in Region VIII had filed their requests for the purchase of rice as part of disaster preparedness for the super Typhoon Yolanda. On November 8, 2013 and immediately after Typhoon Yolanda struck this region, further requests for the purchase of rice were made by the DSWD, LGUs and private institution for relief operations. The price per bag for cash and credit sales were P1,250 and P1,350, respectively. Credit sales should be paid within 30 days upon receipt of billing. Penalty of two per cent per month shall be imposed if not paid on time.

31.2 For the said purpose, six POs were able to distribute a total of 225,136 bags of rice in the provinces of Region VIII from November 8 to December 31, 2013. Of the total bags sold, only 187,371 bags have been paid. Although billing statements were issued by the POs, 37,765 bags costing P50.983 million still remained not paid as of December 31, 2013, as shown in Table 53.

Table 53 - Unpaid Rice Released for Relief Operations

PO	No. of Bags Released	No. of Bags Unpaid	Amount (at P1,350/bag)
Southern Leyte	30,527	20,850	P 28,147,500
Northern Leyte	129,808	12,904	17,420,400
Western Samar	44,085	3,100	4,185,000
Eastern Samar	13,742	611	824,850
Northern Samar	2,978	300	405,000
Biliran	3,996	-	-
	225,136	37,765	P 50,982,750

31.3 Government agencies and private institutions which had no existing MOA, Deed of Undertaking and Purchase Orders, issued only letters requesting that they be allowed to purchase NFA rice for distribution to the victims of the super typhoon. Management explained that this was allowed due to the urgent and pressing needs brought about by Typhoon Yolanda. Other LGUs such as Palo, Albuera and Palompon executed Rice Loan Memorandum Agreement before the onslaught of Typhoon Yolanda.

31.4 For Southern Leyte, billing statements were issued to the concerned LGUs with unpaid accounts. Follow up letter after the first demand letter was issued to the LGUs.

31.5 In Northern Leyte, it was reported that a total of 13,414 bags representing deliveries to the Municipalities of Palompon, Albuera, Matag-ob, Villaba, Kananga, Merida, Isabel, Tabango, San Isidro, Calubian, Baybay, Leyte-Leyte, and City of Ormoc and Bureau of Jail Management and Penology (BJMP) in Ormoc City were all billed to the City of Ormoc per Billing Statement No. 2013-L-001 dated December 10, 2013. However, the billing statement was returned with the explanation that, on the basis of a verbal authority, all billings should be forwarded to the Office of the DSWD Secretary. Proof of the authority or any other documents to prove the instructions was requested by the NFA Leyte PO Management so that the billing will be forwarded to the DSWD, but no proof/documents were received from LGU Ormoc as at audit date.

31.6 NFA Eastern Samar PO Management explained that they had sent letters to LGUs of the province requesting the latter to enter into a MOA on Disaster Preparedness with NFA, together with pro-forma of the MOA. Except for the LGUs of Guiuan, Balangkayan, Maydolong and the Provincial Government of Eastern Samar, all other municipalities have not entered into said MOA. Management might find difficulties in pursuing collections and/or resolving disputes/disagreements if the roles, duties, responsibilities, payment schedule and penalty clause, among others, were not clearly established/agreed in the MOA.

31.7 Further, rice purchased from NFA Eastern Samar PO by LGU-Hernani, Eastern Samar, of 500 bags and Provincial Government of Eastern Samar of 300 bags remained not withdrawn as at audit date and no storage fee was imposed from the said LGUs. This increased the warehouse rental expense and maintenance cost but without corresponding income from storage fees. Further, the quality of rice will most likely decline due to the long storage at the warehouses.

31.8 We recommended that Management:

a. Request the concerned LGUs to coordinate with DSWD for the immediate settlement of their unpaid accounts, and enforce from the concerned national government agencies payment of their obligations to NFA; and

b. Strictly observe that NFA enters into MOA with government agencies before the release of stocks to protect its interest.

31.9 Management commented and assured that releases to DSWD/LGU/NDRRMC/PNRC/WFP were covered by authorization and are now being collected. The GMOD has instructed the concerned provincial office of Region VIII to act on this recommendation. Management further clarified that the MOA on credit sales with LGUs has a separate and distinct provision on the collection of storage fees.

32. Sales revenue in four Provincial Offices in Regions V and VIII decreased by as much as P363,000 and P490,100, respectively, because the price per bag of rice given for credit sales to various LGUs for relief operations was for cash price.

32.1 NFA Price Bulletin for rice per bag was pegged at P1,250 if sales are in cash and P1,350 if on credit. As of December 31, 2013, four Provincial Offices (POs) in Regions V and VIII incurred losses totaling P363,000 and P490,100, respectively, due to price variances on the rice released for relief operations to various LGUs as presented in Table 54.

32.2 Verification of reports/records disclosed that Western, Eastern and Northern Samar POs have inadvertently used the wrong price of P1,250 per bag of rice sold on credit to various agencies for relief operations instead of P1,350 per bag. The deficiency affected the net operating income of the POs as of year-end.

Table 54 – Price Variance on Rice Releases for Relief Operations

Province/agency	Unit Price			Qty in bags	Variance
	Paid	Should be	Difference		
Region V - Albay	P1,250	P1,350	P100	3,630	P 363,000
Region VIII - Western Samar					
LGU Catbalogan	1,250	1,350	100	3,000	300,000
Region VIII - Eastern Samar					
LGU Hernani	1,250	1,350	100	500	50,000
LGU Lawaan	1,250	1,350	100	111	11,100
Provincial Government	1,250	1,350	100	300	30,000
LGU Mac Arthur	1,252	1,350	98	500	49,000
LGU Dolores	1,200	1,350	150	300	45,000
Region VIII - Northern Samar					
LGU Catubig	1,300	1,350	50	100	5,000
				4,811	490,100
Total				8,441	P 853,100

32.3 **We recommended that the deficiency in the amount paid for the rice sold on credit be pursued and collected by the concerned NFA Provincial Offices.**

32.4 The GMOD had immediately referred the matter to the concerned Provincial Offices of Regions V and VIII to act on the recommendation. NFA Region V has already sent demand letter to DSWD for the cost difference of P363,000 per letter dated December 20, 2013. Management also commented that for Region VIII, bills have been sent and follow ups were made through long distance calls. The Governor of Leyte has made a formal request with the Office of the President for financial assistance.

Repairs of damaged warehouses

33. Rice stocks and properties are exposed to further damages/spoilages and possible losses considering that the various Cebu PO structures/warehouses that were destroyed during the onslaught of Typhoon Yolanda were not yet repaired as of year-end despite release of funds on November 29 and December 11, 2013.

33.1 On November 8, 2013, Typhoon Yolanda, a super typhoon with an exceptional strength, caused massive devastation to some provinces while crossing over the central Philippine islands.

33.2 As the aftermath, various NFA warehouses situated in the northern part of Cebu province were extensively damaged, like the structures in Sta. Fe, Bogo and Tudela. The extent of damage on these properties/structures as reported by the Facility Management of NFA Cebu PO is presented in Table 55.

33.3 Review of the Status Report of the Damaged Structures/Facilities as of December 31, 2013 showed that there was no repair work undertaken yet despite the immediate report made by the warehouse supervisors concerned and although the corresponding appropriation in the total amount of P3.250 million intended for the repair works was already released on November 29 and December 11, 2013.

Table 55 - Damaged Properties/Warehouses – Region VII

Unit/Warehouse Location	Damaged Structures	Extent of Damage
Santa Fe Unit Bantayan Island, Cebu	Warehouse	Some GI roofing & skylights were blown away; stainless gutter was totally damaged; majority of the GI roofing was significantly damaged.
	Unit Office	GI roofing & stainless gutter, ceiling & façade were significantly damaged.
	Staff house	GI roofing was totally blown away; ceiling was damaged.
	Guardhouse	GI roofing including its frames and supports were totally blown away.
	Electrical Feeder Lines	Portion of perimeter fence on the front was damaged due to fallen trees.
	Powerhouse	GI roofing totally blown away and ceiling was damaged.
Bogo Unit Bogo City, Cebu	Warehouse	GI roofing/wall flashing, including canopy gutters were badly damaged.
	Perimeter Fence / Steel	
	Gate Entrance	Two span of perimeter fence collapsed. Steel gate collapsed due to fallen mango tree.
	Electrical Feeder Lines	Feeder Lines/Service entrance and other electrical accessories suffered significant damage.
Tudela Unit Camotes Island, Cebu	Warehouse and Unit Office	GI roofing/wall flashing including warehouse and canopy gutters, office ceiling and roofing were badly damaged.

33.4 The following were observed in our ocular inspection during the inventory taking of stocks:

- a. Warehouses with roofing blown were simply covered with tarpaulin;
- b. Stocks that were directly exposed to sunlight were transferred to a covered area within the warehouse; and
- c. The warehouseman in Tudela Unit intentionally made a shack so that the water coming from the damaged rooftop will be drained easily to prevent flooding inside the warehouse.

33.5 If the repairs of the subject bodegas/warehouses remain not implemented, the stocks stored therein will continuously be unsecured and subject to rapid deterioration due to exposure to harmful elements. In addition, occurrence of similar calamity would result in more damages and considerable losses on the part of NFA.

33.6 We recommended that the Management of NFA Cebu immediately implement the repairs of various typhoon-damaged warehouses based on the program of works to avoid further damage to rice stocks and properties.

33.7 The Management of NFA Cebu PO informed on the extent of implementation of the repairs as follows:

- a. For Sta. Fe and Bogo Unit warehouses, the materials are in the process of being checked/validated if these pass the specifications and standards. Notice to proceed was duly received by the respective contractor last March 31, 2014 with 60 days estimated time to finish the project.
- b. For Tudela Unit warehouse, remedial measures were conducted last January 2014 to safeguard the stocks inside the warehouse. Twelve blown-away galvanized iron sheets/roofing panels and four skylights were replaced. This warehouse was recommended for re-roofing this year.
- c. The Director of Technical Research Services Department gave information that almost all warehouses in Region VII were repaired except for one which was delayed because of the required specifications of the galvanized iron.

Warehousing Operations

The mandate of NFA is to maintain buffer stock to stabilize price of grains/cereals, foremost is rice as staple food of the Filipinos, to meet contingencies in the supply and demand adjustments especially in times of emergencies. In order for NFA to properly stabilize prices of cereals and increase its share in the supply of grains in the domestic market preparatory to the so-called lean months and to possible shortage, proper management of stocks is very important. Thus, warehousing is one of the key functions of NFA to achieve its mandate.

Warehousing consists of handling and preservation of quantity and quality of grains stored in the NFA warehouses under the direct responsibility of the Senior Grains Operations Officers/Warehouse Supervisors. Warehousing operation involves the three main functions of receiving, issuing and storing of stocks that require good warehouse keeping and proper maintenance of warehouses.

The following were observed in the audit of the NFA warehousing operations:

Weak Internal Control on warehousing operations

34. The NFA SOPs for grains storage warehouse management were not properly observed in Cavite PO, NDO, Regions VII, XI and XII, which could result in deteriorated quality of stocks of rice and eventual losses on the part of the

government. In Region XII, weaknesses in internal controls resulted in Grains Inventory Losses totalling P23.445 million in 2012 and P15.416 million in 2013.

34.1 An effective storage management is significant in maintaining the quality and physical protection of grains/cereals. Among the basic requirements in grains storage are the prevention of water and moisture, protection from high temperatures and preventing pests from entering the warehouses. NFA issued several SOPs, specifically NFA SOP No. GM-WH07 on guidelines for warehouse management, structures, and good housekeeping for hygiene and sanitation. The SOP mentioned that the various activities of a typical NFA utilized warehouse would show two (2) sub-divisions of functions being performed, that is, functions directly involved with warehousing and functions closely related with warehousing. The functions directly involved with warehousing are receiving, storing and issuing, etc., while those closely-related functions are in-warehouse procurement, importation, selection and administration of transportation carriers, and accounting, among others.

34.2 On various dates, ocular inspection was conducted on several warehouses owned or leased that are located in the different regions to determine compliance with the provisions of NFA SOP No. GM-WH07. The common observations were as follows:

- a. Ventilation and other openings, busted ventilators provided the entry of birds, pests, insects, water if it rains;
- b. Cracks in flooring, leaking roofs/gutters causing damage to rice stocks;
- c. Lack of personnel assigned to properly maintain the cleanliness and sanitation of the warehouses; and some warehouses are under the supervision of only one employee temporarily designated as Warehouse Supervisor;
- d. No truck matting placed on the loading/unloading area, resulting in dirty/damaged spillages and accumulation of sweepings;
- e. The one meter spaces between piles, between piles and walls, and between piles and posts were not consistently provided to facilitate cleaning and application of pest control measures;
- f. Fire extinguishers were not properly installed and placed in the warehouse;
- g. Logbook wherein the security guards, at the start of every duty, put in record that there are no tampered doors, windows, sidings, roofings and other outlets was not maintained;
- h. Bin cards attached to every pile were not updated; stock pile inventory was sometimes written on the pile sacks;
- i. Standard billboard, indicating the warehouse name, code and location, is not exhibited outside the warehouse; “NO SMOKING” and “NO SPITTING” signs are not installed; and

j. Laborers, drivers, and helpers of private contracted laborers and haulers do not wear proper identification cards nor do they have a designated area during their break periods.

34.3 Additional observations per location were the following:

a. In Cavite PO

a.1 Damaged heat insulation which could cause rise in temperature within the warehouse during the dry season;

a.2 Ventilation openings specifically in the Dasmariñas warehouse, i.e., the glass windows with aluminum rods located in the lower part of the wall, about four feet from the floor, provided the passage of the thieves in carting away the reported 70 bags of rice in October 2012. It also provided the entry of birds, except for the windows at the back of the warehouse which were closed with a thin galvanized sheet, as these were kept open during our ocular inspection, which could provide the entry of rain water. The infestation of birds and other pests damaged the rice and bags which resulted in accumulation of rice sweepings and dirty bags and deterioration of rice quality. The rotten birds were breeding places for insects and rodents, which contaminated the rice stocks through the droppings, urine and feathers/hairs of the birds, insects and rodents. Such are human health hazards. NFA SOP No. GM-WH07.E.5 provides that, *All windows and other openings except doors must be screened to avoid pilferage at any time during the day or night.* (emphasis provided)

a.3 Ventilation openings located on top of the warehouses' walls were installed with plastic mesh. The mesh installed at the lower portion of the wall at the General Trias warehouse had a ½ inch opening. NFA SOP No. GM-WH07.C.4.1 states, *To make the structure rodent and bird proof, a ¼ inch opening mesh wire shall be provided on all openings or vents.* The international standards in grains storage require that the ventilation openings be installed with wire mesh outside and mosquito netting inside.

b. In NDO

b.1 No screen wires or fully deteriorated screen wires on doors, openings or vents and in the space between the roof and the vents where rats and birds freely enter the warehouse.

b.2 No separate storage/building for new and second hand sacks as well as broken and unused pallets. Unused machineries full of dust are stored near the piles of rice stocks, which could be used as hiding and breeding place of pests. Office and kitchen/pantry of warehouse personnel are located inside the warehouse which also can be a source of contaminants to stored rice stocks.

b.3 One warehouse was partitioned to accommodate the warehouse men. The security of the warehouse might be compromised due to the partition/divider used were wooden pallets only.

b.4 At the close of office hours or end of the shifting schedule, the outgoing security guards do not inspect all doors, windows, sidings and other outlets of the warehouse together with Senior Grains Operations Officer-Warehouse Supervisor. Security logbooks are not maintained for control purposes.

c. In Cebu Province, pallets were not covered with jute sheets or unserviceable empty sacks to prevent any spillage of grains accumulating beneath; and, Warehouse No. 19 stores unnecessary materials such as sack of documents, few lumbers, old pipes and old plastics.

d. In Cebu, Bohol and Siquijor POs warehouses, standard height pile of stocks is 20 bags at 50 kilograms per bag net weight capacity, but pile height reached 34 bags; and Warehouse No. 108 (rented warehouse) is not well ventilated. All doors have no windows to allow continuous flow of air inside the warehouse.

e. In Siquijor PO warehouse, the first in-first out method was not applied; logbook is not also maintained; bin cards attached to every pile is not updated; and no standard billboard exhibited outside the warehouse wherein the warehouse name, code and location is shown.

f. In Davao Oriental PO, Mati City, the warehouse has no electricity due to faulty wiring system. The Cateel Warehouse in San Rafael, Cateel, is still under rehabilitation after the damage caused by Typhoon Pablo last December 4, 2012; hence, there is no electricity and water connection as of the ocular inspection.

g. In Davao Oriental and General Santos City POs warehouses, there was infestation of rats and birds observed during the conduct of actual physical count of inventory which caused busted and damaged bags of palay.

h. In General Santos City and Davao del Norte POs warehouses, some damaged/dysfunctional ventilators allowed the invasion of birds in the warehouse. As a result, some sacks of rice on piles were half-filled that could collapse anytime, more so during earthquake.

i. In Davao del Norte PO warehouse, the steel ladders were partially damaged which should be fixed and repaired immediately to prevent any accident.

j. In Davao City and Davao Oriental POs warehouses -

j.1 The security in the leased warehouse of inventories such as stocks, empty sacks and other valuable materials and equipment related to the conduct of warehousing is compromised due to the front door lock that could be easily opened by using any ordinary key. Management, however,

immediately addressed the issue by installing another lock and also of the other rented warehouse in Llaieco – Door 1 and Door 4.

j.2 The leased Abelita warehouse in Lambajon, Baganga, has no water connection even though there is a water pipe line available.

k. In Region XII

k.1 Insufficient monitoring by Regional and Provincial Management. Result of the physical inventory count showed that the three POs recorded Grains Inventory Loss totalling P23.445 million in CY 2012 and P15.416 million in CY 2013. This is equivalent to 14 per cent and 11 per cent of the total net loss incurred in CYs 2012 and 2013, respectively. In spite of the said material losses, the Regional and Provincial Management have not conducted any investigation or any evaluation to determine the possible breakdowns or weaknesses in the internal controls that brought about these inventory losses.

k.2 Inadequate security control

i. Security control framework is not well designed. There are no clear written policies and procedures (SOPs) that will define aspects of security program, such as preventing or deterring employee theft, recommended lumens of lighting, the considerations for fencing and outer doors/windows, access control and policies, employee and outsider parking spaces, review of security related equipment, review of physical layout of internal warehouse, and employee theft policies among others.

ii. Lack of security controls. Security assessments performed went only as far as the security force and equipment requirement in preparation for the procurement of security services. However, with the absence of formal documents such an accomplished security checklist, reliability on the reports of findings and actions undertaken could not be ascertained.

iii. Deficient physical security. The warehouse facilities were deficient in at least one physical security control criteria such as absence of perimeter fence/wall and security lights.

k.3 Non-compliance with security procedures/measures. Visitors were not registered/asked to register on the visitor's logbook and issued visitor's IDs. Vehicles were not properly searched and directed to the designated parking lots, which should be within an ample distance from the walls of office buildings/installations. Doors, windows, siding and other outlets of the warehouse were not properly inspected after office hours for safety and security reasons.

k.4 Non-compliance with Warehousing Policies and Procedures. There were broken/uncovered piles of stocks and uncollected spillages; over-piling

of sacks; broken air vent that left a big hole on the roof; unrepaired cracks on the floors; the doors and screened doors had more than ¼ inch openings; damaged screen door, roof and gutter; unrepaired part of warehouse walls, deposits of rice husks just outside a warehouse full of rice stocks; dust masks not provided; presence of cigarette butts, cat droppings and unnecessary materials such as old machines, lumbers and used sacks; broken/weakened, uncleaned and unused pallets inside the warehouses; and no records such as Quality Assurance Logbook, Bin Card, Monthly Warehouse grains Stock Quality Report and Warehouse Inspection Report.

k.5 Site inspections in selected warehouses also revealed various deficiencies in appropriate warehouse structure and maintenance; proper implementation of warehouse safety; and proper documentation.

k.6 Several controls were not adequately performed or were not performed by the appropriate people. The security guards do not maintain a separate logbook to record the documents for the incoming and outgoing stocks such as AI, WSI, WSR, nor do they sign the “Inspected by” portion in the WSI. Warehouse Supervisor does not check that all entries in the WSI, WSR and WTS are filled up before affixing his signature on the Certified Correct portion of the documents. Stock and MTS Inventory Reports were not prepared in accordance with standard form and signed by the accountable officer in the “Certified Correct” portion prior to submission to the GMOS. Also, AIs were not forwarded to COA.

k.7 Inadequate segregation of duties. Employees who have custodial function of stocks such as the warehouse personnel have access to the inventory records, while those responsible for the conduct of the physical inventory count are the same personnel who authorize the warehouse transactions (Provincial Manager), checks and verifies stocks reports (Provincial Operations Officer), and maintains the stock ledgers and prepares stock reports (Sr. Accounting Specialist). Hence, there is risk of manipulating the records to conform to the actual existence of the stocks.

k.8 Inadequate policies and procedures in conducting physical inventory counts. The NFA SOP No. GM-WH12 on Semi-Annual Physical Inventory Counting of NFA only identifies the Chairman, Co-chairman and members of the inventory committee. The responsibilities cited are generally for the whole committee; hence, the roles and responsibilities of each member are unclear. There is no provision regarding “blind” count (at least for volumetric counting) or any mechanism to make the counting as accurate as possible. Also, there is no mention of any set of instructions for each participant in the physical counting.

k.9 During the volumetric physical inventory count conducted in Sultan Kudarat PO, it was observed that:

- i. It was not clear if there was a designated supervisor because questions encountered during the count were all directed to the COA representative who was present as an observer of the process;
- ii. It was not clear who was the actual person in-charge of the counting and the one who was in-charge in recording the data in the count sheet;
- iii. The members of the inventory team as designated in the office order were not the ones actually conducting the inventory count; and
- iv. There were times when the physical inventory taking was not carefully planned due to the absence of laborers during inventory taking and the lack of necessary supplies such as dust masks, markers, inventory tags, and calculators, among others.

34.4 Warehousing is one of the key functions of NFA to achieve its mandate. However, the non-compliance with the SOPs and the inadequacies/weaknesses noted in the implementation of controls could result in losses due to deteriorated quality of stocks and increase the risk of environmental and health hazards.

34.5 We recommended that Management strictly implement the policies and procedures on warehousing particularly on the preservation and keeping of stocks and other related materials and properties in good conditions, duly safeguarded and protected by implementing the following, among others:

- a. **Make representation with the Lessor management to address the issue of security and safety of the stocks and review of the lessor's obligation stipulated on the contract specifically No. 5 which states that:**

During occupancy, the Lessor shall undertake necessary repairs of the leased warehouse and other facilities should the same be destroyed/damaged from any cause whatsoever not attributable to Lessee's fault to protect the stock/properties of the latter from theft and/or exposures from the element of risks. (underscoring supplied)

- b. **Always require proper maintenance and upkeep of storage structures and facilities to ensure good quality of the stored stocks and assure the safety of warehouse personnel; and immediately address the needed repairs of the warehouses and related facilities;**
- c. **Require strict implementation of the proper infestation management to maintain appropriate hygiene and sanitation in the warehouse to preserve the quality of the stored stocks;**
- d. **Deploy/assign appropriate warehouse manpower complement to maintain warehouse sanitation, ensure good quality of palay and rice stocks, prepare and regularly update bin cards for inventories, and record stock accountabilities of Stock Accountable Officers;**

- e. Ensure that fire extinguishers are fully charged, working properly, readily accessible in the event of fire, properly mounted based on standards to prevent them from being moved or damaged, and regularly inspected at least once a month;**
- f. Conduct investigation to determine the persons accountable/responsible for the losses incurred in 2012 and 2013, and to file appropriate charges, if warranted;**
- g. Formulate SOPs that will define the regulations, policies, procedures and guidelines covering the overall security requirements and controls in the warehouse facilities; and SOPs pertaining to monitoring controls to validate that all other SOPs on grains management are working efficiently and effectively so that problems or opportunities for improvement can be tackled as quickly as possible;**
- h. Put in place risk assessment procedures and formal security review to identify potential security threats and strengthen physical controls over the warehouses;**
- i. Require the Regional Office or Internal Audit Office to regularly conduct evaluation of all warehouses to assess compliance with proper warehouse management as prescribed under SOP No. GM-WH07, and impose sanctions to Provincial Managers and warehouse employees for frequent violations without justifiable reasons;**
- j. Ensure that warehouse documents such as AI, WSI, WSR and other warehouse documents should contain proof (signature, initials, date, explanation of analysis, etc.) that the controls were performed, and implement proper segregation of duties in the inventory control;**
- k. Clearly define through written instructions the roles and responsibilities of each member of the inventory committee; and**
- l. Adopt best practices in conducting physical inventory count (at least in volumetric method of counting) such as planning, performing a second count to confirm first count and performing a “blind count.”**

34.6 Management gave the following comments:

In NCR-Cavite PO

- a. The owner of the JY3 warehouse will be informed of the damaged insulation for possible repair;
- b. Request to install windows and doors screen is for follow up with the owner of JY3 warehouse. All doors and windows are kept open during daytime office hours to allow sufficient ventilation needed for the aeration of rice to prevent infestation. These are kept closed when raining and during night time;

- c. At General Trias Warehouse, the provision of the required measurement of plastic mesh shall be requested for funding purposes and implementation;
- d. All precautionary measures to avoid/minimize entry of birds and rodents are being undertaken but still cannot be fully avoided considering that the warehouses are near the rice fields. Nevertheless, efforts will be exerted to adopt other measures to control the entry of birds;
- e. Immediately required the wearing of dust masks of all warehouse personnel; made visible at the warehouse premises the “NO SMOKING” signs;
- f. Reiterated previous instructions to all Warehouse Supervisors to use matting during loading/unloading of rice to minimize sweepings; and
- g. Coordinated with the labor contractor to provide identification card to all their authorized personnel/laborer handling stocks at the warehouse for proper identification and monitoring.

In NCR-NDO

- a. It adheres to the implementation of repair and maintenance of Metro Food Complex (MFC) warehouses by religiously conducting selective or sectional repair particularly on damaged warehouse roofing which causes damage on rice stocks. However, because of the age-old condition of the warehouse roofing, the immediate remedial measures in patching of identified holes and leaks as well as selective replacement of deteriorated and dilapidated roof parts is not quite sufficient to address the warehouse roof leak problem and avoid the cause of damaged stocks;
- b. Selective and sectional repair works are being undertaken because of limitation of budget allocation for the repair and maintenance. Also, cracks on warehouse floorings were continuously repaired using asphalt and special adhesive cement. However, due to vibrations on concrete floorings and continuous passing of trucks loaded with stocks on patched cracks going in and out of the warehouse, the asphalt and adhesive cement do not last long and break easily leaving the cracks open;
- c. Repeated requests were made with the Regional Engineering Office and the TRSD for the major repair of NDO warehouses including replacement of warehouse roofing, entrance doors and improvement of warehouse ventilation. However, because of the policy on the prioritization of NFA repair and maintenance projects, the NDO’s proposed project for the repair of MFC warehouses was not readily acted upon. Nevertheless, the NFA Council has approved, on February 17, 2014, the 2014 TRSD Capital Outlay that includes the NDO project for the Repair/Re-roofing and increase of Floor Elevation of MFC Warehouses 5G and 5H;
- d. Meantime, there is no other alternative solution but to implement immediate remedial measures by patching the holes and leaks as well as selective repair of

deteriorated/dilapidated roofing, entrance doors and damaged warehouse flooring; and

e. The rented warehouses are just temporary storage; the defects were noted and are being coordinated with owners.

In Cebu

a. The noted deficiencies shall be addressed per NFA SOP;

b. Considering the nature of their job, laborers will not be able to wear IDs at all times. However, other means of identification and control will be devised in coordination/cooperation with the contractor of the handling services;

c. Maximizing warehouse space is imperative considering that Cebu is the depot of NFA Region VII. Foreign vessels loaded with imported rice stocks usually arrive in succession, thus, leasing of warehouse is the solution to problem of warehouse space. And since the Agency is implementing cost cutting measures, as much as possible, it maximizes space rather than pay for expensive rentals;

d. Leased warehouse No. 108 is provided with rooftop ventilators to allow aeration. The doors of the warehouse are opened during the day to allow further ventilation/stock aeration. Application of necessary pest control measures is conducted regularly. Spraying is done every 21 days; fogging, every 2 weeks; fumigation whenever the need for it arises; and rat baiting, too. The repair of louvers and screening of windows of warehouses to prevent entry of birds are listed as a priority in the projects listed for repairs and maintenance; and

e. Warehouse supervisors were advised to update their bin cards; unnecessary materials were already removed from warehouse No.19; required bill boards will be posted.

In Bohol

a. The one meter space between piles is always observed as well as the space between piles and walls. The space between the post and the pile was not followed due to its reinforcement. However, it is always made sure that there will be space intended for cleaning and pest control application;

b. The cracks noticed were caused by the earthquake; already forwarded fund request to Regional Office for warehouse repair;

c. The Bohol PO Management always conduct annual minor repairs through the Repair, Maintenance and Testing (RMT) program; and

d. The "NO SPITTING" sign is already for printing and posting.

In Negros Oriental

- a. The requirement on wearing of identification cards of laborers in the warehouse will be reiterated to the contractor; and
- b. The cracks in the flooring of Southern Island Oil Mill (SIOM) (leased warehouse) did not really affect the stored grains because it was made sure that the pallets were evenly arranged and covered with unserviceable empty sacks to prevent spillage of grains. Also, the TRSD section is always giving regular administration of pest control measures.

In Siquijor

- a. Standard piling of stocks was not followed because of the instruction from the regional office to maximize warehouse space to accommodate in-coming shipment of imported Vietnam rice since NFA Cebu-owned and leased warehouses are already occupied;
- b. The First-in-First-out (FIFO) method was not applied to augment the sales of NFA rice most especially the Iron Fortified rice which is not saleable due to its discoloration and bad smell during cooking. Tie-up distribution scheme was requested and approved by the Regional Director to avoid further deterioration of old stocks;
- c. Bin cards are updated effective April 1, 2014 and fabrication of standard bill board and other signage is on-going; and
- d. Detailed security guard is instructed to include the GID warehouse in the logbook and maintain a record on the said warehouse.

Region XI

Management commented that the observations are well taken and resolved to strictly implement the warehousing policies and procedures as recommended.

Region XII

- a. In North Cotabato, further instructions were given to the contracted security agency to intensify implementation of security procedures; other findings pertaining to security controls were elevated to the Security Services Industry Department (SSID) and Corporate Planning Management Services Department (CPMSD) of the NFA Central Office for their information and appropriate action. Security deficiencies are now addressed by deploying additional security personnel (roving security guard) to patrol areas that have higher risk of unauthorized entry during the night;
- b. In Sultan Kudarat, installation of iron gates and the repair of cracks on the warehouse floor are still pending but the barbed wire fences and broken/damaged walls were already repaired;

c. The PO concerned committed to provide laborers proper identification cards and has now allotted parking spaces for all vehicles entering the area; visitors' IDs are still implemented; and

d. It will conduct review/briefings/reorientation of the protocols with the concerned personnel to ensure proper compliance; and segregation of duties will be clearly defined.

Lease of Warehouses

35. The lease of privately-owned property at the NFA-NCR for use of the district offices grains storage amounted to P275.075 million for the past three years, or an average of P91.692 million per year, which based on historical cost of a 90,000-bag capacity of NFA-owned warehouse in Cavite, can already be considered more than sufficient to build own facility, thereby reducing storage expenses.

35.1 NCR leases privately-owned warehouses. The demand for lease of warehouses at NCR District Offices and Cavite PO, however, had significantly decreased from 39 warehouses in 2012 to only 12 in 2014. Based on records, the storage expenses for the past three years of Central District Office (CDO), South District Office (SDO), North District Office (NDO), East District Office (EDO) and Cavite PO amounted to P275.075 million averaging P91.692 million per year. Based on historical cost of NFA-owned warehouse in Cavite of P15.720 million for a 90,000-bag capacity, the amount incurred for the annual lease of warehouse is already more than sufficient to purchase property and to build own facility.

35.2 Annex A of Republic Act (RA) No. 9184 on Implementing Guidelines for Lease of Privately-Owned Real Estate and Venue, it provides under 3.1 that *[C]ost-benefit Analysis refers to a tool used to aid decision-making by evaluating the benefits to be attained from an action against the costs for its implementation xxx.*

35.3 Cost-benefit analysis should not be limited to the market analysis of prevailing lease rates within the vicinity of selected location. It encompasses the long-term benefit as regards cost of leasing vis-a-vis cost of building warehouse to determine which is more advantageous, taking into account the international standards on warehouse structure and design suitable for grain storage. In fact, the leased property in Dasmariñas was designed for a typical storage for goods, but not for grains.

35.4 We recommended that Management conduct cost-benefit analysis on the viability of constructing NFA-NCR warehouses vis-a-vis cost of leasing warehouses.

35.5 The Administrator commented to look into the recommendation.

36. As much as P4.00 million in storage/rental expenses could have been saved had storage capacity of the warehouses in Cebu been maximized from May to December 2013, instead of leasing privately-owned warehouses. Further, the

safekeeping of NFA grains in these rented facilities is not assured since these were not pre-inspected as to the structural soundness, stability and suitability of the warehouses for storage purposes.

36.1 Part II–A, paragraph 2 of NFA SOP No. GM-WH05 on Lease of Private Warehouses Spaces, with effectivity date of August 15, 1992, requires that prior to resorting to leasing of additional warehouse space, utilization of NFA-owned warehouse should be maximized.

36.2 NFA Cebu owned eight warehouses, four of which are located within Cebu City area. Of the four, three are strategically located in the pier area with a total capacity of 717,000 bags. These warehouses were 56.0 per cent full with 401,170 bags in storage as of March 2013 and prior to importation of rice starting the month of May 2013.

36.3 On the other hand, the remaining four warehouses are located in distant towns outside of Metro Cebu, such as in Badian, Bogog and in the islands of Bantayan and Camotes, with total aggregate capacity of 88,500 bags. Prior to importation and as of end of March 2013, stored in these warehouses were 36,505 bags or 41.2 per cent of its total capacity. Despite the location, these warehouses could complement storage requirement whenever needed, with proper planning and execution.

36.4 With the 2013 importation, Cebu had to accommodate around 54,000 MT or 1,080,000 bags of rice in the middle part of May 2013. Of the total importation, 22,000 MT or 440,000 bags were allocated for Region VIII, but needed short-term/temporary storage prior to shipping due to insufficient warehouse space at point of destination. With such volume of importation, the Agency resorted to leasing privately-owned warehouses to meet storage space requirements.

36.5 Relative thereto, two separate lease contracts were entered into for the year 2013 for warehouses with total area of 13,467.89 square meters (sqm.) or a capacity of 710,844 bags. Both contracts were entered into at P82.00 per sqm. per month.

36.6 Table 56 shows that Cebu incurred warehouse rental (storage) expenses of P5.485 million for the lease of the private warehouses from May to December 2013.

Table 56 - Storage/Lease Expenses

Month	No. of bags	Area in sqm.	Amount
May	70,856	411.32	P 33,728
June	404,434	6,157.36	504,904
July	696,582	12,210.08	1,001,227
August	575,318	13,467.89	1,104,337
September	388,285	13,467.89	1,104,337
October	246,916	10,143.45	831,763
November	96,090	6,764.56	554,694
December	94,716	4,271.20	350,238
Total			P 5,485,228

36.7 During the same period that the Agency leased these private warehouses, the storage capacity of NFA's owned-warehouses were not utilized at the maximum. Table

57 shows the available storage capacity of NFA-owned warehouses in Cebu PO vis-à-vis the number of bags stored in the leased warehouses.

36.8 As shown in Table 57, significant warehouse space was still available that could accommodate the stocks placed in rented warehouse, except for June-August 2013. As much as half of the rental expenses for the peak months of importation could have been saved between June to August or roughly P1.30 million of rent. In addition, beginning the month of September until December, the rent expenses which amounted to P2.80 million, could have been avoided. All in all, NFA could have saved as much as around P4.00 million by employing strategic stock management in compliance with its policy of maximizing the use of NFA-owned warehouses.

Table 57 - Aggregate Free Capacity of NFA-Owned Warehouses vis-a-vis Stock Level in Leased Warehouses (stocks in bags)

Month	Available Capacity in NFA-owned Warehouses	***Inventory Levels at Leased Warehouses	Storage/ Lease Expense	Storage/ Lease Cost per bag	Savings had the available capacity of NFA-owned warehouse was utilized
May	264,084	70,856	P 33,728	0.48	P * 33,728
June	229,350	404,434	504,904	1.25	** 286,325
July	291,780	696,582	1,001,227	1.44	** 419,388
August	401,478	575,318	1,104,337	1.92	** 770,647
September	464,102	388,285	1,104,337	2.84	*1,104,337
October	505,618	246,916	831,763	3.37	* 831,763
November	598,401	96,090	554,694	5.77	* 554,694
December	427,547	94,716	350,238	3.70	* 350,238
Total			P 5,485,228		P 4,351,120

* All storage expenses could have been saved because the NFA-owned warehouses can accommodate all the stocks stored in the leased warehouse.

** Lease cost per bag multiplied by available capacity in NFA-owned warehouses

*** Based on month-end data of Warehouse Utilization Report

36.9 In addition, we have noted that there was no inspection report made by the Supervising Grains Operations Officer or Regional Engineer. Under NFA SOP No. GM-WH05, said Officer should inspect and certify on the structural soundness and stability of the private warehouses, ventilation and other features relative to the suitability of the structure in storing grains before entering in a new contract and every renewal thereof. If there was no facility inspection conducted, the structural soundness, stability and all other features relative to the suitability of the structure, the safekeeping of NFA grains is not assured.

36.10 We recommended that Management:

- a. **Prepare a general warehouse allocation/utilization plan prior to any importation detailing allocation of each warehouse for incoming stocks, in compliance with NFA SOP No. GM-WH05 on maximizing the utilization of NFA owned warehouses;**
- b. **Utilize to full capacity the owned warehouses whenever there is importation or big volume of stocks from local procurement are anticipated to provide Cebu City warehouses the much needed space for the unloading of imported rice; and**

c. Require the conduct of inspection by the concerned Officer prior to entering into a lease contract of privately-owned warehouses, and for every extension of contract on existing leases.

36.11 The following were the comments of NFA Cebu PO:

a. The complexity and volatility of NFA's operations need much room for flexibility such that it cannot afford to draw absolute figures of where and when and how to store NFA commodities. This, however, does not mean an absence of plan or a random storage of inventory because NFA monitors on a daily basis the stock position per warehouse and, on a regular basis, comes up with a profile/report on warehouse utilization, the warehouse library, warehouse layout which serves as a road map in its warehousing operations.

b. Maximization in the utilization of NFA warehouses must be viewed from the paradigm of NFA's complex and volatile operations instead of looking at it from the vantage point of the "stacking" method of storage observed for boxes of ordinary perishable and non-perishable commodities.

c. Efficiency is not lost in NFA's pursuit for effectiveness. Assessment of storage capacity is the first in the agenda whenever the notice of import allocation is received. The lease of warehouse space is not arbitrary. Management is guided by the result of the evaluation in determining whether the lease of private warehouses is necessary and how much space is needed to warrant the number of leased warehouse to be utilized.

d. Facility inspection is always performed because it is a pre-requisite to the procurement of warehouse lease.

36.12 As a rejoinder to comment in par. 36.11(c), **we recommend that Management revisit the evaluation process performed in determining the need to lease private warehouses considering the above audit observations, and identify the needed improvement so that in the future, the results of which can be the basis for decision and comply with NFA SOP No. GM-WH05 on Lease of Private Warehouses Spaces, which requires that prior to resorting to leasing of additional warehouse space, utilization of NFA-owned warehouse should be maximized.**

36.13 **We further recommend that the above noted observations in warehousing operations be also looked into in other regional and provincial offices for NFA-wide implementation of the measures for improvement.**

Management of Corn Development Fund (CDF)

The Corn Development Fund (CDF) was created through Memorandum Order (MO) No. 468 issued on March 17, 1998 by then President Fidel V. Ramos. The MO authorized the NFA to import duty/tariff free, 300,000 MT of corn to help ensure sufficient supply of corn in the face of the then projected corn shortage as a result of El Niño, and to provide relief to the hog and poultry industries.

The fund was generated from net proceeds from sale to corn users of the 1998 corn importation which amounted to P124.10 million. This was the amount generated from sale of corn in 1998. MO No. 468 provides that the NFA, in consultation with the corn users and producers, is also instructed to prepare the guidelines which should allow such imports to be sold at the actual ex-vessel cost, or P6.50 per kilo whichever is higher in shipments landed in Manila and for shipments landed in Mariveles, at actual ex vessel cost or P6.30 per kilo whichever is higher. This amount was held in trust by NFA and was made the seed capital for the CDF to be used for corn development projects.

The CDF Committee, which was created by the NFA Council by virtue of amended MO No. 468 dated January 15, 1999, approved on April 14, 1999 the General Guidelines on the Availment and Utilization of CDF. These guidelines were later amended, the latest of which was NFA SOP No. TS-ES22 approved on February 14, 2008.

Section 1, paragraph 2 of the SOP stated that the CDF would be used to fund among others, the following: (a) acquisition and installation of corn production equipment, post-harvest and marketing facilities by qualified beneficiaries, (b) attendance to training programs, seminars and/or workshops that will enhance the skills and productivity of qualified beneficiaries, and (c) corn related studies especially in the areas of production, marketing and processing. It would be made available to corn industry stakeholders for free, as grant, or in very soft terms, as loan.

The CDF Committee has the primary task of administering the utilization of the CDF. It is composed of two representatives from the corn producers sector, two representatives from the corn users sector and three representatives from the government sector and is headed by the NFA Administrator, as Committee Chairman.

In a letter dated March 10, 2013, the former NFA Administrator and Chairman-CDF Committee requested for an audit of the fund. Our audit was based only on the available data and documents submitted during the audit.

In the initial audit of the CDF, we selected five of the nine beneficiaries of loans and two out of the 55 grants of funds, as shown in Table 58.

Table 58 – Summary of Beneficiaries

	Project/Title	Date Approved	Amount of Loan/Grant
1.	Biba Diwa Multi-Purpose Coop, Inc. Mutual Resource Farming	08/28/01	P 8,500,000
2.	Masisit Dacal Livelihood Cooperative Integrated Corn Mechanization Service and Trading Center	05/31/05	10,000,000
3.	North Cotabato Free Farmers' Cooperative, Inc. (NCFFCI) Establishment of Integrated Corn Feedstock Service Center (ICFSC)	06/25/08	9,974,000
4.	Christian Multi-Purpose Cooperative of Northern Iloilo Establishment of a warehouse and Drying Pavement Project	04/01/09	3,465,263
5.	Alamada Multi-Purpose Cooperative, Inc. (AMPCI) Contractual Joint Venture Agreement	04/01/09	9,500,000
			41,439,263

		Project/Title	Date Approved	Amount of Loan/Grant
Grants				
1.	NFA Employees	Enhanced Electronic Trading System for corn (EETS-CORN)	09/16/10 JEV dated Nov. 15, 2010	681,300
	Buyers and Sellers	EETS-CORN Briefing/Workshop of NFA stakeholders on policies and simulation exercises.	JEV dated June 30, 2011	661,300
2.	Project Steering Committee (PSC)/ Projects Management Office (PMO)	Full implementation of an Agricultural Commodity Exchange Systems (ACES).	02/16/12	1,000,000 (500,000 each for PSC/PMO)
				2,342,600
				P 43,781,863

Our audit disclosed the following:

Loan Amortizations

37. Remedies available such as foreclosure of mortgage, filing of appropriate legal action and others as provided in NFA SOP No. TS-ES22 and the terms and conditions of the loan agreements in connection with delayed/non-payment of loan amortizations, as well as monitoring, evaluation and assessment of project implementation, were not strictly implemented, resulting in the default in the payment of loan amortizations of the sampled beneficiaries amounting to P23.811 million (77.6 per cent of total balance of loan) as at December 31, 2013.

37.1 Section III, G.2 to 3 of NFA SOP No. TS-ES22 provides the following:

2. The loan shall be allowed a grace period of two (2) years which shall be reckoned from the date of initial release of the loan proceeds. The loan shall be payable semi-annually within the following period (inclusive of the two year grace period):

<i>Amount of Loan</i>	<i>Payment Period</i>
<i>3M and below</i>	<i>5 years</i>
<i>Above 3 M to 6 M</i>	<i>7 years</i>
<i>Above 6 M to 10 M</i>	<i>10 years</i>

Payment shall be in equal semi-annual installment, the first installment shall be on the first (1st) day of the 7th month after the grace period.

3. The loans shall be charged a simple interest of 2% per annum. No interest shall be charged during the grace period. This interest shall be waived if the principal amortization is paid on or before the due date. However, interest shall only be waived if the beneficiary has no previous unpaid amortization.

37.2 Records show that total loans granted to nine loan beneficiaries and 55 grants of funds to various individuals as of December 31, 2013 amounted to P61.439 million. In the Custom Transaction Detail Report from January 1988 through December 2013, outstanding loans receivable as of December 31, 2013 amounted to P42.049 million.

37.3 Out of the beneficiaries/grantees, verification of the CDF Custom Transaction Detail Report from January to December 2013 for the five audited loan beneficiaries showed that the Christian Multi-Purpose Cooperative of Northern Iloilo and Masisit Dacal Livelihood Cooperative were updated in paying their loans; the Biba Diwa Multi-Purpose Coop., Inc. was not updated in paying its loan; the North Cotabato Free Farmers' Cooperative, Inc. (NCFCCI) was able to pay only part of the accumulated interest on its loan; and, the Alamada Multi-Purpose Cooperative, Inc. (AMPCI) had not paid the principal amount of its loan since the date the first loan amortization became due.

37.4 Table 59 shows the result of verification and the report of the CDF Technical Working Group (TWG) on the loans granted to the five beneficiaries, with a total balance of P30.674 million as of year-end. And of this balance, 77.6 per cent or a total of P 23.811 million was already in default.

Table 59 – Status of Loans as of December 31, 2013

Beneficiary	Loan Amount	Date Approved	Balance	Status
Masisit Dacal Livelihood Cooperative	P 10,000,000	05/31/2005	P 5,625,000	Loans are paid on due dates.
Christian Multi-Purpose Cooperative of Northern Iloilo	3,465,263	04/01/2009	1,237,594	Loans are paid on due dates.
Biba Diwa Multi-Purpose Coop., Inc. (Biba Diwa MPC)	8,500,000	8/28/2001	4,336,860	Already in default. Proceeds from sale of three repossessed equipment in the amount of P135,735 were applied against the loan. Letters were sent to the Cooperative informing its Chairman that legal remedies available will be pursued if it continues to refuse the pull-out of the other equipment.
North Cotabato Free Farmers Cooperative, Inc. (NCFCCI)	9,974,000	6/25/2008	9,974,000	Already in default. NCFCCI filed a request for extension to settle its first amortization due to financial difficulty which was granted on April 1, 2014.
Alamada Multi-Purpose Cooperative, Inc. (AMPCI)	9,500,000	4/1/2009	9,500,000	Already in default. AMPCI cannot operate the center in full capacity due to failure of National Agribusiness Corporation (NABCOR) to infuse the necessary working capital. The CornDev Committee is coordinating with the Department of Agriculture (DA) to come up with a win-win solution.
P 30,673,454				

Biba Diwa Multi-Purpose Coop., Inc.

37.5 The loan of Biba Diwa MPC was released in four tranches. The first three tranches were released on February 13, April 19 and August 6, 2002, for the acquisition of various machineries and equipment, while the fourth tranche was released on May 14, 2003 for the construction of 10,000 bags capacity warehouse and facility shed.

37.6 Records showed that, after deducting the debtor's total payments in the amount of P5.097 million, and the proceeds of sale from the auction sale (rebidding) of repossessed equipment in the amount of P135,735, the outstanding obligation of Biba Diwa MPCl was still P4.337 million. The Cooperative had been continuously imposed interests and penalties since April 15, 2010. The last payments made were on April 15, 2010, October 14, 2010 and May 25, 2011, in the amounts of P357,730, P50,000 and P25,000, respectively. The Cooperative Development Incentive Fee (CDIF) earned by the Cooperative in the amount of P99,549 was utilized to pay its loan on April 18, 2011, while the proceeds from the auction sale was applied on November 15, 2012. No other payments were made after this date.

37.7 On June 3, 2014, the CDF Committee Vice-Chairman sent the third notice to the Chairman of the Cooperative, the first and second notices as stated in said letter were dated March 5, and April 28, 2014, respectively, informing that, should the cooperative continue to be steadfast in ignoring their notices, the Committee will already enforce legal remedies against the Cooperative.

North Cotabato Free Farmers' Cooperative, Inc. (NCFCCI)

37.8 The initial release of the loan availed by NCFCCI was on September 4, 2008 in the amount of P7.481 million, the second on September 23, 2009 amounting to P1.429 million and the final release of P1.064 million on August 9, 2010. Based on the provision of the SOP, the initial payment of the NCFCCI should have been on April 5, 2011. However, another agreement between NFA and NCFCCI was notarized on April 1, 2014, further extending the payment of the first amortization due on March 9, 2013 and September 9, 2013 to November 9, 2013.

37.9 In response to the Memorandum of the Chairperson, CDF-TWG, dated June 4, 2014, requesting for comment regarding the proposal of NCFCCI to return the two CDF acquired dryers to lessen its burden in settling the semi-annual amortization, the Legal Affairs Department (LAD) mentioned in its report dated June 6, 2014 the following:

- a. The loan availed by NCFCCI is covered by a chattel mortgage contract. Hence, the possible legal course available to NFA vis-à-vis NCFCCI proposal in addition to other remedies provided under the contract are: 1) exact fulfillment of the obligation – NFA can file a complaint for specific performance; 2) Foreclose the chattel mortgage which may be judicial or extrajudicial.
- b. As a general rule, after foreclosure, should the proceeds be less than the outstanding loan, NFA can still file an action to collect the deficiency.
- c. NFA cannot simply reacquire possession of ownership of the two mechanical dryers for this is tantamount to “pactum commissorium” which means vesting ownership to the property mortgaged in favor of the mortgagee in case of default of the mortgagor. This is expressly prohibited by law, and any agreement to this effect is deemed void.

Alamada Multi-Purpose Cooperative, Inc. (AMPCI)

37.10 The AMPCI and NABCOR executed a Memorandum of Agreement (MOA) for the formation of a Joint Venture arrangement called Post Harvest Processing and Trading Center or PHPTC Project in Alamada, North Cotabato. Article 2.1 of the MOA stated that the NABCOR, the AMPCI and other appropriate agencies/institutions would cooperate with each other for the purpose of establishing the PHPTC Project which shall be operated and managed by NABCOR. Article 2.2 of the MOA further provided that NABCOR would contribute counterpart funding in the amount equivalent to the installation of machineries and equipment and provisions for tools and other requirements, project development fund, and initial working capital. The AMPCI on the other hand, would contribute counterpart funding in the amount equivalent to the construction of the new warehouse building based on required specifications on the installation of three-phase line, land and other improvements.

37.11 On the other hand, Section 4 of the Loan Agreement executed by AMPCI with the NFA provided that AMPCI, by virtue of the Contractual Agreement it entered into with the NABCOR, consented to the putting up of a sinking fund out of the income or profit realized during the operation of the Project. The share of the Cooperative in such income or profit placed in the sinking fund would be utilized as payment for the loan amortizations to the NFA through the Project Oversight Committee (POC) which would ensure that the postdated checks, for the payment of said amortizations are funded. It was further provided that: *Should the share of the Cooperative in the sinking fund is not sufficient to pay the due amortization, the Cooperative shall pay the loan amortization from its own resources.* (underscoring supplied).

37.12 Section 5 of the Loan Agreement further provided that the BENEFICIARY would submit to the NFA a periodic report on the status of implementation of its project undertaken jointly with the NABCOR. To this effect, the NFA had the right to conduct inspection on the project and its books/records through the NFA's Provincial Support Group (PSG) to assess and evaluate compliance of the BENEFICIARY with its obligations under the Agreement.

37.13 The amount of P9.500 million was granted to the AMPCI on September 23, 2009. As of December 31, 2013, however, no payment has been made yet. The Status Report of Management stated that AMPCI cannot operate the center in full capacity due to failure of NABCOR to infuse the necessary working capital. But this cannot be a justification for non-payment considering that, based on the MOA, it should pay the loan amortization from its own resources should the share of the Cooperative in the sinking fund would not be sufficient to pay the amortization.

37.14 Despite giving Biba Diwa MPCl and AMPCI two and a half years and NCFCCI four and a half years from initial release of loan within which to pay their first semi-annual payments, these Cooperatives failed to pay their loan amortizations on due dates.

37.15 It can be deduced also that Management had not done its part. NFA SOP No. TS-ES22 and the Loan Agreements contain the following terms and conditions which are control measures and remedies to safeguard the CDF, but were not carried out as required:

a. Failure to make the checks good within the required period will constitute default and a penalty of 12 per cent per annum shall be imposed computed from the due date of the amortization without prejudice to the filing of appropriate legal action. (Section III.G.6 of NFA SOP No. TS-ES22)

b. If the beneficiary fails to pay two consecutive amortizations after proper notice, the Secretariat through the PSG shall issue a Demand Letter for the full settlement of the obligation within 15 calendar days after which, failure to do so shall render the whole outstanding balance due and demandable.

c. When the beneficiary fails to pay the whole outstanding loan which became due and demandable, foreclosure proceedings may be initiated by the Department of Legal Affairs after proper advice from the Committee. (Sec. III.I.1 of NFA SOP No. TS-ES22; Section VI.2.b of the loan agreement between NFA and Biba Diwa MPCl, and Section 6.c of the loan agreements between NFA and AMPCI and NFA and NCFCCI).

d. The money realized from the sale of the mortgaged property, after deducting the expenses incurred in the foreclosure proceedings, shall be used to settle the beneficiary's outstanding loan balance including penalties and interests. (Section III.I.3 of NFA SOP No. TS-ES22)

37.16 Based on the status report on the loans, it appeared that legal action and other available remedies were not immediately implemented by Management. Although the default in the payments of the beneficiaries occurred years ago, some of the actions to collect the amortizations were undertaken only recently.

37.17 Stated in Section III letters K and L of NFA SOP No. TS-ES22 are the following activities:

K. Monitoring, Reporting and Assessment of Project Operations

a. The Technical Working Group (TWG), in close coordination with the concerned Provincial Support Group (PSG), shall oversee the implementation of the program and shall monitor all activities relative to it.

b. The PSG shall conduct monitoring and/or on site evaluation within the project's implementation period to determine if the project is being implemented as approved. It shall maintain an index card per project/beneficiary to record the progress of project implementation.

c. The PSG shall submit to the TWG through the fastest means of communication, a monthly Project Status Report not later than the fifth working day.

d. The TWG shall prepare a Consolidated Progress Report for all projects undertaken to be reported in the Committee Meeting which shall include among others the findings/conclusion and recommendation on the grant/loan applications; list of defaulting beneficiaries, if any. This

list will likewise be submitted to the Department of Legal Affairs (DLA) for proper action.

L. Project Benefit and Monitoring Evaluation/Impact Evaluation (for loan and upon instructions of the CornDev Committee)

a. The Extension Department (EXD) shall conduct PBME during the mid-implementation of the CornDev assisted projects.

b. EXD counterparts shall gather monthly operations reports and submits semestral and annual monitoring and evaluation reports to EXD-Central Office (CO) on the operations of the projects.

c. EXD-CO evaluates/validates consolidated reports submitted by their Field Office (FO) counterparts. EXD-CO may conduct on-site inspection for validation of data.

d. EXD prepares/submits progress reports to NFA Management.

37.18 Documents submitted, however, showed that despite the provisions in NFA SOP No. TS-ES22 requiring the monitoring, evaluation, and assessment of the implementation of projects funded under the CDF, these were not adequately carried out; thus, the problems in the implementation of said projects were not immediately addressed, such as the non-operational two units of furnace of the mechanical dryers since their installation at NCFCCI and the PHPTC for corn at AMPCI did not operate in full capacity due to the failure of NABCOR to infuse the necessary working capital.

37.19 As a consequence of the foregoing, appropriate actions, which should had been taken in order to immediately help solve the problems of the loan beneficiaries at the early stage of the implementation of the Projects, were not undertaken thereby contributing to the non-payment/default in paying their loan amortizations.

37.20 We recommended that Management:

a. Require the CDF Committee to strictly implement the provisions of NFA SOP No. TS-ES22 and the terms and conditions of the Loan Agreements particularly on the remedies available in case of delayed/non-payment of loans on due dates; and

b. Oblige the groups entrusted with the duties of monitoring, reporting and assessing the implementation of projects to immediately report to the CDF Committee the problems encountered by the loan grantees in order that these can be timely and properly addressed so as not to affect the loan amortization payments and the attainment of the purpose of the projects.

37.21 The Heads of the CDF TWG and Secretariat submitted that the CDF Committee exercises flexibility, judgment and discretion based on the prevailing circumstances of the cooperatives, in case of delayed payments for loan amortizations. The CDF Committee will enhance measures/systems to immediately respond to occurring issues/concerns of beneficiaries especially in the settlement of their obligations. The

TWG will provide the CDF Committee members advance copies of any incident report via e-mail or other sources, to get immediate feedback/instructions from them.

37.22 The Deputy Administrator for Marketing acknowledged that there were problems with the grantees (beneficiaries). NABCOR has not at all operated the facility and collection has not started. The Biba Diwa MPCl and NCFCCI are already for legal action while AMPCl is up for sale.

37.23 The facilities of AMPCl are being offered for bid with 35/65 per cent sharing between the CDF and DA. However, the warehouse remains with NFA.

Grace Period on Payment of Loans

38. The provision of the Loan Agreement executed by the North Cotabato Free Farmers Cooperative, Inc. (NCFCCI) with NFA regarding the payment of first installment, which will reckon from the release of the full amount of loan, differed from what was provided for in NFA SOP No. TS-ES22.19.1, which should reckon from the date of initial release of the loan proceeds, to the disadvantage of NFA.

38.1 Section 1.1 of the Loan Agreement executed between the NFA and NCFCCI stated that the loan shall be for a ten (10)-year term, with an interest of two per cent per annum applied on straight line basis, and payable on a semi-annual installment, payment to start on the first day of the seventh month after the two-year grace period, reckoned from the release of the full amount of loan.

38.2 This provision of the Loan Agreement was not in conformity with what was provided in Section III.G.2 of NFA SOP No. TS-ES22 which partly stated that the loan shall be allowed a grace period of two years which shall be reckoned from the date of initial release of the loan proceeds.

38.3 Considering that the provision of the loan agreement was adopted, the grace periods of two years, as well as the initial and subsequent payments of the loan were extended for two years. The initial release was on September 4, 2008 and the final release was on August 9, 2010. Based on the SOP, the initial amortization should have been on April 5, 2011. But since the provision of the loan agreement was applied, the initial amortization was set on March 9, 2013, reckoned after the full amount of loan was released on August 9, 2010. Moreover, since the provision of Section III.G.3 of NFA SOP No. TS-ES22 partly stated that no interest shall be charged during the grace period, the interest charged on the P9.974 million loan of NCFCCI was deferred for two years.

38.4 While the concerned borrower benefited from the deviation on the SOP, the CDF could not immediately recoup the loan granted for relending to other targeted beneficiaries.

38.5 We recommended that NFA see to it that the provisions of the SOP particularly in connection with the payment period are complied with for consistent application among the debtors/beneficiaries.

38.6 The Heads of TWG and Secretariat explained that the CDF Committee has stretched certain timelines/gave conditional allowance in the settlement of NCFCCI's amortization for humanitarian reasons in recognition of the need to help the cooperative.

38.7 As a rejoinder so that the provision of the SOP is not intentionally disregarded, **we further recommend that Management always ensure that the terms and conditions of loan agreements are in accordance with existing procedures; and, to formulate guidelines or criteria as basis for assessing whether the circumstances prevailing during the implementation of projects merit the granting of "conditional allowance in the settlement of amortization" to the debtors/beneficiaries.**

Projects funded by CDF

39. Construction by Biba Diwa MPCl of a warehouse and facility shed amounting to P932,057 was funded from the CDF although not among the projects to be funded under the CDF based on the Loan Agreement executed with the NFA, thus defeating the purpose of loan.

39.1 Section 1 of the Loan Agreement executed between the NFA and Biba Diwa MPCl states that the loan proceeds in the amount of P8.50 million shall be utilized by the DEBTOR exclusively for acquisition of farm machinery and equipment to be used in the adoption of improved technologies and systems necessary to improve productivity and quality of corn produce.

39.2 However, verification revealed that portion of the loan proceeds was utilized for the construction of a warehouse and facility shed amounting to P932,057, which is a deviation from the Loan Agreement.

39.3 Considering that the Loan Agreement provided that the loan proceeds of P8.50 million should be used by the debtor exclusively for the acquisition of farm machinery and equipment, we are of the opinion that any deviation therefrom shall be approved by the CDF Committee.

39.4 We recommended that the CDF TWG and PSG see to it that funds are utilized by the loan beneficiaries for the intended purposes as provided for in the Loan Agreements and any deviation therefrom shall have a written approval from the Committee.

39.5 The Head of the TWG Committee informed that there was excess fund from the loan and Biba Diwa MPCl requested the CDF Committee's approval that it would be utilized for the construction of a warehouse and facility shed which was approved by the Committee.

39.6 As a rejoinder, the CDF Committee was not able to present a written approval as at audit date, thus, we reiterate our recommendation.

Liquidation of Grants

40. Grants of CDF amounting to P813,905 for various programs implemented by NFA remained unliquidated as of year-end.

40.1 Section III.B of NFA SOP No. TS-ES22 stated that the following beneficiaries may apply/propose projects for CornDev funding: Federation/Association/cooperatives of Corn Farmers; Industry Association/federation of livestock and poultry raisers and feed millers; and, the NFA.

40.2 Grants from the CDF may be in the form of logistical assistance, various training programs, study tour of corn federation, conventions and trade exhibits.

40.3 NFA received various grants out of CDF in 2009 to 2013 in the total amount of P5.381 million for various programs, however, the amount of P813,905 remained unliquidated as of December 31, 2013 as presented in Table 60.

Table 60 - Summary of Grants Received by NFA

Program	Date/s Granted	Total Amount Granted	Balance as of 12/31/13	Observations
Agricultural Commodity Exchange System - Project Management Office (ACES-PMO)	09/29/09 11/15/10 11/17/10 06/30/11 10/01/13	P 2,896,953	P 107,034	Of the balance, P52,680 was released to NFA in 2011.
ACES - Project Steering Committee(ACES-PSC)	07/21/09 11/15/10 10/01/13	1,498,382	271,814	There was no reported disbursement out of the remaining balance.
Workshop on Agricultural Commodity Marketing Program	02/25/09	500,000	130,339	A two-day workshop; date of project completion was February 27, 2009.
Evaluation of the Reliability and Pilot Testing of the Digital Image Processing System (DIPS)	06/22/09	485,331	304,718	Date of completion is five months upon signing of the Terms of Reference (TOR). The TOR submitted was not dated.
		P 5,380,666	P 813,905	

40.4 For the first two grants stated in Table 60, namely, ACES-PMO and ACES-PSC, the Enhanced Electronic Trading System (EETS) for corn was introduced in line with the ACES objective to support the agricultural sector in terms of providing: (i) farmers broader base to link with buyers/traders and consumers; (ii) market information particularly prices; (iii) transparency in critical aspect of agricultural marketing; (iv) promoting a more efficient system of post-harvest processing; and (v) educating farmers.

EETS is a web-based trading system that provides information exchange and clearing house services and commodity trading for corn buyers and sellers through the internet.

40.5 On the other hand, DIPS is a computer aided system for corn physical analysis that would minimize the tedious manual and visual inspection system being used by the NFA laboratory. This was developed through the collaborative effort among: CDF, which provided the funds; the Bureau of Postharvest Research and Extension (BPRE) which developed the DIPS; and NFA which provided the samples needed for and assisted in the training of the DIPS.

40.6 The amount of P485,331 for the implementation of the project on Evaluation of the Reliability and Pilot Testing of the DIPS for Corn Grains is expected to be completed five months after the signing of the TOR; however, the TOR was not dated. Nevertheless, since the amount was received way back in June 2009, the project is presumed as long been completed, and the balance should have already been liquidated.

40.7 We recommended that Management cause the immediate refund/liquidation of the remaining balance of the grants considering that these were released since 2009.

40.8 The ASD Director informed that the liquidation and preparation of disbursement vouchers returning the balance for the four projects are being made and will be submitted to COA as soon as possible.

40.9 As a rejoinder, Management has not submitted the documents pertaining thereto as at audit date.

Report of the Provincial Support Group (PSG)

41. Provincial Support Groups (PSG) in 10 Provinces were not able to submit liquidation reports amounting to P88,000 for the monitoring phase of the Bio-N Projects within the prescribed period, while the supporting documents to expenses totalling P250,000 submitted by the other six Provinces were only photocopies of the original documents.

41.1 Bio-N is an alternative fertilizer technology proven effective for enhancing root development resulting in the increase in crop yield and helps the plant to develop resistance from attack of corn borer. To propagate Bio-N technology, the NFA, in collaboration with other government agency-members of the Corn Development Program Committee, has tapped the CDF to finance the establishment of Bio-N Fertilizer mixing plants of Bio-N Project. The project involves the commercial production and marketing of Bio-N fertilizer as well as its effective and sustainable use by cooperative members and other farmers which will be operated as a business enterprise by qualified cooperatives and organizations in strategic corn production areas. The project is envisioned to support the thrust of the government to enhance the productivity and competitiveness of corn farmers and evolve them into agri-business entrepreneurs.

41.2 The CDF, currently held in trust by the NFA, provided a P500,000 grant per cooperative in the form of capital, equipment and supplies, as well as trainings on production, technology and enterprise development. Section III.A of NFA SOP No. TS-ES22 dated February 14, 2008 provided for the creation of Provincial Support Group (PSG) in NFA-POs. It was further provided in Section III.E.3.b of the SOP that the Technical Working Group (TWG) would coordinate with the Secretariat to facilitate the release of the necessary Maintenance and Other Operating Expenses (MOOE) to the PSG to defray its expenses in monitoring the implementation of the approved project.

41.3 Table 61 shows that for CY 2013 the following PSGs received their budget for the monitoring phase of Bio-N Projects.

Table 61 – PSG Budget Recipients

Date	Provincial Office	Check No.	Amount	Remarks
1/31/13	NFA-Cagayan	145326	P 8,000	10 PSGs without liquidation reports for funds totaling P88,000
1/31/13	NFA Zamboanga Norte	145327	8,000	
1/31/13	NFA Camarines Norte	145328	8,000	
1/31/13	NFA Quirino	145329	8,000	
1/31/13	NFA Nueva Vizcaya	145330	8,000	
1/31/13	NFA Surigao del Sur	145332	8,000	
1/31/13	NFA Maguindanao	145333	8,000	
1/31/13	NFA Zamboanga del Sur	145334	8,000	
1/31/13	NFA Davao Oriental	145336	8,000	
1/31/13	NFA Marbel	145338	16,000	
1/31/13	NFA North Cotabato	145339	68,000	6 PSGs with liquidation reports for funds totaling P250,000, but supporting documents are photocopies; tape receipts can no longer be read
1/31/13	NFA Isabela	145335	54,000	
1/31/13	NFA Iloilo	145341	38,000	
1/31/13	NFA North West Cagayan	145331	30,000	
1/31/13	NFA Ifugao	145337	30,000	
1/31/13	NFA Bukidnon	145340	30,000	
			P 338,000	

41.4 NFA SOP No. TS-ES22 paragraph III.J.1.a on Financial Management and Accounting states that, *for simplified accounting and monitoring, disbursements from the fund shall be centralized at the NFA Central Office through the usual/disbursement vouchers in accordance with existing government accounting and auditing rules and regulations. No fund transfer shall be made through the NFA inter-branch system.*

41.5 Also, Section 5.1.2 of COA Circular No. 97-002 dated February 10, 1997 provides that, for Petty Operating Expenses and Field Operating Expenses, the Accountable Officer (AO) shall liquidate his cash advances within twenty (20) days after the end of the year.

41.6 As a result of Mid-Year Assessment held on July 11-14, 2012 in Iloilo City, the PSGs were required to liquidate the MOOE every year through submission of Statement of Expenses prepared by the Provincial Accountant and certified correct by the Provincial Manager.

41.7 Out of the 16 POs mentioned above which received budget for the monitoring phase of Bio-N project in CY 2013, only six provinces namely, North West Cagayan, Isabela, Ifugao, North Cotabato, Bukidnon, and Iloilo submitted liquidation reports. The documents submitted to liquidate the amounts released to the PSGs showed that the

funds were used to defray expenses for traveling, office supplies, gas and oil and communication expenses incurred. However, the documents were not original but photocopies. Also, some tape receipts can no longer be read.

41.8 According to Section 43(4) of PD No. 1445, (the Government Auditing Code of the Philippines), *the auditors in all auditing units shall have the custody, and be responsible for the safekeeping and preservation of paid expense vouchers, journal vouchers, xxx reports of xxx disbursements and similar documents, together with their respective supporting papers, under regulations of the Commission.* Therefore, the original of the documents to support liquidation reports must be submitted to the Auditor/auditing unit.

41.9 We recommended that Reports of Liquidation be submitted together with the original supporting documents within the prescribed period. Certified photocopies of said tape receipts should also be submitted together with the original tape receipts for reference in audit in case the original tape receipts are no longer readable.

41.10 The Accounting Services Department (ASD) explained that expenses incurred by the PSG in monitoring the implementation of projects are processed and paid by the field offices using the fund sent to them. The original vouchers and supporting documents are therefore submitted to their COA Auditing units for safekeeping and preservation. Only liquidation reports certified by the provincial Accountants and Managers with photocopies of supporting documents are submitted to the CDF Committee/TWG.

41.11 As a rejoinder, the liquidation reports with supporting documents shall be submitted to the field COA auditor for verification. Only the audited copy of the liquidation reports with the supporting documents retained at COA field offices shall then be submitted to the CDF Committee and the COA of NFA-HO.

Disbursement Acceleration Program (DAP)

On December 28, 2012, the DBM released to the Bureau of the Treasury (BTr) the amount of P121.00 million, the purpose of which was to cover the release of the National Government subsidy to the NFA for the rehabilitation and acquisition of mechanical dryers, etc., under Special Allotment Release Order (SARO)-BMB-F-12-0034950 and Funding Source 2001-90167. The release was from Republic Act (RA) No. 10155, the FY 2012 General Appropriations Act, in accordance with the FY 2012 Disbursement Acceleration Program (DAP), as approved by the President on December 21, 2012. The Notice of Cash Allocation (NCA) No. BMB-F-12-0025817 in the same amount was issued to cover the cash requirements.

In this connection, NFA received funds from the BTr on April 4, 2013 representing initial release under SARO-BMB-F-12-0034950 dated December 28, 2012 in the amount of P23.165 million recorded in NFA's books as Subsidy Income from National Government for the rehabilitation and acquisition of mechanical dryers in support of the Food Staples Self-Sufficiency Program (FSSP) of the Department of Agriculture (DA).

On July 17, 2013, NFA transferred the amount of P22.460 million from Land Bank of the Philippines (LBP)-FSSP Current Account (C/A) to Philippine National Bank (PNB)-FSSP Savings Account (S/A) under Journal Entry Voucher (JEV) No. 2013-07-01-4858. In turn, the total amount of P22.460 million was transferred from the PNB-FSSP bank account to six regional/field offices under JEV No. 2013-07-014852 while the total of P0.480 million was transferred from the LBP-FSSP bank account to two more regional/field offices under JEV Nos. 2013-07-014854 and 2013-07-013744.

The audit covered the transactions disbursed from the DAP fund in connection with the P23.165 million partial release from the National Government, and hereunder are the significant consolidated observations and recommendations.

42. The NFA was not able to fully support the attainment of the purpose of the DAP to fast-track public spending and push economic growth because only P10.089 million or 43.6 per cent of the funds of P23.165 million was utilized as of December 31, 2013, even after almost nine months from receipt of the funds from the Bureau of the Treasury (BTr) in April 2013, due to delayed fund transfers from NFA-Head Office (HO) to the regions and also caused by, among others, difficulty in finding suppliers/fabricators of parts/materials needed in the improvement of mechanical dryers.

42.1 Under the DAP in 2012, the NFA-HO received from the BTr the amount of P23.165 million on April 4, 2013 for the rehabilitation and acquisition of mechanical dryers in support of the FSSP of the DA. However, it was only on July 22 and 26, 2013, or more than 3 and 1/2 months that the funds were released to the various regional/field offices, thereby causing delay in the implementation of the said project. Delay as to the completion of the projects was further aggravated considering that as of December 31, 2013, or more than five months from July 2013 or almost nine months from April 2013, only P10.089 million or 43.6 per cent of the total DAP funds of P23.165 million was utilized/disbursed.

42.2 As a consequence, not only that the dryers were not yet restored to their efficient physical working condition to cater to the needs of the farmers in drying their harvests, but also that the NFA was not able to fully support the attainment of the purpose of the DAP to fast-track public spending and push economic growth.

42.3 Based on the Status of Projects (1st Batch P23-M) as of November 15, 2013 submitted by the Technical Research and Services Department (TRSD), and per verification, the extent of utilization of the DAP funds in the regional/field offices for the identified projects was only P10.089 million of the total amount transferred, thus leaving an unutilized balance of P12.851 million. But including the balance of P0.225 million (P23.165 million minus P22.940 million) that remained in the NFA-HO bank accounts, the total amount unutilized as of year-end was P13.076 million or 56.4 per cent of the total P23.165 million DAP funds, as shown in Table 62.

42.4 In Region I, the repair of dryer sheds resulted in two failures of bidding. The first bidding conducted on November 5, 2013 failed because the lone bidder did not fully comply with all the documents required for eligibility while the second bidding scheduled on December 11, 2013 did not push through because there were no interested bidders.

42.5 Of the P10.280 million funds of Region II that was initially transferred to Isabela, P5.489 million was allotted to the provinces while P4.387 million was for the implementation of the projects by the regional office. The balance of P0.404 million [P10.280M - (P5.489M + P4.387M)] was transferred to the concerned provinces.

Table 62 - Status of Fund Utilization at the Regional Level

Region	Purpose	Amount Transferred	Utilized	Balance
I - La Union	Repair and replacement/spare parts of dryers; upgrading of power supply; dryer shed	P 547,223	P 92,250	P 454,973
II - Isabela	Repair and replacement/spare parts of dryers; dryer shed; furnace shed; dust collector; sieve	10,280,000	6,465,567	3,814,433
IV- Batangas	Dust collector	120,000	120,000	-
V - Legaspi	Repair and replacement/spare parts of dryers; upgrading of power supply; dryer shed; furnace shed	4,722,500	2,672,853	2,049,647
VI - Iloilo	Repair and replacement/spare parts of dryers; upgrading of power supply; dryer shed; furnace shed	6,530,000	-	6,530,000
X - Cagayan de Oro	Repair and replacement/spare parts of dryers/Dust Collector/Sieve	300,000	300,000	-
XI - Gen. Santos	Dust collector	80,000	80,000	-
XIV - Cotabato	Repair and replacement/ spare parts of dryers; upgrading of power supply; dryer shed	359,896	358,193	1,703
Head Office	Retained (P23.165M - P22.940M)	22,939,619 225,381	10,088,863 -	12,850,756 225,381
		P 23,165,000	P 10,088,863	P 13,076,137
		100.0%	43.6%	56.4%

42.6 The Director of Region II informed that during the period from September 16 to November 25, 2013, the region's Bids and Awards Committee (BAC) conducted direct procurement of spare parts from a sole distributor, but only four units of control panel were awarded since these met the Approved Budget for the Contract (ABC) in the amount of P347,600, while the other spare parts were not awarded because the price offer was higher than the ABC. The expected completion date of the projects was March 31, 2014.

42.7 As regards the funds of P5.489 million allotted to the provinces, the repair/rehabilitation of mechanical dryers in four POs (Cagayan, Kalinga, Northwest

Cagayan-Apayao and Nueva Vizcaya) that were given a total budget of P2.488 million were not yet started, though P0.201 million was already utilized for travelling expenses in the canvass of materials and cost of purchased materials. On the other hand, repairs already started in two provinces (Isabela and Quirino) with a total budget of P3.001 million but only P1.878 million were utilized as at year-end. To summarize, as shown in Table 63, the extent of fund utilization of the DAP funds in Region II as of year-end was only 37.9 per cent.

Table 63 – Status of fund utilization in six provinces in Region II

Date funds were received	Purpose	Amount Received	Amount Utilized	Balance
Cagayan PO				
10/13	Repair of Shin Heung and Biomass dryers	P 526,000	P 3,600	P 522,400
	Construction/Extension of dryer shed	300,000	108,490	191,510
		826,000	112,090	713,910
Kalinga PO				
09/17/13	Extension of Dryer Shed	120,000	8,360	111,640
10/03/13	Repair of Biomass and Padiscor Dryers	325,000	-	325,000
		445,000	8,360	436,640
Northwestern Cagayan-Apayao PO				
10/13	Repair of Shin Heung, Biomass dryers	804,100	46,520	757,580
09/17/13	Extension of dryer shed	50,000	34,046	15,954
		854,100	80,566	773,534
Nueva Vizcaya PO				
10/03/13	Repair of Agricom Biomass, Greenmac and Shin Heung dryers	363,100	-	363,100
	Repairs not yet started	2,488,200	201,016	2,287,184
Isabela PO				
10/03/13	Repair of Padiscor, rice master, Shin Heung, Cimbria dryers	2,545,970	1,761,639	784,331
Quirino PO				
10/03/13	Repair of Padiscor dryer	455,000	115,920	339,080
	Repairs already started but not yet completed	3,000,970	1,877,559	1,123,411
		P 5,489,170	P 2,078,575	P 3,410,595
		100%	37.9%	62.1%

42.8 During the ocular inspection conducted in Cagayan on January 17, 2014, some of the materials were already fabricated while others were already installed, as the construction started last January 9, 2014. The Provincial Manager informed that they encountered some problems such as the procurement procedures; difficulty in scouting for prospective suppliers/fabricators since the technology in the improvement of the burner and blower is still new and not yet widely known in the market.

42.9 In Kalinga, the Provincial Manager explained that they have not yet started the projects because the conversion of chimney to cyclonic type was prioritized.

42.10 In Northwestern Cagayan-Apayao, the Provincial Manager cited accessibility of suppliers and lack of technical personnel among the factors which caused the delay in the implementation of the repair of dryers. Some of the replaceable spare parts could only be provided by sole distributors who are outside the locality/province; and, technical personnel trained for the rehabilitation work of the equipment were not available at that

time since some were utilized in other operational functions such as milling and drying activities which included frequent repair works.

42.11 In Nueva Vizcaya, the Provincial Manager mentioned that delay was due to the construction of dryer extension shed that was conducted from October 15 to December 20, 2013. Majority of the parts needed were not locally available and were still ordered in Cauayan City in November 2013, but were delivered only in January 2014.

42.12 In Isabela, expenses incurred totaling P1.762 million is 69.2 per cent of the total funds received; however, the extent of repair done was only 30.8 per cent. The Provincial Manager explained that the balance is intended to finance additional spare parts to complete the different repairs to be undertaken. And when these spare parts are delivered, the projects would be completed before the end of the first quarter of 2014.

42.13 In Quirino, expenses incurred totaling P115,920 is 25.5 per cent of the amount received, but extent of repair was already 74.5 per cent completed. The Provincial Manager informed that the work was facilitated because a letter was sent to the contractor calling their attention to fast-track completion; and, a weekly submission to NFA Regional Office of the accomplishment report on the projects was required.

42.14 In Region V, there was delay in the implementation of the projects because it was only in November 2013 when Purchase Orders, Job Orders and Notices of Award were issued to the supplier.

42.15 Management reported to have completed only two out of the 33 DAP projects. The documents of most of these projects were still for processing thus, showing delayed implementation and inadequate utilization of the fund which, ironically, was for the purpose of accelerating disbursements to fast-track public spending and push economic growth.

42.16 In Region VI, while the amount of P6.530 million was not yet utilized as at year-end, a total of P5.460 million was already awarded to contractors in December 2013 for the repair/rehabilitation and upgrading of 27 units of dryers and construction of sheds in five sites.

42.17 We recommended that Management fast-track the implementation of the DAP projects by addressing the causes of delay, conducting regular monitoring, and facilitating the acquisition of materials so that the mechanical dryers are restored to their efficient physical condition to cater to the needs of the farmers; and, henceforth, funds received for specified purposes be immediately transferred to concerned offices to maximize fund utilization and attain the intended benefits.

42.18 Management concurred that there was really delay in the implementation of the projects because of the long and tedious BAC proceedings, and that the NFA field offices followed the procurement guidelines under RA No. 9184. For some projects, bidding failed twice, thus resorting to the alternative method of procurement (small value procurement, by-administration, direct contracting, etc.). Further, submission of pertinent documents to TRSD (such as Notice of Award, Contract, Scope of Works, Cost Estimates, Purchase/Job Orders) was required to facilitate remittance of funds by DBM and for monitoring purposes.

42.19 Management also gave the following comments:

- a. Transferred funds were not fully utilized/disbursed as of December 31, 2013 but these were already obligated because of the progress billing. As of June 30, 2014, the dryers were already completed and ready for use.
- b. Some of the replaceable spare parts could only be provided by exclusive distributors. The manufacturers of the spare parts are from foreign countries resulting in the delay in procuring necessary parts. Some spare parts are already obsolete, thus, consuming more than a month in looking for fabricator that could replicate the original parts.
- c. In Region I, the unutilized amount of P454,973 is the ABC of the project. Due to failure of bidding, Management resorted to implementing the project "By-Administration." The project was started on June 26, 2014.

43. The procurement of Dust Collection System (DCS) in Infanta, Quezon for the improvement of mechanical dryers amounting to P120,000 was not done in accordance with the normal process from the approval of the method of procurement to the preparation of supporting documents and execution of the project, thus, give doubt as to the regularity of the transaction and reasonableness of the price.

43.1 The BAC Resolution No. WORKS-2013-J-16 was approved on October 8, 2013, requiring the adoption of the alternative method of procurement specifically through Small Value Procurement (SVP) for the immediate repair, rehabilitation and improvement of dryers in Region IV - Infanta, Quezon.

43.2 Review of the supporting documents relative to the payment for the purchase and installation of the DCS for the improvement of the mechanical dryer costing P120,000 showed that direct contracting mode of procurement was used, instead of SVP. However, the specific requirements for direct contracting per Section 9.2.2 of COA Circular No. 2012-001 such as copy of letter to selected manufacturer/supplier/distributor to submit a price quotation and condition of sale were not attached to the voucher.

43.3 The following basic requirements, as provided in Section 9.2 (Basic requirements common to all purchases under Alternative Mode) of the same circular, were not also attached:

- a. Approval by the Head of the Procuring Entity (HOPE) or his duly authorized representative on the use of the alternative method of procurement, as recommended by the BAC.
- b. Statement of the prospective bidder/supplier that it is not blacklisted or barred from bidding by the government or any of its agencies, offices, corporation or LGUs; and

c. Sworn affidavit of the bidder/supplier that it is not related to the HOPE by consanguinity or affinity up to the third civil degree.

43.4 Copy of price quotation from bidders dated February 25, 2013 was not an authenticated photocopy of the faxed copy, unsigned, and did not contain complete specifications and accessories, as well as the detailed breakdown of the cost of materials and labor. In addition, the following were also observed:

a. The Purchase Order did not contain the information that the procurement was through direct contracting, and the date and signature of the supplier as proof of the supplier's acknowledgment of receipt of the order.

b. The procurement process started in February 2013 and the installation of the DCS for one dryer costing P120,000 was done in September 2013 before the approval by the HOPE on October 8, 2013 of the BAC Resolution No. WORKS-2013-J-16 recommending Small Value Procurement for the two dryers in NFA-Infanta PO in the amount of P160,000. However, based on the wire message dated July 26, 2013 from NFA-HO only P120,000 was allocated for the Project and subsequently released to NFA-Infanta PO.

c. The price quotation of the supplier was received on March 4, 2013 prior to the approval of the implementation of the project per TRSD-ESD-D-32 dated April 23, 2013 and Requisition and Issue Slip dated August 5, 2013.

d. Based on available documents and ocular inspection on February 12, 2014, there are two existing mechanical dryers but the purchased components of the DCS amounting to P120,000 were installed in one dryer only.

43.5 In view of the above observations, the procurement was not done in the normal process outlined in RA No. 9184, thus giving doubt as to the regularity of the transaction and reasonableness of the price.

43.6 We recommended that the Infanta PO Management submit BAC Resolution authorizing the procurement of DCS through direct contracting, including all supporting documents required in Sections 9.2 and 9.2.2 of COA Circular No. 2012-001; conduct evaluation as to reasonableness of the contract amount; and, justify the execution of the project prior to the approval of the BAC Resolution recommending the mode of procurement for two dryers.

43.7 Management is still gathering documents to settle the inconsistencies and to justify the procurement and reasonableness of the price. They also requested the supplier to provide authenticated supporting documents for the DCS.

Procurement of Trucking, Freight and Hauling Services

Contract Extensions

44. Extending/renewing expired contracts for trucking, freight and handling services in Region V amounting to P80.292 million in 2013 without substantially undertaking the required procurement activities and which was not due to circumstances beyond the control of NFA, is not in consonance with the Government Procurement Policy Board (GPPB) Resolution No. 23-2007; hence, no assurance that the renewed contracts are the most advantageous to the Agency.

44.1 The cargo handling services, trucking services and freight services were paid on the basis of contract extensions made by the Regional Bids and Awards Committee (RBAC) in Region V through several Resolutions. The original contracts expired on December 31, 2012, but these were extended either for five, six or eight months from January to May, June or August 2013, as presented in Table 64.

Table 64 – Contract Extensions

Service Contracts	Amount	Monthly Extension
Handling - Albay	P 29,651,815	January to August 2013 – 8 months
Camarines Norte	2,960,157	January to May 2013 – 5 months
Camarines Sur	3,066,694	January to May 2013 – 5 months
	35,678,666	
Trucking - Albay	24,269,000	January to August 2013 – 8 months
Camarines Sur	1,741,778	January to June 2013 – 6 months
	26,010,778	
Freight - Albay	18,603,000	January to June 2013 – 6 months
	P 80,292,444	

44.2 While the general conditions for extension of contracts for general support services in Section 4.1, Annex A of the GPPB Resolution No. 23-007 dated September 28, 2008, allowing contract extension not exceeding one year, the practice of extending these contracts of services had been repeatedly made by the RBAC from 2011 to 2013, as in the contract extensions of Albay, Camarines Norte and Camarines Sur.

44.3 Also, Section 4.3 of the General Conditions for Extension in Annex A of said GPPB Resolution provides that the procuring entity must have substantially undertaken the procurement activities required prior to awarding the new contract under RA No. 9184 and its Implementing Rules and Regulations (IRR)-A, such as planning, bidding and post-qualification, among others. While Section 4.4 thereof states that the aforesaid contract extension is undertaken due to circumstances beyond its control and the procuring entity concerned cannot award a new contract within a month after the expiration of the term of the original contract. Furthermore, Section 4.5 provides that the contemplated extension is merely an emergency measure to maintain status quo in the operations of the procuring entity and to avoid interruption of service.

44.4 The Regional Director approved RBAC Resolutions authorizing extensions of the contracts for one month or until such time that a public bidding had been conducted and such contract shall be awarded to the Lowest Calculated and Responsive bid and/or

whichever comes first. Succeeding monthly extensions of contracts were authorized through the issuance of a corresponding RBAC Resolution, with a few exceptions.

44.5 The RBAC needed to extend the contracts on trucking services, freight services and handling services in order not to hamper the operational activities in the region. However, these services are regular expense items. Scheduling of procurement planning, issuance of invitation to bid, conduct of pre-bid conference, bid opening, post qualification and issuance of award should have been performed before the end of the year or before the expiration of the contract and in the early few months of the following year, in accordance with the timelines, i.e. 28 calendar days as the earliest possible time provided under Annex C of the IRR of RA No. 9184.

44.6 The Regional Director acknowledged that there were some delays in the conduct of procurement process and claimed that the RBAC and TWG for the General Support Services, through the years, have been doing their best to adhere to the timeliness of the procurement process but there were circumstances beyond their control and other concerns that affected their compliance.

44.7 It was further explained that the volume of stocks that would be used in the bidding of services, i.e. warehouse handling, trucking, and others, is based on the approved NFA Marketing Plan. It is the policy of the office to always adopt the approved marketing plan of the current year which is usually undertaken during the first week of November. Because of the Christmas holidays, the approval of the marketing plan and pre-procurement conference usually take place in January. In times when they adopt higher estimates, NFA-HO would advise them to stick to the approved marketing plan which leads them to make revisions, re-computations of all figures causing more delays.

44.8 The Director also justified that the “jury duty” principle for RBAC members mandated by RA No. 9184 cannot fully be enforced as both the procurement process and the NFA operating activities are both important undertakings. While it is their desire to strictly undertake the RBAC duties first, the requirements of their inherent functions sometimes bar them from doing so because of having to meet deadlines and avoiding penalties for delays. But they are presently exploring the revisions in work assignments in the RBAC despite limitation in the availability of capable human resources.

44.9 As a rejoinder to the above comments, the audit team emphasized that the provisions for contract extension under Sections 4.3, 4.4 and 4.5 of Annex A of the GPPB Resolution No. 23-007 were very clear that a substantial procurement activity should have been first conducted. Contract extension should be undertaken only due to circumstances beyond their control and should be merely an emergency measure. It appeared, however, that the contract extensions became customary and were no longer resorted to as an emergency measure since it had been the practice of the Agency for the past years.

44.10 We recommended that NFA RO V strictly observe the provisions especially on the time frame in the conduct of bid activities as provided by RA No. 9184 to avoid extensions of contract. Pre-procurement planning activities can be conducted preferably at the end of the third quarter of each year to provide the

BAC enough time to prepare the necessary bidding documents and to start the procurement process at the earliest possible time.

44.11 We further recommended that, in cases where the proposed contract extension exceeds six months, these shall be reported to the GPPB in writing, as a procedural requirement in Annex A of GPPB Resolution No. 23-007.

44.12 The Assistant Administrator for Administration and Finance agreed with the observation and stressed that extension can be done on a month to month basis until the bidding process is completed, provided there is already an ongoing activity.

44.13 NFA Region V commented that, had there been additional regular personnel who would be doing only of providing assistance with the performance of procurement processes which will result in no interruptions, the delays could have been avoided or minimized. Further, Management and staff gave assurance that they are working hard to avoid similar deficiencies/inadvertences in their current and future activities and to faithfully comply with RA No. 9184, NFA and COA rules and regulations.

Storage and Preservation of Stocks

45. The NFA is exposed to further significant losses considering that year-old and bad stocks of palay and rice with estimated value of P417.156 million as of December 2013 are not yet disposed due to failure to observe existing guidelines on the disposition of damaged stocks, lack of interested buyers, delayed request or delayed results of sample laboratory analysis. This could result in deterioration and infestation of the good stocks.

45.1 One of the NFA's core functions is to maintain an appropriate level of inventory to meet the supply requirements in times and places of natural or man-made calamity/emergency, and to stabilize the supply and price of staple cereal supply such as rice.

45.2 Quality Assurance Assessment Report (QUASAR) of NFA Stocks dated January 24, 2014 for the month of December 2013 shows the quality and quantity of the NFA-stored stocks nationwide, as summarized in Table 65.

Table 65 – Assessment of Stocks

Classification / Condition of Stocks	Quantity		Percentage
	in bags	in kgs	
Good	4,461,408	223,070,400	71.8
Treated	1,538,771	76,938,550	24.8
For Treatment	152,313	7,615,650	2.4
Sweepings	13,195	659,750	0.2
Partially Damaged	4,665	233,250	0.1
Totally Damaged	41,220	2,061,000	0.7
	6,211,572	310,578,600	100.00

45.3 Good quality, treated and for treatment stocks are safe for human consumption, while bad stocks consisting of sweepings and damaged stocks are no longer fit for human consumption but could be sold and issued as ingredient for the manufacture of animal feeds. Although, significant percentage of the total stocks as of December 2013 is safe for human consumption, material amount of bad and old stocks amounting to P417.156 million were still on hand and un-disposed as of year-end, details shown in Table 66.

Table 66 – Year-old and Bad Stocks

Condition of Stocks	Local Rice	IMR	IFR Local / Imported	Palay	Total
Bad Stocks (in bags)	4,579	44,463	1,238	8,800	59,080
Good but year old stocks (in bags)	92,899	38,485	14,859	172,677	318,920
Total bags	97,478	82,948	16,097	181,477	378,000
Estimated Cost	P 145,681,319	P 93,316,163	P 20,273,668	P 157,885,251	P 417,156,401

IMR – Imported Rice
IFR – Iron Fortified Rice

45.4 It is noteworthy to mention the significant decrease of old and bad stocks from last year of P2,261.251 million to P417.156 million this year. However, due to the deteriorated quality of the old stocks, NFA might not be able to demand better selling price, thus will further suffer losses.

45.5 In NFA East District Office, 34,136.44 kilograms or 683 bags of local rice of more than 12 months old valued at P1.076 million remained stored at Antipolo I-A and Marikina warehouses because the “first-in, first-out” (FIFO) method of handling rice stock was not strictly implemented. This resulted in further deterioration in quality of the old stocks.

45.6 In NFA Surigao del Norte PO, 6,409 nkg of damaged stocks or equivalent to 128 bags (6,409 nkg/50 nkg per bag) from warehouse sweepings valued at P369,454 were still stored more than 30 days inside the warehouses pending their disposal, in violation of NFA SOP No. GM-DS03 dated January 1, 1995 on the Disposition of In-Warehouse Damage Grains and Dockage. This SOP provides:

Digest No. 1. Expeditious disposition of in-warehouse damage grain stocks and dockage, thus preventing further deterioration and/or cross infestation with good stocks and hopefully commanding a reasonable sales value if offered for sale.

Section D.6 All damaged stocks with salvage value shall be disposed within thirty (30) days from the date of the existence of damaged stocks was detected. This is to avoid further deterioration of the quality of the damaged stocks. In view of this, it shall be the function of the concerned SGOO (Warehouse Supervisor II (WS II)/Standards and Quality Assurance Officer (SQA)) accountable officer, bidding committee and all concerned offices to facilitate disposition within the limited time frame. A maximum of two (2)

working days shall be allowed each officer/employee concerned to execute the action required of him. xxxx

For stocks which used to be for human consumption but reclassified to be for feed purposes, the covering Laboratory Analysis Report (LAR) 1 shall be effective for a period of thirty (30) days only. xxx. However, for those stocks already classified/reclassified for non-food use, its LAR's effectivity shall have no expiration.

Section D.7.1 Totally damaged stocks covered with an approved IIR and recommended for non-food industrial use shall be automatically disposed thru dumping if no interested buyer shall be found within fifteen (15) days after the failure of the bidding. However, totally damaged stocks infested with PMS shall be immediately burned as soon as disposition prerequisites are completed. Xxx

Section D.7.2 Damaged stocks for burning shall be disposed within fifteen (15) days from xxx the decision of the committee to dump the stocks. (Emphasis supplied)

45.7 It was further noted that it took the NFA Surigao del Norte PO from 34 to 547 days from the day the stocks were reported as damaged to submit the samples of the said damaged stocks to the NFA Regional Office for laboratory analysis. The reported damaged stocks were not disposed and were still stored inside the three warehouses together with the good stocks.

45.8 Management reasoned out that the delay in the disposition of damaged stocks could be attributed to the absence of hog raisers in the locality who are qualified to participate in the bidding. Other prospective bidders also signified that they will only participate in the bidding if the subject of the bidding is at least 100 bags. The audit team was also informed of the existence of additional 27 bags or 1,290 kilos of damaged rice that are still to be disposed pending the result of the laboratory analysis.

45.9 **We recommended that Management:**

- a. Facilitate the disposition of old and damaged grains stocks; and, henceforth, strictly follow the guidelines set under NFA SOP No. GM-DS03; and**
- b. Resort to alternative marketing distribution/disposal strategies to address the accumulation of bad and old stocks and increasing warehousing costs that could eventually lead to losses.**

45.10 Management commented that interested retailers based on their capitalization were already favored to buy the deteriorating old and downgraded stocks and have disregarded the weekly allocation. Tie-up of old stocks with the new IMR arrival were already resorted to.

COMPLIANCE WITH TAX LAWS

46. Taxes withheld and due to the Bureau of Internal Revenue (BIR) for CY 2013 amounting to P486.391 million were remitted on time to the BIR.

GENDER AND DEVELOPMENT

47. Only P257,866 or 4.41 per cent of the allocated amount of P5.847 million for Gender and Development (GAD) in 2013 was utilized for the conduct of GAD activities.

47.1 Government agencies are mandated to incorporate plans and budget for GAD in their Agency under Executive Order No. 273, approving and adopting the Philippine Plan for Gender and Development, 1995-2025 and Joint Circular No. 2004-1 dated April 5, 2004 of the Department of Budget and Management (DBM), National Economic and Development Authority (NEDA) and National Commission on the Role of Filipino Women (NCRFW).

47.2 The GAD Plan and Budget for CY 2013 amounted to P5.847 million. But based on the GAD Accomplishment Report, only P257,866 or 4.41 percent of the allocated budget was utilized for the activities presented in Table 67.

Table 67 - GAD Activities for 2013

GAD Activity	Actual Cost
a. Women's Month Celebration, participated by Regions 3,5,7,10,11,13 and 15	P 107,221
b. Mid-year Assessment Workshop and 2nd quarter meeting of DA-GAD Focal System by one male GAD Focal Person-member, July 15-19, 2013	7,355
c. Conducted 12 meetings with NFA-GAD Focal Point/TWG/Coordinators	22,256
d. Participation of NFA-GAD to activities upon invitation of concerned Government Organizations and Non-Government Organizations	1,670
e. Acquisition and maintenance of office equipment, supplies and materials to facilitate NFA-GAD activities	19,634
f. Reconstitution of GAD-FPS and creation of Central and Regional Office coordinators; attendance to Women and Gender Institute (WAGI) Training and PCW's Gender Mainstreaming Monitoring System (GMMS) training	45,000
g. Conducted training for SG 18 and above employees; NFA North Cotabato PO's GAD Orientation on Responsible Parenthood, Husband and Wife; and NFA Pampanga PO's Demo-Lecture on Love Life, Love Nature	54,730
	P 257,866

SUMMARY OF NOTICES OF SUSPENSIONS, DISALLOWANCES AND CHARGES

48. The NFA has total consolidated unsettled notices of suspensions of P91.112 million, disallowances of P62.973 million and charges of P1.743 million, as presented in the Table 68.

Table 68 – Consolidated Unsettled Notices of Suspensions, Disallowances and Charges

	Notice of Suspension	Notice of Disallowance	Notice of Charge
Head Office	P 13,275,000	P 790,447	P -
NCR	27,865,228	1,200	-
Region I	4,710,000	-	-
Region II	6,657,978	162,285	-
Region III	9,609,559	-	1,742,647
Region IV	315,000	27,891,999	-
Region V	-	3,840,000	-
Region VI	10,844,517	4,483,750	-
Region VII	4,745,000	-	-
Region VIII	27,833	11,440,981	-
Region IX	1,741,211	6,369,307	-
Region X	1,689,909	2,944,383	-
Region XI	3,900,000	133,640	-
Region XII	3,900,000	-	-
CARAGA	638,789	4,915,000	-
ARMM	1,191,849	-	-
	P 91,111,873	P 62,972,992	P 1,742,647

**PART III - STATUS OF IMPLEMENTATION OF PRIOR YEARS'
AUDIT RECOMMENDATIONS**

Of the 80 audit recommendations embodied in prior years' Annual Audit Reports (AARs), 16 were fully implemented, 53 were partially implemented and 11 were not implemented.

Observations and Recommendations	Actions Taken/Comments
<u>2012 AAR</u>	
<p>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.</p> <p>We recommended that Management verify and account for the noted differences, and adjust accordingly to come up with reliable financial statements of NFA.</p> <p>We further recommended that Management:</p> <p>a. Continuously verify and monitor the reversal of the temporary entries in the books of the regional offices; and</p> <p>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.</p>	<p>As further audit action, the Team will evaluate in 2014 the extent of implementation by Management of the recommendations considering that discrepancies in the balances of Assets, Liabilities and Capital Deficiency between the balance sheet and the consolidated regional balances still exist in 2013 as presented in Annex C of this report.</p> <p>Partially implemented.</p> <p>The recommendation was fully implemented in Regions V, VIII, IX and XI where adjustments were already effected in their books except for NCR where reconciliation is still being undertaken.</p>
<p>2. 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</p>	<p>Related discussion in Part II, Observation No. 1 of this report.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	
<p>We recommended that Management:</p>	
<p>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;</p>	<p>Partially Implemented.</p> <p>As part of NFA work program for calendar year 2013, they have wired the Field Offices (FOs) to submit detailed statement of their Accounts Receivable to be supported by documents, e.g. wire authority, Warehouse Stock Issue (WSI), contracts, etc. to facilitate reconciliation.</p>
<p>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;</p>	<p>Partially Implemented.</p> <p>The filing fee per COA Resolution No. 2013-016 dated August 23, 2013 for the filing of money claim from the Department of Education was already paid on April 2, 2014.</p> <p>As regards the other agencies, there were liquidation reports already submitted for audit and reconciliation.</p>
<p>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</p>	<p>Partially Implemented.</p> <p>Some NFA FOs have already submitted to COA their request for write-off but have not received any reply while other Regional Offices are still in the process of gathering, collating documents to support the demand letters and request for write-off.</p>
<p>d. Include the collection targets in the Annual Plans and Targets as means of gauging the efficiency of collection of accounts receivable.</p>	<p>Fully Implemented.</p> <p>NFA Central Office and FOs are already preparing plans and targets</p>

Observations and Recommendations	Actions Taken/Comments
	<p>and actual collections which are submitted quarterly.</p> <p>The amount of P6,571,950 was collected under OR No. 0404690 dated April 10, 2013 as partial settlement of the account of the AFP-Philippine Army. The remaining balance is still subject to reconciliation.</p>
<p>3. 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.</p>	<p>Related discussion in Part II, Observation No. 2 of this report.</p>
<p>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.</p>	<p>Not Implemented.</p>
<p>4. 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.</p>	
<p>We recommended that Management:</p>	
<p>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</p>	<p>Partially Implemented.</p> <p>The NFA NCR explained that transactions affecting inventory receipts and issuances for 2010 and 2011 were traced from the stock reports of the warehouses and were matched to the amounts recorded in the books. To date, inventory transactions in 2009 as recorded in the SL are being traced to the stock reports. The same will be required for</p>

Observations and Recommendations	Actions Taken/Comments
	<p>2002-2008, after which application of unit cost will be evaluated. Adjustments will be effected only after this activity is completed to ensure accuracy of recording and ultimately zero out the variances of Merchandise Inventory account.</p>
	<p>For Palawan Provincial Office (PO), instructions were given to concerned personnel to base their reports on actual warehouse documents with confirmation from accounting records for reconciliation.</p>
	<p>The Negros Occidental PO has started working on the monthly reconciliation of current transactions to come up with reconciled figure. For some warehouses, they have made bag-to-bag count and the current balances already tally with the trial balance.</p>
	<p>Region VII has not taken any action on the TOLA excess which ranged from 71 to 205 per cent or a total of 29,235.96 nkgs. equivalent to P0.778 million for the year 2012.</p>
<p>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.</p>	<p>Partially Implemented.</p> <p>Majority of the Regional Offices (ROs) and POs have complied with Paragraph 7 of NFA SOP No. GM-WH12 in 2013.</p>
<p>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.</p>	<p>Partially Implemented.</p>
<p>5. 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</p>	<p>Related discussion in Part II, Observation No. 9 of this report.</p>

Observations and Recommendations	Actions Taken/Comments
transactions.	
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	Partially Implemented. Prior years' accumulated inter-branch accounts balances (1995 and below) could no longer be verified/reconciled due to the absence of documents/files stored at ACA Warehouse which were damaged by typhoons that hit CAMANAVA in 1995 (Rosing) and 2006 (Milenyo).
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.	Partially Implemented.
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.	Partially Implemented. Reminders were given regularly to the FO Accountants for them to strictly comply with the SOP.
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.	Partially Implemented. Several requests for write-off were already submitted directly to the COA Central Office.
6. 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:	Related discussion in Part II, Observation No. 6 of this report.

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	
<p>We recommended that Management:</p>	
<p>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;</p>	<p>Partially Implemented.</p> <p>For the NFA HO, the GSD Inventory report showed a decrease in the reported variance of PPE in the amount of P19.043 million leaving a balance of P33.449 million. Reconciliation is continuously being undertaken.</p> <p>There is continuous reconciliation of variances between the records of the Accounting and Property offices in some regions while others have already reconciled and made the necessary adjustments.</p>
<p>b. Require the:</p>	
<p>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</p>	<p>Partially Implemented.</p> <p>The ASD maintains PPE Subsidiary ledger Card for each PPE item while the GSD has started to maintain a property history record for each PPE item.</p>
<p>b.2 Accountants to effect the necessary reclassification of unserviceable properties to other Assets account; and</p>	<p>Partially Implemented.</p> <p>The ASD classified the unserviceable items to "Other Assets" upon receipt of the approved Inventory and Inspection Report of Unserviceable Property (IIRUP).</p> <p>Some ROs/POs effected the necessary reclassification but a few did not reclassify the account due to lack of instructions from the NFA HO.</p>
<p>c. Undertake the disposal of unserviceable assets in accordance with Section 79 of PD</p>	<p>Partially Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
No. 1445 and the guidelines in NFA SOP No. GS-PD14 dated June 1, 1997.	Regions I, II, IV and XI were able to dispose all of the unserviceable assets while Regions III, V, VI, VIII, IX and X made only partial disposal. In the Central Office, unserviceable properties amounting to P6.977 million have not been disposed.
7. 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.	Related discussion in Part II, Observation No. 6 of this report.
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	Partially Implemented. Ilocos Sur and Negros Oriental POs have already paid the necessary fees and awaiting the release of the titles by the Registry of Deeds while Ifugao, Banawe has requested documents from the PO. Region VII is in the process of completing the documentary requirements for submission to LRA. The Bohol property requires a special patent to facilitate registration in the name of NFA.
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.	Not Implemented.
8. 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	Related discussion in Part II, Observation No. 8 of this report.

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	
<p>We recommended that Management:</p>	
<p>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;</p>	<p>Partially Implemented.</p> <p>Adjustments were made by Region VIII, the same with NCR-CDO but the other NCR district offices are still in the process of review and analysis after which the necessary adjustments will be made.</p>
<p>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</p>	<p>Partially Implemented.</p> <p>Coordination was made with concerned agencies and retailers; however, there are still unwithdrawn stocks due to reasons beyond the control of NFA.</p>
<p>c. Consider collecting storage fees for unwithdrawn stocks to encourage immediate withdrawals of stock and to reduce warehousing rentals and maintenance costs.</p>	<p>Partially Implemented.</p> <p>The amount stated in SOP Addendum No. GM- DN09.A is only P0.50/bag/day.</p>
<p>9. 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.</p>	<p>Related discussion in Part II, Audit Observation Nos. 5 and 7 of this report.</p>

Observations and Recommendations	Actions Taken/Comments
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;	Partially Implemented. Management sought the advice of COA as to what action to take in order to finally close the accounts with no documents/information based on recent confirmation with other departments/offices.
b. Conduct thorough verification of the nature or purposes of these projects and determine the status whether already completed, discontinued or abandoned;	Partially implemented. The lack of documents/information hampered the verification of these accounts but concerned personnel gave their best efforts to determine the status of the accounts.
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	Partially implemented. As verified, a few were fully reconciled and closed as of March 31, 2014, some accounts are under reconciliation, a few were adjusted, others have liquidation reports being audited by COA and other projects are still on-going/active.
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.	Fully Implemented. This project was fully reconciled and closed as of March 31, 2014.
We reiterate our recommendation that Management cause the remittance to the National Government through the BTr of the remaining balance of said accounts.	Not Implemented. For projects beyond verification, NFA has not made any effort to remit the balances to the National Government through the BTr.
10. 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	

Observations and Recommendations	Actions Taken/Comments
<p>of the reported year-end balances of affected accounts.</p>	
<p>We recommended that the NFA-NCR Management:</p>	
<p>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</p>	<p>Partially Implemented.</p> <p>The transactions that affected the Payable accounts were thoroughly analyzed and reconciliation is on-going. The Accounts Payable to Philippine Sugar Corporation was reduced as a result of the joint effort of the ROs and District Offices in reconciling the said account.</p>
<p>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.</p>	<p>Partially Implemented.</p> <p>In 2013, several adjustments were made to some Payable accounts. Reconciliation of Due to Officers and employees is still on-going.</p>
<p>11. 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.</p>	
<p>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</p>	<p>Partially Implemented.</p> <p>Management has sent a letter to BOC dated September 10, 2013, re: double billing. NFA is still awaiting BOC's response on the said matter. The memorandum on procedural improvements for private sector importations is now being implemented and closely monitored.</p> <p>Specific to the post qualification process, the private importer is now being asked to submit post importation document before</p>

Observations and Recommendations	Actions Taken/Comments
granted tax subsidy.	succeeding importation is allowed.
<p>12. 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.</p>	
<p>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.</p>	<p>Not Implemented.</p> <p>No information as to whether or not a review of the guidelines on PSF was undertaken.</p>
<p>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.</p>	<p>Partially Implemented.</p> <p>Management stated that the concerned importers have substantially complied with their import allocations except Triple Ventures and San Ildefonso Growers MPC which have imported 82.27 per cent and 6.63 per cent of their allocated volumes.</p>
<p>13. 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.</p>	
<p>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.</p>	<p>Partially Implemented.</p> <p>Management averred that the 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. No further assessment was undertaken.</p>
<p>14. 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</p>	

Observations and Recommendations	Actions Taken/Comments
costs.	
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;	Partially Implemented. Stocks more than 24 months were almost disposed as evidenced by the Grains situation Report as of March 31, 2014. Review of the SMDP guidelines is being undertaken in the light of the evolving market situations and trends.
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;	Partially Implemented. Disposal through regular sales and special rice programs were undertaken by Management.
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;	Not Implemented. No report on market assessment was made in coordination with DOH.
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	Partially Implemented. Quality audit was regularly conducted on palay stocks.
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	Partially Implemented. Management undertakes regular monitoring of the supply, demand, price and stock movements of rice and corn to serve as basis in

Observations and Recommendations	Actions Taken/Comments
stocks for buffer during lean months period and in times of emergencies and calamities.	determining and positioning food security stocks in each province/region depending on the market situation.
<p>15. 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.</p> <p>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.</p> <p>We recommended that Management:</p> <p>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;</p> <p>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</p>	<p>Related discussion in Part II, Audit Observation No. 2 of this report.</p> <p>Partially Implemented.</p> <p>For the year 2013, the consolidated target was 559 cases of stock accountabilities worth P320.510 million which was about 14.55 per cent of the P2,203.083 million stock shortages without examination. A total of 689 cases were accomplished with a corresponding amount of P839.509 million. Some field offices exceeded their targets showing a national accomplishment of 123.26 per cent.</p> <p>Partially Implemented.</p> <p>NFA Management issued Memorandum Order No. AO-2013-</p>

Observations and Recommendations	Actions Taken/Comments
<p>be pursued and minimize the balance of the accountabilities that could not be ascertained;</p>	<p>04-014 dated April 8, 2013 instructing ROs to submit their timetable of cases of stock accountabilities for TOLA computation and unresolved appeals. Compliance to this instruction is being monitored by IASD.</p>
<p>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;</p>	<p>Partially Implemented.</p> <p>The IASD is preparing and furnishing a copy of quarterly list of unpaid final shortages of stock accountable officers (SAOs) to LAD, SSID and ASD.</p> <p>The Legal Affairs Department (LAD) is closely coordinating with IASD and based on their report dated June 18, 2014, the Department has already filed criminal cases for malversation against 45 SAOs with shortages in the total amount of P306.385 million and about 42 SAOs have settled their stock shortages in the aggregate amount of P4.26 million as of April 30, 2014.</p>
<p>d. Revisit SOP No. GM-WH 13 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</p>	<p>Partially Implemented.</p> <p>Aside from the annual target being required from the FOs, IASD also compelled them to submit their backlogs and set the timeframe to complete the stock examination and TOLA computation.</p>
<p>e. Enforce the sanctions provided in the Special Provisions of SOP No. GM-WH 13 which states that "<i>Violation of the provisions of this SOP shall subject the offender to penalties provided for under applicable and reasonable NFA and Civil Service Rules,</i>" to oblige the persons responsible to strictly implement the SOPs on the stock examination and TOLA computation.</p>	<p>Partially Implemented.</p> <p>IASD already conducted special audit on TOLA in selected FOs to determine compliance to SOPs, results of which were forwarded to concerned ROs, POs and the Central Office for appropriate action. Some findings were referred to SSID for thorough investigation to determine persons responsible and liable for non-compliance to SOPs and CSC rules.</p>

Observations and Recommendations	Actions Taken/Comments
<p>16. 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.</p>	<p>Related discussion in Part II, Audit Observation No. 3 of this report.</p>
<p>We recommended that Management:</p>	
<p>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:</p>	<p>Partially Implemented.</p> <p>A Technical Working Group (TWG) was created composed of employees from LAD, ASD, HRMD, SSID, IASD, FMOD, NFA-EA and AO to look into the effective implementation of the Guidelines in the Execution of a Compromise Agreement in the Final Shortages by the NFA Accountable Officers approved last November 11, 2013.</p>
<p>a.1 The issuance of demand letters to SAOs with established shortages within the prescribed period; and</p>	
<p>a.2 Filing of the appropriate administrative and criminal cases;</p>	
<p>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;</p>	<p>Not Implemented.</p>
<p>c. Relieve the SAOs from their posts while undergoing stock examination and liquidation as internal control measure; and</p>	<p>Partially Implemented.</p>
<p>d. Enforce the sanctions provided in the Special Provisions of SOP Nos. FS-GP15 and GP20A which state that "<i>violations of these SOPs shall subject the violator to penalties provided under applicable Civil Service Rules and Regulations,</i>" so that persons responsible for the implementation of the said SOPs will be obliged to strictly implement the settlement of shortages.</p>	<p>Partially Implemented.</p> <p>To date, some SAOs have already paid their accounts in full while others have already submitted their request for installment payment, paid directly to the cashier or to be deducted from what they will receive from their retirement. Collections for January to December 2013 amounted to P9.272 million while adjustments from the previous set-ups had a total of P34.457 million. From January to March 2014, Management was able to collect P2.765 million.</p>

Observations and Recommendations	Actions Taken/Comments
<p>17. 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.</p> <p>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.</p>	Fully Implemented.
<p>18. 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.</p> <p>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.</p>	<p>Partially Implemented.</p> <p>Management has stopped the granting of Food and Grocery Incentives since it was also disapproved by the Governance Commission for Government-Owned and Controlled Corporations (GCG), and the Office of the President has not issued any authorization for such benefit. COA for its part has issued a Notice of Disallowance (ND) and still waiting for submission of Management's appeal.</p>
<p>19. 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.</p> <p>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</p>	Partially Implemented.

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>Partially Implemented.</p>
<p>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.</p>	<p>The Provincial Managers of Camarines Norte is strictly implementing internal control measures to safeguard NFA stocks stored in the warehouses. The NFA Management of Camarines Sur has been looking for ways to improve its system like the E-IFOMIS software program that will cater to the information needs of the office. It also has inter-connected control mechanism from warehouses to operation and to accounting. While the Masbate PO is taking all the measures like prompt liquidation of accountabilities.</p>
<p>20. Inadequate monitoring and controls weaken the registration and licensing function of NFA.</p>	<p>The three POs have installed CCTV cameras in the offices, warehouses and premises.</p>
<p>A. There is no formal documentation of criteria and guidelines in processing new and renewal of licenses.</p>	
<p>B. 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.</p>	
<p>C. 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.</p>	

Observations and Recommendations	Actions Taken/Comments
<p>D. Mapping of grains business establishments was not thoroughly performed.</p>	
<p>We recommended that Management of the NFA Region XII:</p>	
<p>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;</p>	<p>Fully Implemented.</p> <p>Formal Criteria and Procedures were already documented per Revised Rules and Regulations on Grains Business. The Industry Services Department (ISD) has conducted regional briefing on registration and licensing strategies attended by regional management and regulatory personnel during the 1st quarter of 2013. As a follow-up, a one day briefing/orientation on Adjudication process and other related Licensing and Investigation Activities was also conducted last April 15, 2014.</p>
<p>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;</p>	<p>Partially Implemented.</p> <p>Only Koronadal Provincial Office complied while Sultan Kudarat and Kidapawan POs were still trying to strictly implement. Instructions were given to implement strictly Section 5 of Regulation IV and the submission of LTO Registration Certificate with current LTO Official Receipt.</p>
<p>c. Formulate a clear policy applicable to smaller firms and market with capitalization below P100,000;</p>	<p>Fully Implemented.</p> <p>Revised Rules and Regulations on Grains Business are being strictly implemented and the rates of administrative fines and penalties are also being looked into in order to provide a fair and equitable imposition of the same.</p>
<p>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;</p>	<p>Fully Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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;</p>	<p>Partially Implemented.</p> <p>This is already being undertaken by concerned officers but the plan of action for collection of arrearages of delinquent licensees has not been taken up.</p>
<p>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;</p>	<p>Fully Implemented.</p> <p>This is being undertaken through the mobile licensing teams, the purpose of which runs parallel to grains mapping.</p>
<p>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</p>	<p>Fully Implemented.</p>
<p>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.</p>	<p>Partially Implemented.</p> <p>Practical strategies were taken up during the briefing/orientation on Adjudication process and other related Licensing and Investigation Activities conducted last April 15, 2014.</p> <p>Surprise visits to these grains businessmen's place of operations are being undertaken by NFA in coordination with the CIDG, NBI and PNP to inspect their stocks and check on their activities. Administrative fines and penalties and criminal sanctions will be imposed if found violating NFA rules and regulations.</p>
<p>21. 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</p>	

Observations and Recommendations	Actions Taken/Comments
<p>September 26, 1972 that were observed in most of the Municipalities of Catanduanes.</p> <p>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.</p>	<p>Fully Implemented.</p> <p>The unlicensed grains retailers were summoned/sent letters to secure NFA license and nine of them were granted license while the rest stopped engaging in the grains business. Those selling above the government retail price were summoned and accorded due process. They submitted affidavits and supporting affidavits from consumers who declared that they purchased NFA rice at government selling price.</p>
<p>22. 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.</p>	
<p>We recommended that Management:</p>	
<p>a. Require the proper labeling/printing on the sacks used in packaging the "Iron-Fortified Rice" for identification, and easy segregation and distribution;</p>	<p>Partially Implemented.</p> <p>The Provincial Office in Surigao City and San Jose of Dinagat Islands has yet to seek authorization by top Management for the proper labeling/printing of sacks of IFR.</p>
<p>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</p>	<p>Fully Implemented.</p> <p>There is a continuing advocacy of the program thru radio and "Ugnayans" with target beneficiaries including farmers.</p>
<p>c. Require the Rice Fortification Program-Provincial Committee (RFP-PC) to ensure that all traders, wholesalers, retailers and re-packers are informed of the packaging, labeling and quality assurance standards,</p>	<p>Fully Implemented.</p> <p>IFR advocacy is being implemented with no exception to traders, wholesalers, retailers and re-packers</p>

Observations and Recommendations	Actions Taken/Comments
and create awareness of the end-consumers on the Iron-Fortified Rice.	and more importantly the beneficiaries.
<p>23. 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.</p>	
<p>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 No. I before making requisition for supplies and materials to prevent overstocking and waste of government funds.</p>	<p>Fully Implemented.</p> <p>The plastic bags were already disposed thru public bidding in November 2013 and the winning bidder has withdrawn all the plastic bags before the end of 2013.</p>
<p>24. 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.</p>	
<p>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.</p>	<p>Partially Implemented.</p> <p>The repair and retrofitting with biomass furnace of Padiscor Drier in Kalinga Provincial Office is on-going and will be operational in the forthcoming harvest season.</p> <p>The Bulk Storage was included in the project "Rehabilitation of the Bulk Handling System" of NFA Region II and will be relocated in Rizal, Cagayan which is the nearest procurement area.</p>
<p>25. 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</p>	

Observations and Recommendations	Actions Taken/Comments
<p>(WSRs) and other documents to establish the validity of the disbursements for the procured palay.</p>	Fully Implemented.
<p>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.</p>	Liquidation reports with complete OR and WSR to support/substantiate the validity of the disbursements of funds for palay procurement were already submitted to and received by COA.
<p>26. 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.</p>	Related discussion in Part II, Audit Observation Nos. 15, 16 and 17 of this report.
<p>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.</p>	<p>Not Implemented.</p> <p>NFA Aklan PO has not yet implemented the recommendation on CDIF because for CY 2013 the Farmer Organizations were not able to renew their CGS.</p>
<p>27. 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.</p>	
<p>We recommended that Management:</p>	
<p>a. Re-evaluate the actual monitoring system of the CDIF program and determine if it is in accordance with the policies and</p>	<p>Fully Implemented.</p> <p>Surigao del Sur PO has updated the</p>

Observations and Recommendations	Actions Taken/Comments
procedures provided in the SOP on Cooperative Development Incentive Fund (CDIF);	monitoring system and the reports on CDIF to maximize the farmers' utilization of benefits.
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	Fully Implemented. Management has sent Notice for Inactive CDIF to the cooperative/association.
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.	Fully Implemented.

2011 AAR

28. 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.

We recommended that Management exert its best effort to minimize borrowings.

Partially implemented.

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.

There was further reduction in the total Financial Expenses from P8,023.236 million in 2012 to P6,904.006 million in 2013, equivalent to 13.95 per cent which translates to P1,119.230 million.

Observations and Recommendations	Actions Taken/Comments
<p>29. 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>Not Implemented.</p> <p>As of end of 2013, all accountable officers were relieved of their accountabilities while stock examination is on-going.</p>
<p>We recommended that Management of Provincial Offices reconcile the variance and effect the necessary adjustments.</p>	
<p>30. 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>We reiterated our recommendations that Management:</p>	
<p>a. Institute additional control measures to minimize losses due to short landings and spillages;</p>	<p>Not Implemented.</p>
<p>b. Consider amendment of the purchase contract; and</p>	<p>Partially Implemented.</p> <p>There was a shift in the terms of procurement particularly with imported rice but there was no guarantee that losses from spillages and short landings will be eliminated.</p>
<p>c. Continue filing letter of protest to demand settlement of short landed deliveries.</p>	<p>Partially Implemented.</p>
<p>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.</p>	<p>Partially Implemented.</p> <p>NFA incurred short landings of just one per cent 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.</p>

Observations and Recommendations	Actions Taken/Comments
<p>31. Pile 5 of GID Taway Warehouse in NFA Region No. IX - Zamboanga Sibugay PO containing 405 bags of PG1 variety could not be accounted due to spillages and damaged sacks.</p> <p>We recommended that Management:</p> <p>a. Instruct the Warehouse Supervisor to ensure that stocks are properly protected and preserved; and</p> <p>b. Resack/Rebag the stocks with damaged sacks to avoid spillages.</p>	<p>Not Implemented.</p> <p>Not Implemented.</p>

National Food Authority
 Re-computation of Customs Duties on Rice Importation for 205,700 MT

ANNEX A

A	B	C	D	E	F	G	H= F x G	I	J= H x I	K	L= F x K	M= H+J+L	N	O= M x N	P	Q= O x P
Port of Discharge		Date of MOU	Vessel	Allocation (Net volume in MT)	Actual Volume received per BL	FOB Cost in US\$	Total FOB Cost in US\$	Insurance (GSIS rate)	Total Insurance Cost in US\$	Freight declared by NFA in US\$	Total Freight in US\$	Total Dutiable Value in US\$	FOREX per CMC **	Total Dutiable Value in Php	Duty Rate	Customs Duties as Recomputed and/or Audited
Manila	1	5/24/2013	MV Hoang Son Sun	18,500	18,500.000	361.72	6,691,820.00	0.2750%	18,402.51	30	555,000.00	7,265,222.51	41.192	299,269,045.43	40%	119,707,618.17
	2	6/5/2013	MV Vinaship Gold	13,000	13,000.000	361.72	4,702,360.00	0.2750%	12,931.49	30	390,000.00	5,105,291.49	42.376	216,341,832.18	40%	86,536,732.87
	3	6/5/2013	MV Vinh Thuan	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	42.376	99,850,076.39	40%	39,940,030.56
	4	6/11/2013	MV Vien Dong 3	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	42.143	99,301,061.20	40%	39,720,424.48
				43,500	43,500.000											
Legaspi	5	6/18/2013	MV Vin Hung	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	43.207	101,808,152.03	40%	40,723,260.81
Bacolod	6	6/10/2013	MV Royal 18	5,000	5,000.000	361.72	1,808,600.00	0.2750%	4,973.65	30	150,000.00	1,963,573.65	42.143	82,750,884.33	40%	33,100,353.73
Cebu	7	5/9/2013	MV Vien Dong 3	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	41.174	97,017,817.76	40%	38,807,127.10
	8	5/16/2013	MV My Hung	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	40.774	96,075,302.41	40%	38,430,120.96
	9	5/16/2013	MV Northern Star	6,800	6,800.000	361.72	2,459,696.00	0.2750%	6,764.16	30	204,000.00	2,670,460.16	40.774	108,885,342.73	40%	43,554,137.09
	10	6/25/2013	MV Ha Tien	6,700	6,700.000	361.72	2,423,524.00	0.2750%	6,664.69	30	201,000.00	2,631,188.69	43.654	114,861,911.12	40%	45,944,764.45
	11	5/28/2013	MV Vietfrach 02	7,100	7,100.000	361.72	2,568,212.00	0.2750%	7,062.58	30	213,000.00	2,788,274.58	41.508	115,735,701.39	40%	46,294,280.56
	12	6/13/2013	MV MY An	7,400	7,400.000	361.72	2,676,728.00	0.2750%	7,361.00	30	222,000.00	2,906,089.00	42.143	122,471,308.81	40%	48,988,523.52
	13	7/1/2013	MV Asian Fair II	6,600	6,600.000	361.72	2,387,352.00	0.2750%	6,565.22	30	198,000.00	2,591,917.22	43.307	112,248,158.96	40%	44,899,263.58
	14	6/25/2013	MV Vien Dong 5	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	43.654	102,861,412.94	40%	41,144,565.18
				52,600	52,600.000											
Zamboanga	15	5/21/2013	MV My An	7,400	7,400.000	361.72	2,676,728.00	0.2750%	7,361.00	30	222,000.00	2,906,089.00	41.192	119,707,618.17	40%	47,883,047.27
	16	5/28/2013	MV Dong Pong	6,600	6,600.000	361.72	2,387,352.00	0.2750%	6,565.22	30	198,000.00	2,591,917.22	41.508	107,585,299.88	40%	43,034,119.95
				14,000	14,000.000											
CDO	17	5/16/2013	MV Mh Adventure	7,000	7,000.000	361.72	2,532,040.00	0.2750%	6,963.11	30	210,000.00	2,749,003.11	40.774	112,087,852.81	40%	44,835,141.12
	18	5/16/2013	MV Vien Dong 5	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	40.774	96,075,302.41	40%	38,430,120.96
	19	6/18/2013	MV Vinh Hoa	7,000	7,000.000	361.72	2,532,040.00	0.2750%	6,963.11	30	210,000.00	2,749,003.11	43.207	118,776,177.37	40%	47,510,470.95
	20	6/6/2013	MV Vinh An	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	42.376	99,850,076.39	40%	39,940,030.56
				26,000	26,000.000											
Surigao	21	6/3/2013	MV Hodasco 09	3,900	3,900.000	361.72	1,410,708.00	0.2750%	3,879.45	30	117,000.00	1,531,587.45	42.376	64,902,549.65	40%	25,961,019.86
	22	6/14/2013	MV Pasco 98	4,900	4,900.000	361.72	1,772,428.00	0.2750%	4,874.18	30	147,000.00	1,924,302.18	42.143	81,095,866.65	40%	32,438,346.66
				8,800	8,800.000											
GenSan	23	5/21/2013	MV Dong An	6,700	6,700.000	361.72	2,423,524.00	0.2750%	6,664.69	30	201,000.00	2,631,188.69	41.192	108,383,924.56	40%	43,353,569.82
	24	6/11/2013	MV Truong Minh Sun	4,800	4,800.000	361.72	1,736,256.00	0.2750%	4,774.70	30	144,000.00	1,885,030.70	42.143	79,440,848.96	40%	31,776,339.58
	25	6/10/2013	MV Phuong Nam 69	4,950	4,950.000	361.72	1,790,514.00	0.2750%	4,923.91	30	148,500.00	1,943,937.91	42.143	81,923,375.49	40%	32,769,350.20
	26	6/19/2013	MV My Hung	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	43.207	101,808,152.03	40%	40,723,260.81
				22,450	22,450.000											
Davao	27	5/9/2013	MV Transco Star	6,200	6,200.000	361.72	2,242,664.00	0.2750%	6,167.33	30	186,000.00	2,434,831.33	41.174	100,251,745.02	40%	40,100,698.01
	28	5/28/2013	MV Than Thuy	6,000	6,000.000	361.72	2,170,320.00	0.2750%	5,968.38	30	180,000.00	2,356,288.38	41.508	97,804,818.08	40%	39,121,927.23
	29	6/10/2013	MV Vimar Pearl	7,800	7,800.000	361.72	2,821,416.00	0.2750%	7,758.89	30	234,000.00	3,063,174.89	42.143	129,091,379.56	40%	51,636,551.82
	30	5/21/2013	MV Asian Fair II	7,350	7,350.000	361.72	2,658,642.00	0.2750%	7,311.27	30	220,500.00	2,886,453.27	41.192	118,898,782.91	40%	47,559,513.16
				27,350	27,350.000											
Total				205,700	205,700.000											1,354,864,711.04

National Food Authority
Comparison of Customs Duties as Billed by BOC vis-a-vis Audit

A	B	C	D	Quantity per BL in MT		G	H	I	J	K	L=J-K	Remarks
				E	F							
Port of Discharge	Allocation in MT	Supplier	Vessel	Net per Bill of Lading	Gross	Date of MOU	Duties per NFA MOU	Duties as Revised per FOB of US\$361.72 (NFA) per Allocation	Duties per BOC Billing	Duties as Recomputed and/or Audited (Schedule 1)	Variance (Over collection)	
Manila	43,500	VSFC	MV Hoang Son Sun	18,500	18,544.40	5/24/2013	140,617,814.00	119,818,050.00	140,617,814.00	119,707,618.17	20,910,195.83	
			MV Vinaship Gold	13,000	13,031.20	6/5/2013	101,559,041.00	86,536,733.00	101,559,041.00	86,536,732.87	15,022,308.13	
			MV Vinh Thuan	6,000	6,014.40	6/5/2013	46,873,404.00	39,940,031.00	46,873,404.00	39,940,030.56	6,933,373.44	
			MV Vien Dong 3	6,000	6,014.40	6/11/2013	46,615,675.00	39,720,425.00	46,615,675.00	39,720,424.48	6,895,250.52	
				43,500								
Legaspi	6,000		MV Vin Hung	6,000	6,014.40	6/18/2013	47,792,598.00	40,723,261.00	47,674,604.00	40,723,260.81	6,951,343.19	
Bacolod	5,000		MV Royal 18	5,000	5,012.00	6/10/2013	38,846,396.00	33,100,354.00	39,728,836.00	33,100,353.73	6,628,482.27	
Cebu	52,600		MV Vien Dong 3	6,000	6,014.40	5/9/2013	45,416,554.00	38,807,127.00	45,054,029.00	38,807,127.10	6,246,901.90	
			MV My Hung	6,000	6,014.40	5/16/2013	44,977,319.00	38,430,121.00	44,990,032.00	38,430,120.96	6,559,911.04	
			MV Northern Star	6,800	6,816.32	5/16/2013	50,974,295.00	43,554,137.00	50,988,702.00	43,554,137.09	7,434,564.91	
			MV Ha Tien	6,700	6,716.06	6/25/2013	53,920,527.00	45,944,764.00				No BOC Billing
			MV Vietfrach 02	7,100	7,117.04	5/28/2013	53,966,837.00	45,984,224.00	54,196,581.00	46,294,280.56	7,902,300.44	
			MV MY An	7,400	7,417.76	6/13/2013	57,492,666.00	48,988,524.00	57,350,723.00	48,988,523.52	8,362,199.48	
			MV Asian Fair II	6,600	6,615.84	7/1/2013	52,693,533.00	44,899,264.00				No BOC Billing
			MV Vien Dong 5	6,000	6,014.40	6/25/2013	48,287,039.00	41,144,565.00				No BOC Billing
				52,600								
Zamboanga	14,000		MV My An	7,400	7,417.76	5/21/2013	56,195,285.00	47,883,047.00	56,056,545.00	47,883,047.27	8,173,497.73	
			MV Dong Puong	6,600	6,615.84	5/28/2013	50,166,355.00	42,745,899.00	50,379,920.00	43,034,119.95	7,345,800.05	
				14,000								
CDO	26,000		MV MH Adventure	7,000	7,016.80	5/16/2013	52,473,539.00	44,835,141.00	52,488,370.00	44,835,141.12	7,653,228.88	
			MV Vien Dong 5	6,000	6,014.40	5/16/2013	44,977,319.00	38,430,121.00	44,990,032.00	38,430,120.96	6,559,911.04	
			MV Vinh Hoa	7,000	7,016.80	6/18/2013	55,758,032.00	47,510,471.00				No BOC Billing
			MV Vinh An	6,000	6,014.40	6/6/2013	46,873,404.00	39,940,031.00	46,500,586.00	39,940,030.56	6,560,555.44	
				26,000								
Surigao	8,800		MV Hodasco 09	3,900	3,909.36	6/3/2013	30,467,712.00	25,961,020.00	34,692,768.00	25,961,019.86	8,731,748.14	
			MV Pasco 98	4,900	4,911.76	6/14/2013	38,069,468.00	32,438,347.00	44,435,735.00	32,438,346.66	11,997,388.34	
				8,800								
GenSan	22,450		MV Dong An	6,700	6,716.08	5/21/2013	50,879,515.00	43,353,570.00	50,753,898.00	43,353,569.82	7,400,328.18	
			MV Truong Minh Sun	4,800	4,811.52	6/11/2013	37,292,540.00	31,776,340.00				No BOC Billing
			MV Phuong Nam 69	4,950	4,961.88	6/10/2013	38,457,932.00	32,769,350.00	38,362,983.00	32,769,350.20	5,593,632.80	
			MV My Hung	6,000	6,014.40	6/19/2013	47,792,598.00	40,723,261.00				No BOC Billing
				22,450								
Davao	27,350		MV Transco Star	6,200	6,214.88	5/9/2013	46,932,506.00	40,100,698.00	46,555,830.00	40,100,698.01	6,455,131.99	
			MV Than Thuy	6,000	6,014.40	5/28/2013	45,605,778.00	38,859,908.00	45,799,927.00	39,121,927.23	6,677,999.77	
			MV Vimar Pearl	7,800	7,818.72	6/10/2013	60,600,378.00	51,636,552.00	60,450,762.00	51,636,551.82	8,814,210.18	
			MV Asian Fair II	7,350	7,367.64	5/21/2013	55,815,587.00	47,559,513.00	55,677,785.00	47,559,513.16	8,118,271.84	
				27,350								
	205,700			205,700			1,588,391,646.00	1,354,114,849.00	1,302,794,582.00	1,102,866,046.47	199,928,535.53	

National Food Authority
Detailed Comparison of National Financial Statements vis-a-vis
Totals of Regional Consolidated Financial Statements
(In Philippine Peso)

BALANCE SHEET

	Totals of Regional Consolidated Balance Sheet	National Balance Sheet	Difference
ASSETS			
Cash and cash equivalents	1,627,171,641	1,627,171,637	4
Accounts receivables - net	6,825,383,362	910,276,006	5,915,107,356
Inventories - net	8,076,756,634	8,076,984,171	(227,537)
Other current assets	945,048,418	1,121,766,137	(176,717,719)
Property and equipment - net	2,628,724,633	2,422,752,010	205,972,623
Other assets	6,608,776,348	6,814,741,542	(205,965,194)
TOTAL ASSETS	26,711,861,036	20,973,691,503	5,738,169,533
LIABILITIES			
Accounts payable	1,426,075,752	1,423,888,012	2,187,740
Notes payable	28,101,444,994	28,101,444,994	-
Due to Bureau of the Treasury	25,459,659,785	25,469,194,617	(9,534,832)
Deferred credits to income	504,468,900	458,636,957	45,831,943
Other current liabilities	2,964,234,118	2,749,755,366	214,478,752
Other liabilities	107,607,306,982	107,607,155,257	151,725
TOTAL LIABILITIES	166,063,190,531	165,810,075,203	253,115,328
EQUITY			
Subscribed capital stock	5,000,000,329	5,000,000,329	-
Government equity	(3,123,013,839)	7,869,039,160	(10,992,052,999)
Intra- agency receivables	407,215,363,451	421,608,847,246	(14,393,483,795)
Intra-agency payables	412,436,346,994	421,610,163,651	(9,173,816,657)
Retained earnings/(Deficits)	(146,449,299,528)	(157,706,739,594)	11,257,440,066
TOTAL EQUITY	(139,351,329,495)	(144,836,383,700)	5,485,054,205
TOTAL LIABILITIES AND EQUITY	26,711,861,036	20,973,691,503	5,738,169,533

INCOME STATEMENT

	Totals of Regional Consolidated Income Statements	National Income Statement	Difference
Sales	19,239,061,448	19,232,675,481	6,385,967
Cost of sales	20,961,324,875	20,963,365,697	(2,040,822)
Loss from sales	(1,722,263,427)	(1,730,690,216)	8,426,789
Expenses (PS, MOOE and FE)	11,741,118,631	11,740,058,015	1,060,616
Loss from operations	(13,463,382,058)	(13,470,748,231)	7,366,173
Other income/(Expenses)	239,345,737	245,731,703	(6,385,966)
Net loss before subsidy	(13,224,036,321)	(13,225,016,528)	980,207
Government subsidy	2,145,912,647	2,145,912,646	1
NET LOSS	(11,078,123,674)	(11,079,103,882)	980,208

PS – Personal Services

MOOE – Maintenance and Other Operating Expenses

FE – Financial Expenses